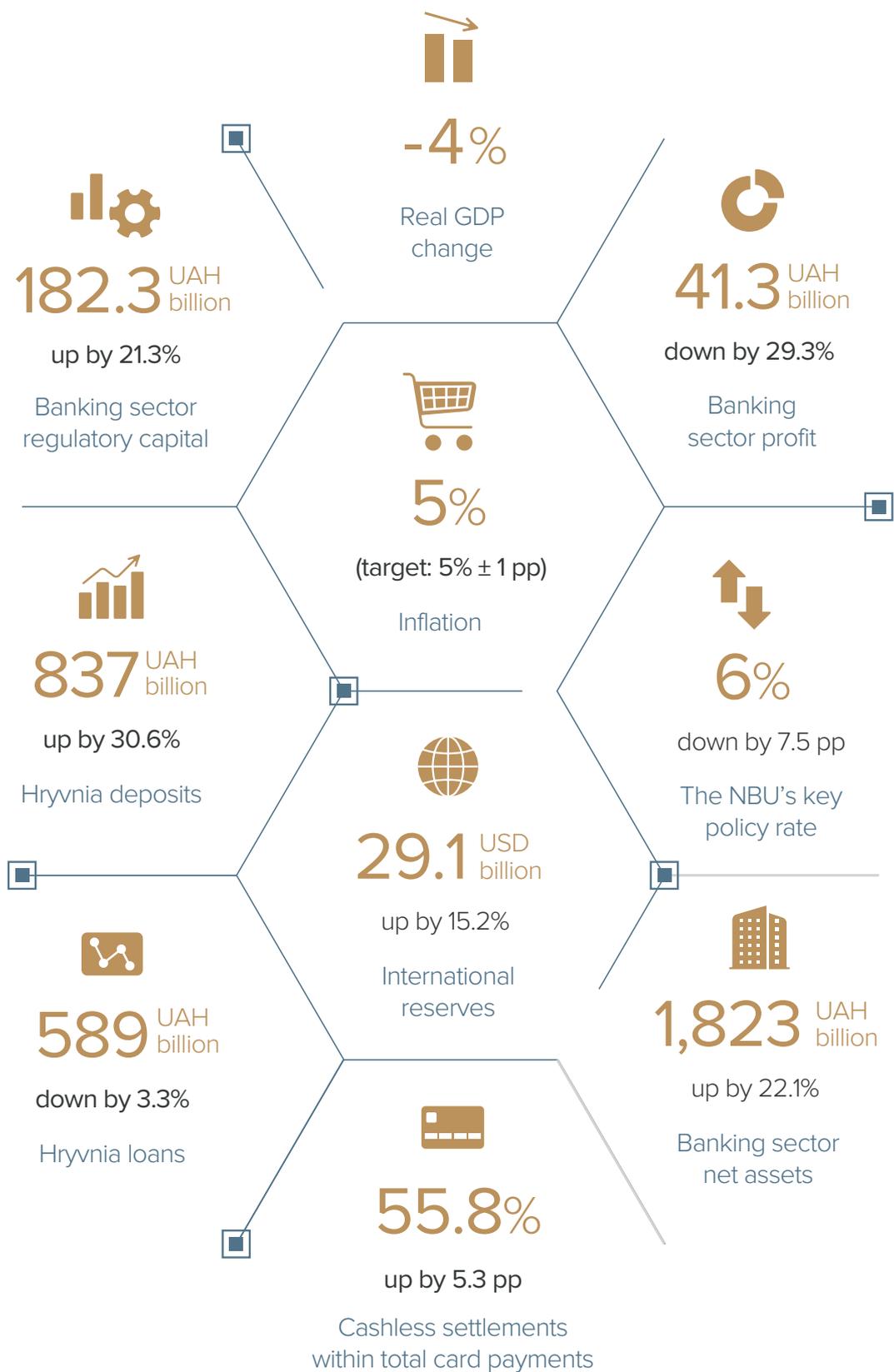




Key Performance Indicators of Ukrainian Economy and Financial Sector in 2020



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Governance

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Financial Sector Development



Address by the Governor of the National Bank of Ukraine



Kyrylo Shevchenko
Governor

Last year was filled with serious challenges. All economic processes were impacted by the rapid spread of the coronavirus and the tight restrictions to rein in the pandemic that were introduced in Ukraine and around the world.

The development of the crisis and the implementation of strict quarantine measures, combined with anxiety on the global markets, caused the Ukrainian economy to decline in H1 2020. The decline was the deepest in Q2, when the country's GDP shrank by 11.2%. While before the pandemic the NBU expected the economy to grow by 3.5% in 2020, the coronavirus crisis caused it to downgrade its forecast to a 6% fall in GDP. Moreover, uncertainty persisted over the future course of the pandemic and the impact of COVID-19 on the Ukrainian and global economies.

As a result, the economy of Ukraine proved more stable in 2020: at the end of the year the drop in real GDP was not as significant as had been forecast (it declined by 4%), and inflation was 5%, thus entering the NBU's target range ($5\% \pm 1$ pp).

Among other things, this was possible thanks to the NBU taking all of the necessary measures to help the economy cope with the turbulent times. First of all, the central bank cut the key policy rate from 13.5% to an all-time low of 6%, which helped keep inflation moderate and maintain space for further interest rate cuts in the economy. Since the start of the pandemic, Ukraine has been a leader among the emerging markets in the pace of lowering its key policy rate. The NBU's monetary policy was consistent and accommodative.

Moreover, the central bank implemented a package of anti-crisis measures. Banks received the opportunity to obtain long-term refinancing for terms of up to five years at an interest rate equal to the key policy rate. This maintained the high liquidity of the banking system.

In addition, the NBU loosened a number of regulatory and supervisory requirements in order to let banks concentrate all of their attention and resources on lending during the period of crisis. This included easing credit risk assessment requirements, delaying the requirement for capital buffer formation, postponing the submission and publication of financial statements, and suspending all on-site inspections and stress tests of banks.

The NBU also introduced a new instrument – the interest rate swap – which the banks could use to hedge against interest rate risk without including risk premiums in the rates on loans to the real economy. The total amount of approved loan applications at the eight interest swap auctions held in 2020 was about UAH 15.4 billion.

The accommodative monetary policy and the set of measures taken by the NBU during the acute phase

of the crisis supported businesses and the banking system and helped the economy recover after the sharp fall seen in H1 2020. The banking system remained liquid and accumulated considerable potential resources that can be allocated to lending.

As a result, the banking system passed through the first year of the coronavirus crisis successfully. For the first time in the history of financial and economic crises in Ukraine, the banking system was not the source of additional problems and a burden on the budget. Instead, it was a space of stability and calmness, bolstering the economy in difficult times. Retail and corporate deposits did not decrease. On the contrary, hryvnia retail deposits had actually grown by 26% and corporate deposits by 35% as of the end of 2020. Most importantly, the banking system has remained trustworthy in the eyes of households, and financial stability has been maintained amid a severe crisis.

The pickup in consumer lending was evidence of that. Among the consumer lending segments, mortgage lending grew the most rapidly, with 36% more mortgages issued in 2020 compared to 2019. Net hryvnia loans to purchase real estate rose by 11.5% in 2020.

Despite the crisis, the NBU accumulated international reserves. The reserves reached an eight-year high of USD 29.1 billion, having grown by 15% in 2020. The NBU managed to increase its international reserves by a total USD 3.8 billion in a crisis year thanks to its consistent flexible exchange rate policy.

In July 2020, the NBU became the regulator of a larger part of the nonbank financial sector. Together with members of parliament and market participants, the NBU is laying the legal foundations for a solvent, stable, and competitive market of nonbank financial services in Ukraine, ensuring the proper protection of financial services consumers. The NBU is effectively cooperating with the Nonbank Financial Services Markets Supervision and Regulation Committee, the creation of which was also foreseen under the Split Law. The central bank is also doing a great amount of work to update legislation: it has developed and approved the main regulations for the nonbank financial market, and submitted amendments to the relevant draft laws for consideration by parliament.

The NBU's next steps are: the development of the regulation and supervision of nonbank financial institutions, checking that the decision complies with all requirements, and broadening the functions, adaptation and training of employees. To this end, the NBU is implementing a new model of regulation of the nonbank financial services market. It will take into account the provisions of EU directives and best global practices, and will be implemented in stages during a transition period.

New laws on the regulation of the nonbank financial market that are to be approved in 2021 will support the further development of the sector.

2020 was a year of rapid digital transformation of the financial system. The pandemic and quarantine restrictions changed the habits of Ukrainians with regard

to remote and digital banking. The NBU offered various models of remote customer identification and verification for financial institutions – five simplified models and three full-fledged ones.

In particular, the NBU, together with the Ministry of Digital Transformation, provided the opportunity to use the Diia mobile app for remote customer identification and the provision of financial services. This can also be done using the NBU's BankID system – the state remote identification system, which is being actively developed by the central bank. The number of participants in the system is growing rapidly. As of the end of 2020, 94% of payment card users could access online services using the NBU's BankID system.

The NBU is also cooperating with members of parliament to create a new legal framework in order to change the payments landscape in Ukraine, bring Ukraine's legislation into line with EU laws, and revamp the regulation of the Ukrainian payment and money transfer market.

Cooperation with international partners remained important in 2020. In November 2020, the NBU joined the Sustainable Banking Network (SBN), which brings together the central banks of emerging markets. The NBU made a commitment to work on creating a stable financial system for the sake of sustainable economic development, increasing green investment in the economy, and supporting climate-friendly financial services.

The central bank also supports the government in its goal to reduce the state's presence in the banking sector, which, among other things, resulted in an agreement between Ukrgasbank and the IFC that prepared the groundwork for the acquisition of a share in the bank's capital by a foreign investor.

Weaker underlying inflationary pressures, a sufficient, stable level of international reserves, and much stronger confidence in the national currency compared to previous crises allowed the foundations to be laid in Ukraine for economic recovery once the coronavirus crisis is over.

The NBU's priority is to maintain transparency in its decision-making and consistency in its inflation targeting and flexible exchange rate policies.

I am proud of our team. I am sure that we will continue to implement systemic reforms, which will also cover the capital market and the sector of nonbank financial institutions. Our goal is by 2025 to make the Ukrainian financial services market as effective and transparent as possible.

I am convinced that together with the Cabinet of Ministers, and with the support of the Ukrainian parliament, we will succeed!

Address by the Chairman of the NBU Council



Bohdan Danylyshyn
Chairman of the NBU Council

Ladies and gentlemen,

The year 2020 will go down in history as a time of important events, many of which were difficult and unpredictable, good and bad. It was a special year, marked by turbulence, even full-blown financial panic, when the coronavirus started its rapid march around the globe. It was a year of disease and lockdowns, monetary policy easing efforts, the launch of the Affordable Loans 5%–7%–9% program, local elections, the passage of a law that curbs the risk of PrivatBank returning to its former owners, the beginning of a practical implementation of the project known as Split, dramatic staff changes, and more.

It will take us a while to fully comprehend the legacy of 2020. On an upbeat note, the impact of COVID-19 on both the global and Ukrainian economies has been weaker than experts had expected.

During the reporting year, inflation was mostly below the target range of $5\% \pm 1$ pp, as defined by the Monetary Policy Guidelines for 2020 and the medium term. At the end of the year, inflation increased as expected, but reentered its target range in December.

In 2020, Ukraine will see its economy contract by about 4.5%, which is not so bad even compared to more developed countries, according to NBU data.

This is because the country's economic recovery, which started in H2, has been fairly rapid. We expect GDP to gain about 4% a year in 2021 and the years that follow. We also anticipate that the current account surplus will hit 4.8% of GDP, one of its highest ever levels. In 2021–2023, however, the current account will move back into deficit.

This year, cooperation with the IMF remains an important element of development. The NBU expects to receive IMF financing under the current Stand-By Arrangement, as well as official financing from the EU, the World Bank, and other international partners. These funds will enable the country to finance a significant portion of its budget in 2021.

The NBU Council and all of its bodies have generally met their work objectives for 2020. A number of unplanned issues were addressed as well. These included: Additional COVID-19 relief measures; the management of mortgaged property by the NBU; setting up a system of internal controls and operational risk management during the remote working regime; determining criteria for designating expenses as the NBU's estimated administrative costs; determining the status of internal controls during bank inspections; deciding on remuneration of independent experts on the NBU Council's Audit Committee; and resolving a number of staff issues raised by the NBU Governor.

In this time of hardship, we need to have faith in our own strengths and capabilities. The government and the public must join forces to find a way out of a predicament that has plagued the vast majority of nations. The economic slump and financial instability have caused mass unemployment and instilled despair and apathy in people's souls. It is all the more important to have the will and endurance to overcome these difficulties. Our only option is to mobilize our efforts and direct all of our creative potential to the fight against not only material distress, but also the inevitable psychological fallout that people are struggling with.

The 2020 Annual Report gives a thorough account of the NBU's activities in 2020 in the areas defined by Articles 8 and 9 of the Law of Ukraine *On the National Bank of Ukraine*. The Annual Report also presents a complete picture of the Ukrainian economy's performance in 2020. The NBU Council has been closely monitoring how the economic situation in Ukraine and the world has been developing. Given the facts laid out in the Annual Report, it is safe to assume that in 2021 the trends that emerged in 2020 will largely continue. The current year will not be the complete opposite of its predecessor. In many aspects, such as finance, socioeconomic conditions, foreign policy, and the spread of COVID-19, 2021 will pose new challenges to government institutions.

I, however, sincerely believe in the ability of the Ukrainian people in general and the NBU team in particular to meet these challenges, so that Ukraine can emerge from this crisis stronger than ever, both economically and in spirit. This task is as important as it is difficult. I am sure that we will be able to show creativity and persistence in our daily work. Now more than ever, high professionalism and competence must come to the fore. I call on everyone not just to work hard, but to master new knowledge and skills.

We have every opportunity to do so.

Board of the National Bank of Ukraine



Kyrylo Shevchenko
Governor

Governor of the National Bank of Ukraine since 16 July 2020. Governor of the National Bank of Ukraine provides overall leadership for the central bank and oversees the NBU units responsible for HR management, legal support, risk management, communications, protection of the rights of consumers of financial services, security, state secret protection and anti-corruption efforts.

Kyrylo Shevchenko has been working in the financial sector for 27 years, including more than 10 years in the field of public finance. In 2009-2010 and then again in 2014, he worked

as the First Deputy Chairman of the Board of Ukrgasbank JSB. In May 2015, he was elected as Chairman of the Board of Ukrgasbank JSB. From 2012 to 2014, Mr Shevchenko was an advisor to the secretariat of the chair of Oschadbank PJSC.

Before that, he chaired the management board of SKPD PrJSC (2012) and the management board of Ukrainian Strategic Group (2011). In 2009, Kyrylo Shevchenko was an advisor to the prime minister of Ukraine. Between 2006 and 2009, he chaired the State Mortgage Institution. Prior to that, he worked at Aval bank and at Finance and Credit bank, where he became Deputy Chairman of the Board. He started his career in banking in 1994 as an economist at Kharkiv branch of Ukrainian Credit Bank.

Mr Shevchenko graduated from Kharkiv National University of Economics with a degree in accounting and business analysis and from Drahomanov National Pedagogical University with a degree in ecology.



Kateryna Rozhkova
First Deputy Governor

First Deputy Governor of the National Bank of Ukraine since 15 June 2018. She administers finance, operations, nonperforming asset management, and administrative support for the NBU.

Kateryna Rozhkova has been working in Ukraine's banking system since 1998. For more than 14 years, she held management positions as deputy chair, board member, and advisor to the chairman of the board at Erste Bank PJSC, deputy chair of the board at Finbank PJSC, and acting chair of the board at Platinum Bank PJSC. In 2009, she chaired the NBU's Off-Site Supervision Department for half a year. Between 10 June 2015 and 18 January 2016, she held the position of director of the Banking Supervision Department at the NBU. Up until June 2018, Kateryna Rozhkova was a deputy governor of the NBU.

Kateryna Rozhkova graduated from Kyiv National Economic University with a major in Finance and Credit in Bank Management. She also holds a degree in International Business Management (MBA) from the International Institute of Management (IMI-KYIV).



Yuriy Heletiy
Deputy Governor

Deputy Governor of the National Bank of Ukraine since 27 July 2020. Yuriy Heletiy is in charge of open market operations, currency regulation, methodology of banking regulation, operations of the NBU Depository and corporate rights management.

He has been working in the area of public 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 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 in the National Bank of Ukraine in 2003, where during 2003 - 2015 he went from serving as an entry-level economist to heading a banking supervision unit.

Yuriy Heletiy graduated from Ivan Franko National University of Lviv with degrees in international economic relations, translation and law. He completed training courses at the University of Bayreuth, Germany, and Carleton University and the University of Ottawa, Canada. He holds a PhD in Economics from the Institute of Regional Studies of the National Academy of Science of Ukraine.



Yaroslav Matuzka
Deputy Governor

Deputy Governor of the National Bank of Ukraine since 4 September 2020. Yaroslav Matuzka oversees bank and nonbank supervision, registration and licensing, and financial monitoring.

He works in banking sector since 2011. Before joining the NBU, he worked at CB Privatbank JSC since 2016, coordinating legal team of the bank's head office since 2018. From 2010 to 2017, Yaroslav Matuzka served on the supervisory board of Ukrgasbank JSB. In 2011–2014, he sat on the Audit Commission of Oschadbank JSC.

In 2008–2009, he led the legal functions at several privately owned investment companies. 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).

Yaroslav Matuzka graduated from Kyiv National Economic University with a master degree in legal regulation of economy.



Dmytro Sologub
Deputy Governor

Deputy Governor of the National Bank of Ukraine since 1 March 2015. Dmytro Sologub is responsible for monetary policy, macroprudential policy to ensure financial stability, economic analysis, collection and analysis of statistics and reporting, research, and methodology of the NBFi regulation.

In 2002, he started his career as a research associate at the Institute for Economic Research and Policy Consulting (IER). Starting in 2004, he worked as a research economist at the IMF Resident Representative Office in Ukraine. From 2007 to 2015, he was head of analysis and research at Raiffeisen Bank Aval PJSC.

Dmytro Sologub graduated from the Belarus National University with a degree in theoretical economics and a master's degree in economics (EERC) at the National University of Kyiv-Mohyla Academy. Dmytro Sologub is a CFA charterholder.



Oleksii Shaban
Deputy Governor

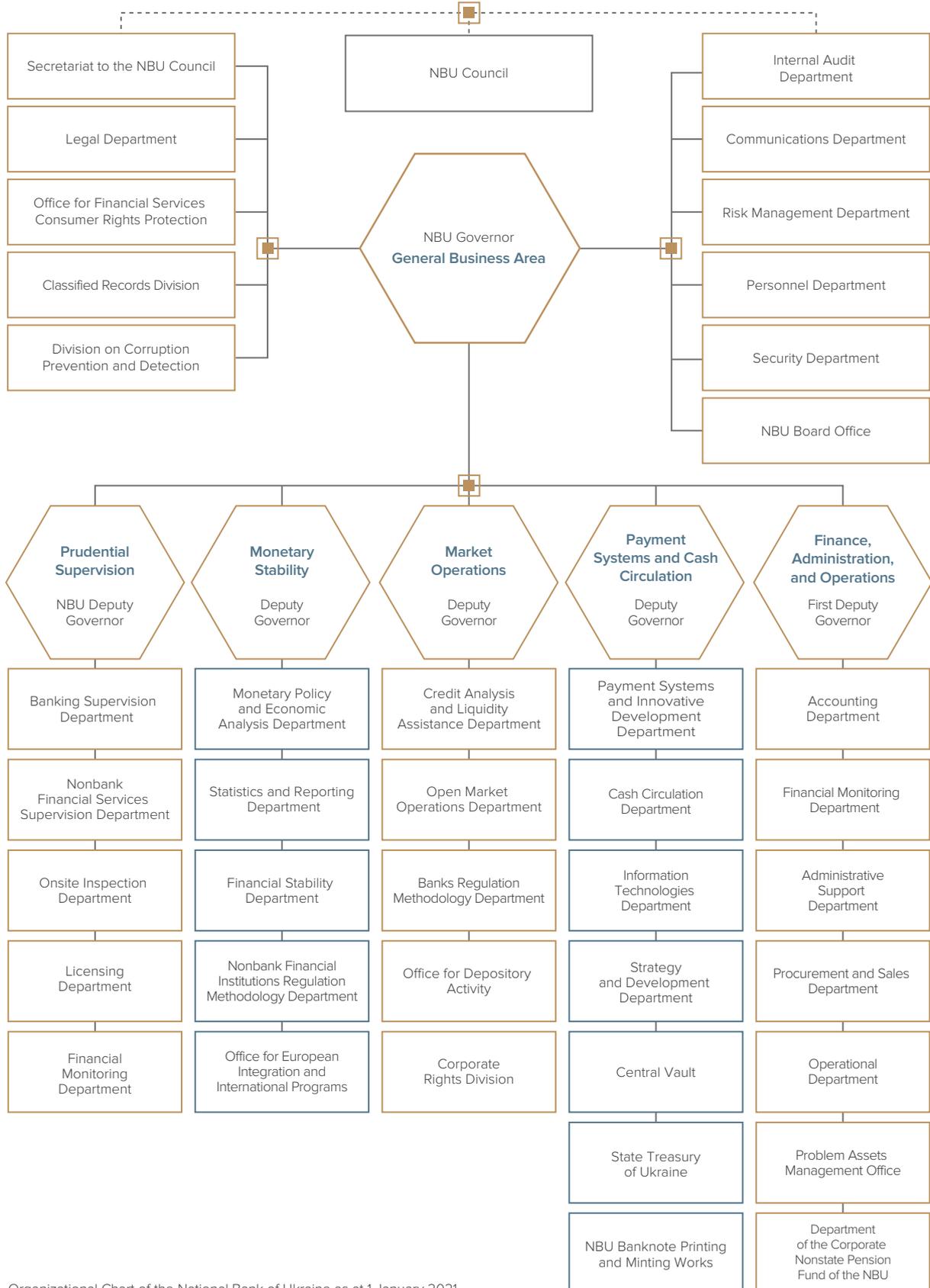
Deputy Governor of the National Bank of Ukraine since 7 August 2020. Areas under his leadership include development and regulation of payment and settlement systems, management of the cash circulation system, information technologies, strategy and development of central bank and financial sector.

Oleksii Shaban worked in Ukrainian banking system for more than 25 years. Since February 2020, Oleksii Shaban served as director of the NBU Payment Systems and Innovative Development Department.

Before joining the NBU, Oleksii Shaban worked at PrivatBank for over 24 years. In 2018, Oleksii Shaban became a member of PrivatBank's board in charge of retail business, and actively introduced new card and payment products, including through remote channels.

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

Organizational Chart of the National Bank of Ukraine



Organizational Chart of the National Bank of Ukraine as at 1 January 2021

Financial Sector Development

Ukraine’s Financial Sector Development Strategy towards 2025

On 16 January 2020, the National Bank of Ukraine (NBU), the National Securities and Stock Market Commission (NSSMC), the National Commission for Regulation of Financial Services Markets (NCFS), the Deposit Guarantee Fund (DGF), and the Ministry of Finance of Ukraine signed and started implementing the Strategy of Ukrainian Financial Sector Development until 2025 (hereinafter referred to as the Strategy). The goal of the Strategy is to ensure that the reform and development of Ukraine’s financial sector moves forward in line with international best practices and that the actions envisaged by the EU-Ukraine Association Agreement and Ukraine’s other international commitments are implemented. The Strategy was drafted as an extension to the Comprehensive Program of Ukrainian Financial Sector Development until

2020, which identified reform priorities for regulators over the past five years.

The Strategy comprises five sections: current state of the Ukrainian financial sector; envisioning the future: financial sector mission and vision; goals of the Strategy; expected outcomes and implementation tools; road map for Strategy implementation and Ukraine’s international commitments in financial services to be implemented within the road map framework.

The strategy outlines five major priorities of financial sector development:

- strengthening financial stability
- promoting macroeconomic development and economic growth
- developing financial markets
- expanding financial inclusion
- introducing innovations in the financial sector.

Vision of Ukraine’s Financial Sector

The Ukrainian financial sector is internationally integrated, effective, sustainable, competitive, and dynamic. It ensures Ukraine’s stable and inclusive economic growth

Mission of Ukraine’s Financial Sector

The Ukrainian financial sector drives the stable and inclusive development of Ukraine’s economy and helps improve people’s welfare by ensuring the effective accumulation, distribution, and circulation of financial resources in the economy



In order to further strengthen financial stability, regulators will, among other things, focus their efforts on enhancing the protection of creditors' and investors' rights, implementing the BEPS action plan, improving corporate governance in financial institutions, strengthening their internal control requirements, improving the deposit guarantee system and the system for resolving insolvent financial institutions, introducing risk-based supervision over nonbank financial institutions, implementing regulatory requirements in the regulation and supervision of banks and nonbank financial institutions in accordance with the EU-Ukraine Association Agreement, etc.

Macroeconomic development will be stimulated by intensifying lending to small and medium-sized businesses, in particular to farms against security of land, by removing obstacles to restarting mortgage lending, and by financing exports. Other important tasks in this area are prudent fiscal policy, development of the market for nonbank lending, enhanced coordination of actions between the Ministry of Finance and the NBU, introduction of the pillar 2 pension system and improvement of the regulation of the pillar 3 pension system, and development of the domestic market for government securities.

To develop financial markets, the regulators will work to complete the currency liberalization, to create liquid markets for financial instruments (derivatives, corporate stocks and bonds, etc.), to deregulate markets for nonbank financial services that are associated with low risks or are out of alignment with EU practices, to regulate insurance activities in line with Solvency II and IAIS principles, to ensure that insurance intermediaries are regulated, to legislate prerequisites for the development of markets for credit unions and financial leasing services, to modernize stock exchange and depository infrastructure, to create a comprehensive information system for stock exchange monitoring, to implement international standards for the operation of capital markets infrastructure (CSDR, EMIR, MIFID II, MIFIR, PFM requirements), and more.

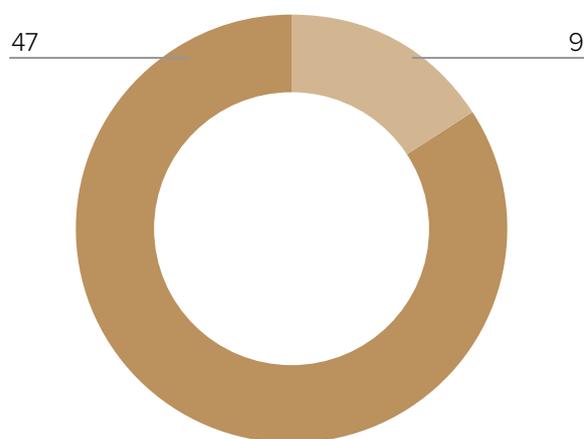
In order to increase financial inclusion, financial institutions' market behavior standards and financial products disclosure standards will be implemented, targeted programs for improving the financial literacy of the public will be strengthened, consumer protection will be enhanced, incentives will be created for the development of cashless payments infrastructure, and the deposit guarantee system will be expanded and streamlined.

Financial sector innovations will cover a wide range of activities, including developing the BankID remote identification system, creating

a crowdfunding and venture capital platform and regulatory sandboxes, introducing new payment and transfer technologies, increasing financial market participants' access to public registers, developing big data, blockchain, cloud technologies, and so on.

The Strategy thus envisages the reform of all segments of the financial sector: the banking market, the nonbank financial institutions sector, and capital markets. The implementation of the Strategy will create a transparent, competitive, stable, and high-tech financial sector over the course of five years.

2020 measures implementation progress (NBU)



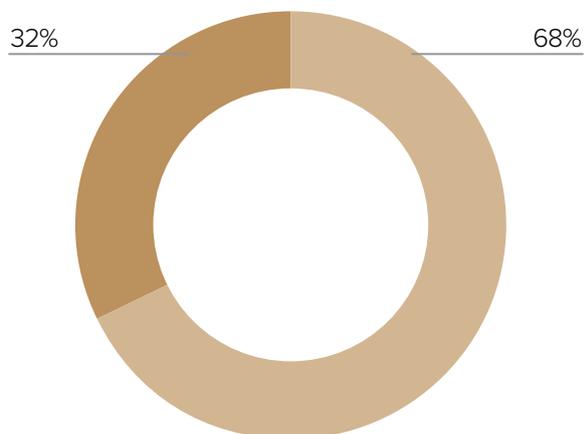
- Interim deliverables lagging behind
- Measures implemented in line with the schedule

In 2020, within the framework of Strategy implementation, over ten new projects were launched:

- The NBU's Credit Register 2.0 (Q1 2020)
- Paperless Technologies (Paperless 2.0) (Q2 2020)
- Control over Cash Circulation (Cash Management) (Q2 2020)
- Top Managers Testing (Suptech) (Q3 2020)
- Regulatory Technologies (Regterch) (Q2 2020)
- Logistics and Cash Management Automation (Q3 2020)
- Process and Product Model for Cash Management (Q1 2020)
- Drafting Functional Strategy for Regulating Cash Circulation and Payment Systems (Q1 2020)
- System of Control over Cash Circulation in Ukraine (Cash Control System) (Q2 2020)

- Resumption of Lending in Ukraine inter-agency program comprising five projects (Q4 2020)
- Establishing Central Cash Center (Q4 2020).

Strategy implementation format at the NBU



- Project activities
- Operating activities

Financial Development Task Force (Committee)

The implementation of the Strategy provides for establishing a steering committee and engaging the heads of the signatory institutions to be its members.

To this end, in late 2019, the Financial Stability Council made a decision to establish a Financial Development Working Group (Committee) at the Financial Stability Council.

Main tasks of the Working Group:

- identifying the directions and priorities for the implementation of the Strategy for Ukraine's Financial Sector Development until 2025
- facilitating the coordinated implementation of the measures stipulated in the Strategy of Ukrainian Financial Sector Development until 2025; monitoring the effectiveness of their implementation
- consideration of proposed action plans for financial sector development.

The Committee's founding meeting was held on 16 January 2020. At this meeting the Committee agreed how to organize the Strategy implementation; the work on introduction of unified principles and project reporting forms started.

A communication platform with participation of representatives of market and area-specific experts was established at the Committee. In 2020, two meetings of this consultative platform had place, on 15 May and 30 September. At the meetings the following issues were discussed:

- work of consultative platform and Financial Development Committee: further steps
- consideration of proposals for amending the Strategy
- the Strategy implementation
- Fintech Development Strategy in Ukraine until 2025
- how the COVID-19 pandemic affected the financial sector of Ukraine.

Following the meetings, the respective proposals for the Strategy finalization were submitted for consideration of the Financial Development Committee.



Low and Stable Inflation

Monetary Policy and Macroeconomic Developments

Monetary Transmission Mechanism

The Floating Exchange Rate and FX Interventions



Monetary Policy and Macroeconomic Developments

Monetary Policy Strategy and Objectives

The NBU's priority objective is to achieve and maintain price stability. Other key objectives include promoting financial stability and sustainable economic growth. With a view to achieving its priority objective, the NBU employs inflation targeting, which means that the central bank publicly announces its inflation targets and undertakes to meet them in the medium-term.

In accordance with the NBU's monetary policy strategy approved in 2018, and the monetary policy guidelines for 2020 and the medium term, the NBU's medium-term inflation target remains at $5\% \pm 1$ pp.

In 2020, macroeconomic conditions continued to be difficult, while uncertainty remained high because of the pandemic. In spite of that, by the end of the year inflation had returned to the midpoint of the $5\% \pm 1$ pp target range. The attainment of the inflation target was due, among other things, to the NBU's consistent, transparent and careful monetary policy, which sought to balance a response to inflation risks against supporting economic recovery from the coronavirus crisis.

In March 2020, the lockdown imposed in response to the rapid spread of the pandemic increased turbulence on the Ukrainian financial market and created temporary liquidity gaps at some banks, pushing interbank market rates up. Yields on government securities also grew. In response, the NBU deployed a wide array of tools to restore equilibrium on the financial market and meet its second priority goal of promoting financial stability, in particular banking system stability.

Low inflation and the rapid stabilization of the financial markets enabled the NBU to focus on supporting the Ukrainian economy without undermining its first priority goal of achieving and maintaining price stability. To that end, the central bank continued to ease its monetary policy at a fast pace, contributing to cheaper funding for businesses, households, and the government. The key policy rate was more than halved: from 13.5% in early 2020 to 6% in June.

After that, the NBU relied on the flexibility of inflation targeting to maintain an accommodative monetary policy, with a view to bringing the economy back on the track of growth and inflation to its target range as quickly as possible. Real GDP contracted by 4% in 2020. This figure is significantly less than expected at the onset of the coronavirus crisis (6%), and much less compared to the drops seen during the 2009 crisis (by 15.1% yoy) and during the 2014 – 2015 crisis (by 6.8% yoy and by 9.9% yoy respectively).

Monetary Policy Decisions and Underlying Macroeconomic Rationale

The year 2020 was special given the rapid spread of the coronavirus and the introduction of unprecedented restrictions to curb the spread of the disease in Ukraine and globally. In early 2020, it was difficult to foresee the extent of the pandemic and related risks in the macroeconomic forecast. In addition, most of 2020 saw considerable uncertainty over how the pandemic would develop and how COVID-19 would influence the domestic and global economy.

In Q1 2020, consumer price growth continued to slow, while underlying inflationary pressures eased further. Inflation dropped mainly on the back of lower global energy prices, the residual effects of the hryvnia's appreciation in 2019, and a larger supply of raw foods. These factors outweighed the opposite pressure on prices from the weakening of the hryvnia seen in March and the panic buying of some goods during the first several weeks following the introduction of quarantine in response to the spread of COVID-19.

What is more, the inflation expectations of all respondent groups have been gradually improving ever since inflation targeting was introduced. In early 2020, the inflation expectations of businesses and financial analysts moved close to the inflation target range in response to a consistent monetary policy, a stronger hryvnia, and slower actual inflation. The expectations of the banks and households also improved. After that, a turbulent FX market and worsening economic sentiment resulting from quarantine restrictions temporarily

unbalanced inflation expectations in March – April. Although rising, in H1 2020 the inflation expectations of all respondent groups were in a significantly lower range of 5-9% compared to the same period of 2019 (7–12%).

As a result, given improved inflation expectations and the forecast that inflation will be below its target range of 5% ± 1 pp for a long period of time, in Q1 2020 the NBU continued the cycle of monetary policy easing it started in 2019 with a view to supporting sustained economic growth. The central bank cut its key policy rate twice: from 13.5% to 11% per annum in January and to 10% per annum in March.

The strict lockdown in March – May, with operations being banned in the majority of economic sectors, led to a decrease in household income and corporate earnings, as well as a deterioration in consumer and business sentiment. Amid uncertainty over the further development of the COVID-19 pandemic, this caused a decrease in household consumption, a halt in some investment projects, and a deep recession in all economic sectors. In Q2, real GDP slumped by 11.2%.

With a significant drop in business activity, a continued weakening in underlying inflationary pressures, and stable inflation expectations, the NBU Board eased monetary policy at a faster pace in Q2. By late Q2, the key policy rate had been cut to 6% – an all-time low in nominal terms. The NBU's active easing of monetary policy was intended to support the economy as quarantine measures were phased out.

Beginning in Q3 2020, a larger supply of food and reduced consumption somewhat restrained inflationary pressures arising from other factors, such as the hryvnia depreciation, higher energy prices, a poorer harvest of some crops, and recovery in economic activity and consumer demand. As a result, consumer inflation remained low despite speeding up since October 2020, fueled by the recovery of the global and Ukrainian economy, rising consumer demand, and higher global prices for energy and some foods.

In view of expected growth in inflationary pressures over the monetary policy horizon, the NBU did not cut the key policy rate any further in H2.

Although the key policy rate remained unchanged, monetary policy continued to be accommodative. The rapid cuts in the key policy rate in H1 2020 decreased the rate to almost zero in real terms. Since August, the key policy rate has been in negative terrain and far below its neutral level.

Monetary Policy Measures Taken to Support Businesses and the Banking System during the Coronavirus Crisis

The unfolding crisis and the introduction of strict quarantine measures amid panic on the global markets led to a deep slump in the Ukrainian economy in H1 2020. Under such difficult conditions, the NBU put much effort into supporting businesses and the banking system. The central bank's measures were primarily aimed at:

- providing cheaper funding
- supporting liquidity and expanding the funding base of banks
- encouraging financial institutions to ramp up lending
- stabilizing the FX market
- anchoring inflation expectations.

Under conditions of financial market turbulence, the NBU changed the operational design of its monetary policy. Since March 2020, scheduled tenders to place certificates of deposit and issue short-term refinancing loans have been held twice as often. The maturity of refinancing loans was extended at first from 14 to 30 days, and later to 90 days. This enabled the banks in need to quickly cover their cash liquidity gaps by applying to the NBU. The decrease in the maturity of certificates of deposit from 14 to seven days provided more flexibility in liquidity management and reduced uncertainty, while also improving the expectations of market participants.

Guided by the best global practices, the NBU deployed a wide range of tools, enabling the banks to respond to the crisis in a more flexible manner and support the economy. More specifically, apart from short-term refinancing tools, the NBU introduced long-term refinancing for terms of from one to five years at a floating rate (equaling the key policy rate) and against collateral that is used to obtain tender loans. The central bank issued UAH 48.5 billion worth of such loans. This had the aim of ramping up lending to the real sector and contributing to sustainable economic growth overall.

What is more, the NBU expanded the list of eligible collateral the banks can provide to obtain refinancing loans by incorporating government-guaranteed corporate bonds and municipal bonds into the pool of eligible collateral.

The central bank also introduced a new instrument – interest rate swaps – through which the banks can hedge against interest rate risk, without including risk premiums in their interest rates on loans to the real sector. The NBU held eight interest rate swap auctions in 2020, approving applications worth a total of about UAH 15.4 billion.

The rationale for deploying this instrument also included promoting the use of such instruments on the interbank market, enabling the market to use interest rate swaps without the direct involvement of the regulator.

The NBU relaxed some regulatory and supervisory requirements for the duration of the crisis, with a view to enabling the banks to focus all of their attention and resources on lending during these extraordinary times. Among other things, the NBU eased the requirements for measuring credit risk, postponed the introduction of capital buffers, and allowed the banks additional time to submit and publish their financial statements, while also temporarily halting all types of on-site inspections and stress tests.

An accommodative monetary policy (since May 2020, the real key policy rate has been below

its neutral level), together with the measures the NBU took during the acute phase of the crisis, supported businesses and the banking system, while also helping the economy recover from the sharp fall in H1 2020. In 2020, the banking system not only retained its liquidity, but also accumulated a large amount of resources that could be used for lending.

Most importantly, the NBU was able to maintain confidence in the banking system and safeguard financial stability. This was the first crisis that was not accompanied by deposit outflows from banks. Moreover, despite lower interest rates and uncertainty over the further course of events, deposit inflows into the banking system (mainly to current accounts) were recorded throughout 2020. The banks remained well-capitalized, profitable and efficient. Weaker underlying inflationary pressures, sufficient and stable international reserves, and considerably higher confidence in the domestic currency compared to previous crises laid the foundations for the recovery and stabilization of the Ukrainian economy once the coronavirus crisis is over.

Monetary Transmission Mechanism

Achieving the Operational Goal of Managing the Interbank Loan Rates

The NBU regulates the demand for, and supply of, money through varying interest rates. In particular, the regulator influences short-term interest rates on the interbank money market by keeping them close to the key policy rate and within the band of interest rates on standing facilities. This also has a lagged impact on interest rates on loans, deposits, securities, and so on. These rates have a direct impact on the consumption and investment volumes of both households and businesses and, therefore, on inflation.

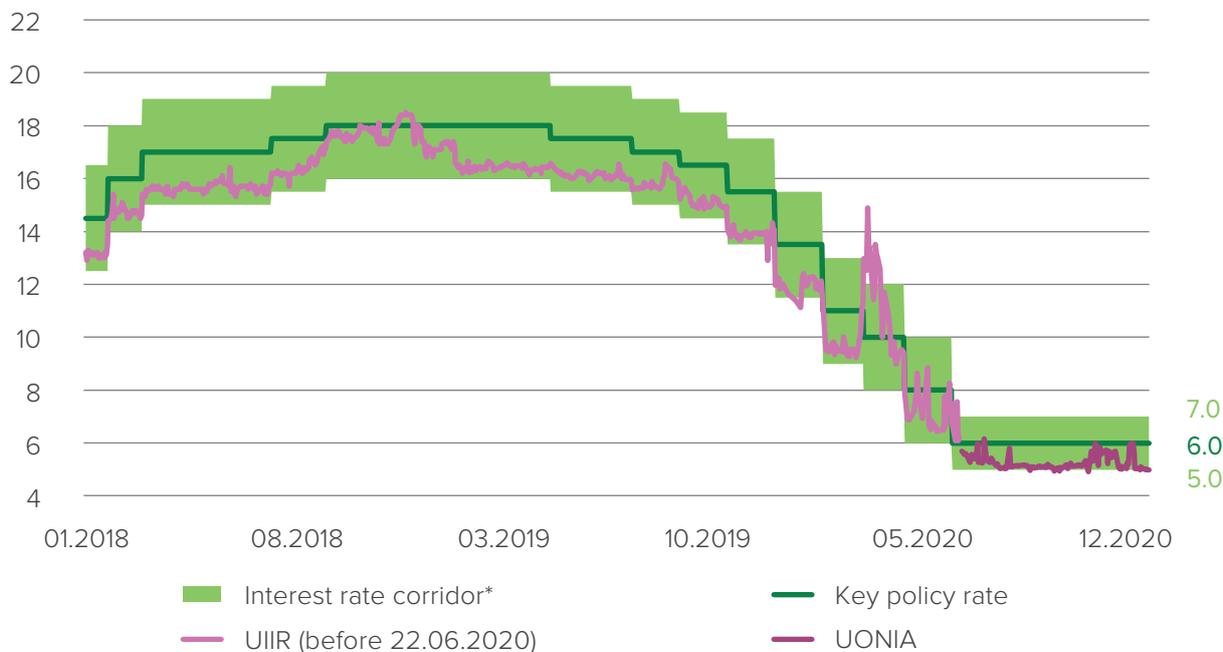
Since 23 June 2020, the Ukrainian OverNight Index Average (UONIA), which replaced the Ukrainian Index of Interbank Rates (UIIR), has been used as an indicator of interbank hryvnia interest rates for the purposes of interest rate policy. The UONIA has a more advanced calculation method, making it possible to more objectively determine the market value of hryvnia resources on the interbank lending market.

Except for several short periods, interbank lending market rates declined in 2020, responding quickly and commensurately to key policy rate cuts.

The March rise in interest rates and their temporary overshooting of the NBU's band of interest rates resulted from rising turbulence on the financial markets, fueled by the rapid spread of the coronavirus and uncertainty over the consequences of the pandemic. The rapid deployment of a wide array of monetary policy instruments (both classical and new ones) enabled the NBU to normalize the situation reasonably quickly during the acute phase of the crisis. As a result, following the high volatility seen in March, starting in April the movements of interbank lending market rates and the key policy rate have again become correlated.

With the substantial decrease in the key policy rate seen in H1 2020, the overnight rate band of ± 2 pp became too large. That is why in June the interest rate band for standing facilities was narrowed to ± 1 pp, with a view to retaining the effectiveness of the key policy rate. The effectiveness of this decision is evidenced by lowered volatility and the UIIR and UONIA hovering mainly within the interest rate band.

NBU interest rates and UIIR/UONIA, %



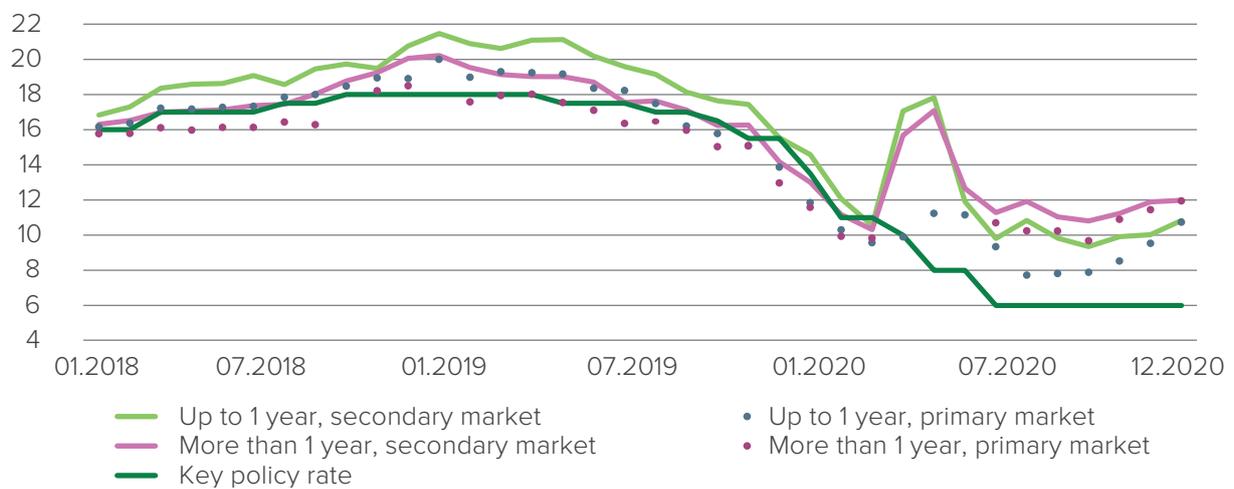
* The band is capped by interest rates on NBU overnight loans, while being floored by interest rates on NBU overnight certificates of deposit.

Transmission into Rates on Domestic Debt Government Securities and Bank Interest Rates

The unfolding crisis pushed up yields on government securities, both on the primary and secondary markets. A stable financial market, renewed cooperation with international partners and the NBU's continued efforts to pursue an understandable and predictable policy decreased uncertainty, thus driving down the risk premiums included in interest rates. Coupled with key policy rate cuts, this led to a noticeable drop in yields on hryvnia domestic debt government securities.

That said, interest rates on domestic debt government securities (especially long-term ones) are determined by multiple structural and underlying factors, expectations and risks. These include inflation and depreciation expectations, the sovereign credit rating, the sustainability of the debt position, the quality and transparency of economic policy, prospects for Ukraine's cooperation with the IMF and other international financial partners, and so on. The impact of these factors can be stronger than that of the key policy rate. More specifically, despite the key policy rate remaining unchanged, yields on hryvnia domestic debt government securities rose pronouncedly in late 2020, propelled by the government's large financing needs.

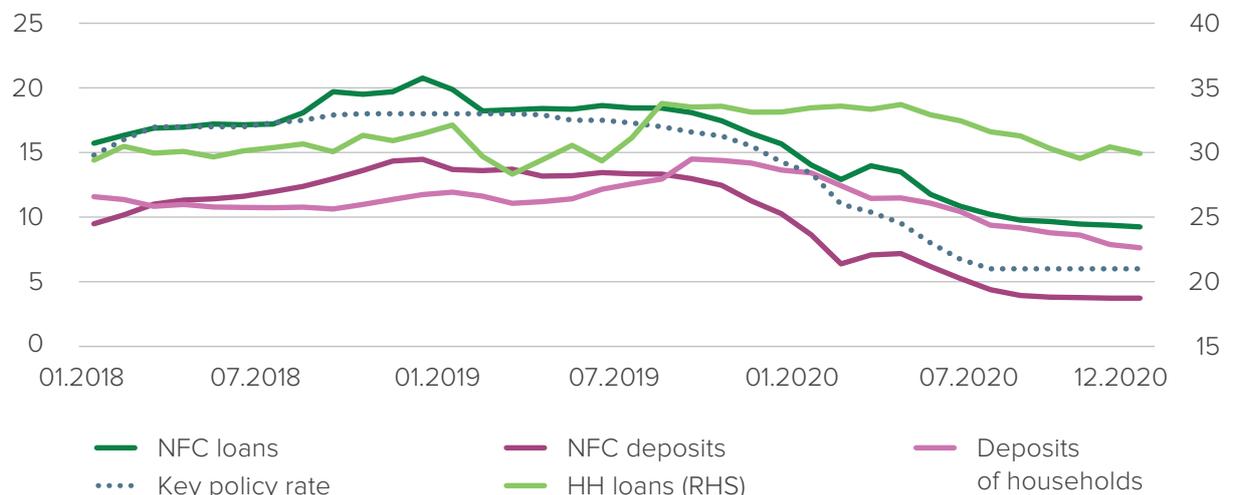
Yields on hryvnia domestic debt government securities by maturity and the key policy rate, %



In 2020, the banks cut hryvnia rates for their customers as interest rates on the funding market trended down. In particular, weighted average interest rates on hryvnia loans to nonfinancial corporations slid below 10% in H2 2020, from almost 16% in December 2019. Since mid-2020, weighted average interest rates on corporate

deposits have been below the key policy rate. In December 2020, interest rates on new short-term hryvnia corporate loans hovered around at 8% per annum, while those on long-term ones ranged around at 13% per annum. Weighted average interest rates on hryvnia household deposits dropped by 6 pp, to 7.6% in December.

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



The Floating Exchange Rate and FX Interventions

The Exchange Rate Regime and Objectives of FX Interventions

The NBU remains committed to the floating exchange rate regime, refraining from focusing its monetary policy on maintaining a certain exchange rate level or range. The hryvnia's trajectory against foreign currencies is driven by market factors that determine the demand for, and supply of, foreign currency on the domestic market.

In 2020, the NBU performed FX interventions to smooth out FX market fluctuations and build up international reserves, as set out in the NBU's FX intervention strategy for 2016 – 2020.

By conducting FX interventions in 2020, the NBU did not interfere with underlying trends, nor did it strengthen them. The NBU merely smoothed out undue exchange rate volatility that could lead to a buildup of external economic and financial imbalances and that could be harmful to the economy.

In 2020, the key policy rate remained the main monetary policy tool, while FX instruments played only a secondary role. The central bank also tried to intervene in the FX market as little as possible. More specifically, the NBU significantly reduced its FX interventions once the short-term FX market shock triggered by the global spread of COVID-19 was over, and after the central bank recovered the international reserves it had used to stabilize the market. This was due, among other things, to the enhanced ability of the FX market to maintain equilibrium independently.

Smoothing Out the FX Market in Turbulent Times

The spread of COVID-19 in the spring of 2020 created turbulence on the financial markets, causing, among other things, a noticeable increase in demand for foreign currency and a weakening of the hryvnia. The scale of the FX market shock in March 2020 was comparable to those seen in 2008-2009 and in 2014.

The NBU's commitment to a consistent FX market regulation policy helped to quickly curb panic buying of foreign currency. As a result, the FX market had already stabilized by late March.

At the same time, the NBU did not deploy any administrative restrictions on the FX market. Conversely, the NBU launched temporary auctions to supply the banks with foreign currency cash in exchange for cashless foreign currency.

These auctions helped eliminate difficulties in meeting households' demand for foreign currency cash. These difficulties were caused by temporary shortages of foreign currency cash that the banks were facing due to disruptions in foreign travel amid the global spread of the coronavirus.

Despite a less benign external environment, the situational spikes of demand for foreign currency, and active budgetary spending that peaked in August – September and in December 2020, over the whole of 2020 the NBU was a net buyer of foreign currency. The NBU's net FX purchases totaled USD 1.038 billion in 2020.

Throughout 2020, the central bank continued to influence only the speed of exchange rate movements, allowing the market to determine its direction. In 2020, the domestic currency depreciated by 19.4%, including by 12.3% in March.

Building up International Reserves

In late Q1 and in early Q2 2020, FX market conditions stabilized. This enabled the NBU to purchase foreign currency again, while not opposing the prevalent market trends, and to recover the large amount of foreign currency that the NBU sold in March to stop panic buying.

The steady supply of foreign currency that was produced by receipts from traditional export-oriented branches (such as the agricultural sector) and from Naftogaz, coupled with moderate import payments, created a considerably larger supply of foreign currency compared to demand, which also enabled the NBU to replenish its international reserves. As a result, in Q2 the NBU purchased USD 2.5 billion net.

In Q3, the NBU sold slightly more foreign currency (by USD 106 million) than it purchased, due to rising demand for foreign currency on the back of worsening expectations.

The increase in the net supply of foreign currency seen in late 2020 enabled the NBU to purchase foreign currency again, with a view to replenishing reserves.

Despite the crisis and large repayments of external debt in 2020, the NBU increased its international reserves to USD 29.1 billion – an eight-year high. This improved all reserve adequacy criteria. In particular, the IMF metric hit almost 94% of the required minimum.

Stable, Transparent, and Effective Banking System

State of the Banking Sector

Implementation of Risk-Based Supervision

Harmonization of Prudential Requirements for Banks with the EU Laws and Recommendations of the Basel Committee on Banking Supervision

Information Security and Cyber Defense at Banks

Revision and Implementation of Macroprudential Policy

Ensuring Transparent Operations and Reporting of Financial Sector Participants by Implementing Financial Reporting System for Submitting Financial Statements Prepared in Accordance with IFRS Taxonomy in Single Electronic Format iXBRL

COVID-19-Related Application of the International Financial Reporting Standards



State of the Banking Sector

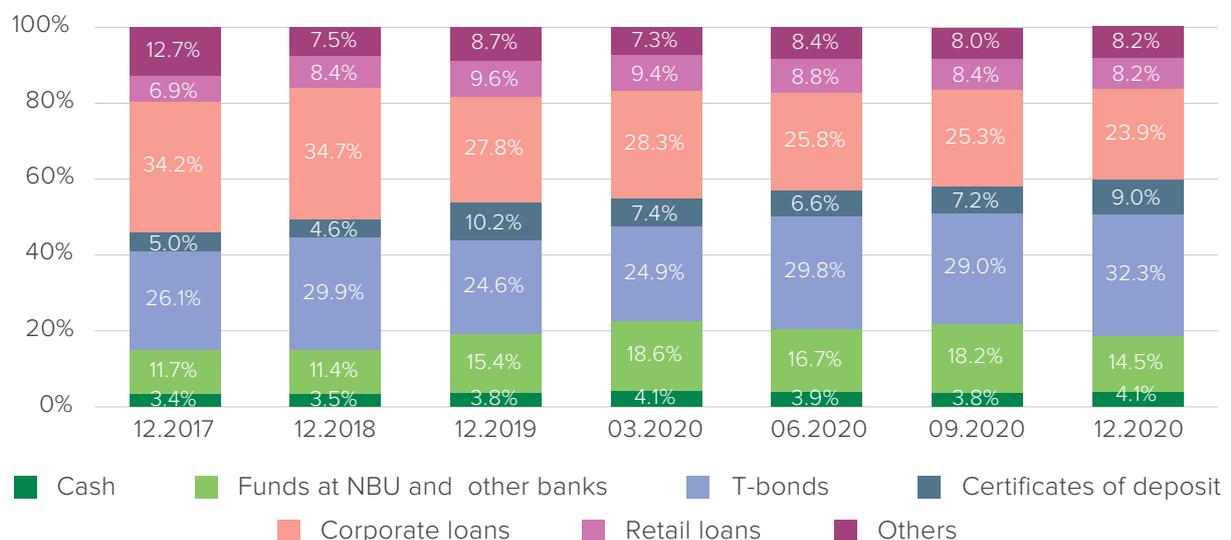
The banking sector has successfully passed through the coronavirus crisis and performed its functions properly, supporting the economy. That was facilitated by earlier efforts to clean up and improve resilience of the banking system, as well as actions being taken on time by the banks and the NBU in order to overcome the consequences of the pandemic.

As the banks retained sufficient liquidity, they remained trustworthy in the eyes of depositors, and were able to continue lowering deposit rates without suffering a decline in deposits. Decreased loan rates and state support programs for businesses boosted lending, especially hryvnia lending, after it slowed somewhat at the start of the year. The dollarization of bank balance sheets decreased. Writing off nonperforming loans to clean up the balance sheets improved the investment attractiveness of banks, particularly state-owned banks.

Although the decline in the sector's profit was mainly driven by an increase in provisions, return on equity remained high in 2020, averaging 20%. The majority of banks had a capital cushion that allowed them to comply with the requirements during the year.

Their capital cushion and liquidity will keep banks in good shape to be able to continue lending to the economy. Credit risk remains the main challenge for the banking sector in 2021. Other factors that will influence banks' business models include further digitalization of banking services, and internal processes.

Structure of bank assets



Structure of the Banking Sector

In 2020, two banks were declared insolvent after they failed to meet capital requirements. At the end of 2020, there were 73 solvent banks in Ukraine.

Over the year, state-owned banks decreased their share of net assets by 2.7 pp, to 52.6%, with the share of private banks rising accordingly. PrivatBank continued to lead by volume of retail deposits, holding a third of the sector's deposits. The concentration of the banking sector's net assets remains relatively low according to the Herfindahl-Hirschman Index (less than 1,000). The top 20 banks account for more than 90% of the sector's total net assets.

Assets

Over a year, banks' net assets increased by 22.4%, to UAH 1,823 billion¹, mainly due to growth in holdings of government securities. The largest growth was seen in the banks' holdings of domestic government bonds, which rose by 60.4%, accounting for two thirds of the annual nominal growth in net assets. The government incurred large budget expenditures at the end of the year, which increased banks' liquidity and holdings of NBU certificates of deposit. Over the entire year, volumes of NBU certificates of deposit grew by 7.5%. NBU funds, interbank loans, and the vault cash of banks also increased throughout the year.

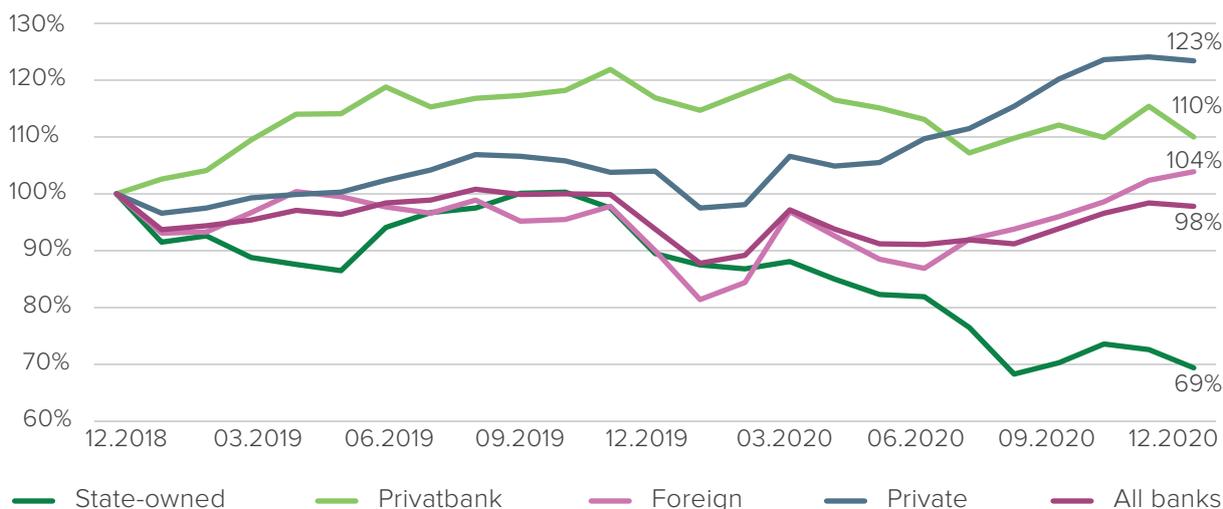
¹ At banks solvent as of the end of 2020. Data for 2020 may be adjusted.

In 2020, volumes of corporate lending were moderate, while showing uneven dynamics. Lower demand for some goods and services due to the pandemic and the tight quarantine restrictions imposed in spring caused a major decline in some economic sectors. Demand for loans from businesses rose, and borrowers' financial standings started to deteriorate.

In order to reduce the negative impact of the crisis on their loan portfolios, the NBU encouraged

banks to restructure loans to bona fide debtors affected by the pandemic. Small businesses remained the most vulnerable to the crisis. The government implemented state support programs for these businesses, envisaging partial interest rate compensations and government guarantees for loans. These measures and the gradual economic recovery helped corporate lending pick up gradually.

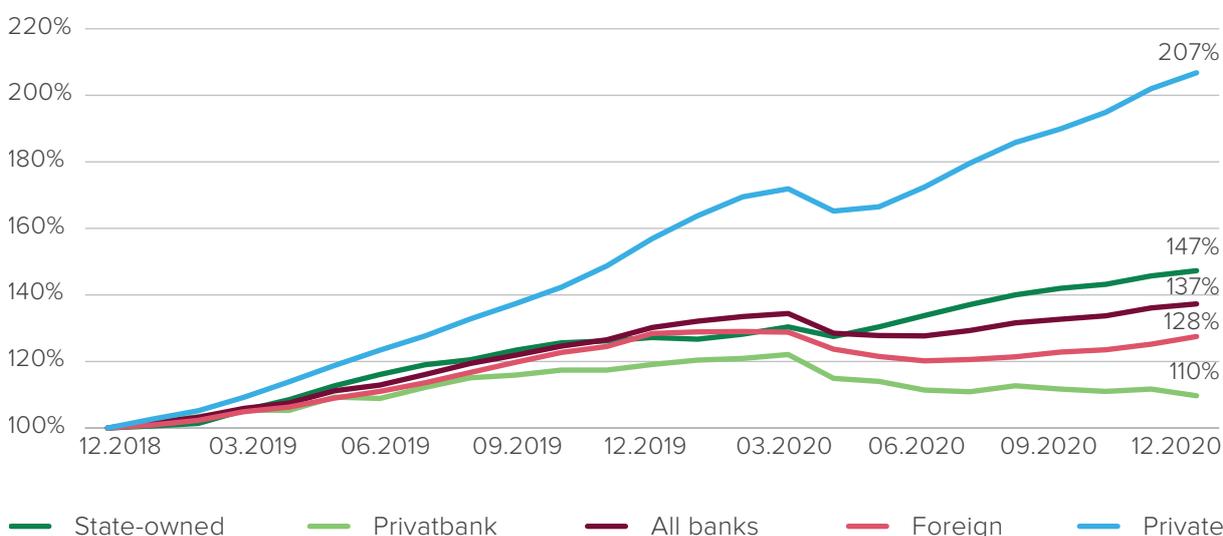
Net hryvnia corporate loans, 2018=100%



Net hryvnia corporate loans thus grew in H2, following a decline in the corporate portfolio in H1. Over the full year, net hryvnia corporate loans increased by 4.3%. Banks with foreign and private capital issued the largest share of loans to corporate borrowers – more than 15% yoy. Net FX loans declined by 11.1% yoy in the US dollar equivalent.

Retail lending slowed sharply in 2020. The net hryvnia portfolio of retail loans grew by 5.5% yoy, compared to 30% in 2019. This was mainly the result of the slower issue of new loans due to lower demand for some categories of consumer goods, and uncertainty about the dynamics of household income during the coronavirus crisis.

Net hryvnia retail loans, 2018=100%



At the same time, mortgage lending picked up in H2, largely fueled by lower interest rates. Net hryvnia loans for buying and reconstructing real estate increased by 14.9% in H2 and 11.5% over the full year. Monthly average volumes of new loans more than doubled compared to both H1 2020 and the whole of 2019.

Requirements for writing off impaired financial assets² approved by the NBU in April 2020 helped reduce volumes of nonperforming assets on banks' balance sheets, especially at the state-owned banks. Over the year, the state-owned banks wrote off UAH 30.6 billion of hryvnia-denominated nonperforming loans and USD 3.1 billion of FX loans in US dollar equivalent. As a result, the system's total NPL ratio declined by 7.4 pp, to 41.0% at year-end 2020. Nonperforming loans posed no threat to the banking system, as they were provisioned by almost 98% as of the end of the year.

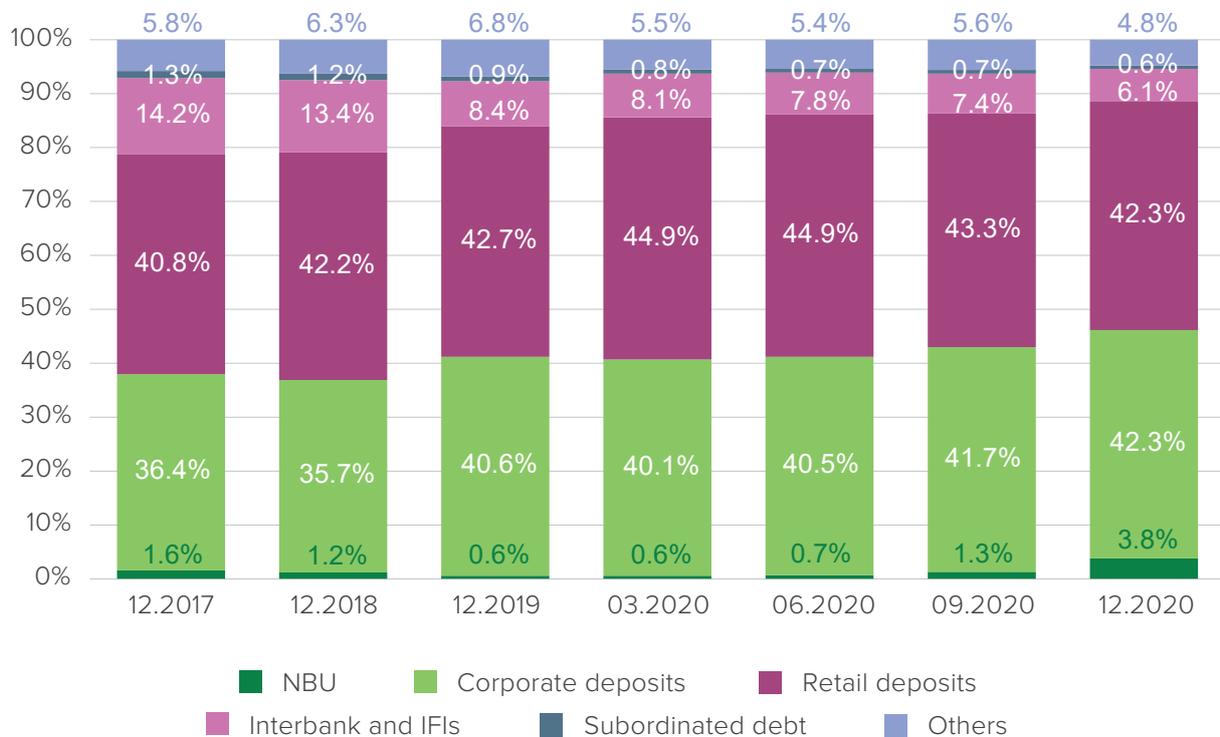
Despite pessimistic expectations, the loan portfolio quality was not greatly affected by the coronavirus crisis. This was due to the portfolio quality being high before the crisis, and to timely loan restructurings by banks. Large growth in credit risk was seen only for a small share of loans, while the coverage ratio of performing loans increased by only 1–2 pp.

At the same time, credit risk remains the main risk for banks in 2021. Although the economic situation improved markedly in H2 2020, some bank borrowers are still facing financial difficulties. This may affect the quality of debt servicing of loans, thus forcing banks to create additional provisions. In order to make sure that the loan portfolio quality declared by banks is accurate, the NBU will review the quality of the banking sector's assets and additionally stress test 30 banks.

Funding

In 2020, bank liabilities grew by 24.9% reaching UAH 1,612 billion at the end of the period. The growth was mainly driven by inflows of customer deposits and the NBU's liquidity assistance to banks. Compared to the start of the year, the share of retail and corporate deposits in banks' liabilities grew by 1.3 pp, to 84.6%. Volumes of refinancing loans increased by 7.9 times over the year, and the share of NBU funds in banks' liabilities rose to 3.8% at year-end 2020 after hitting the all-time low of 0.4% in February. The banks' gross foreign debt shrank by 23% over the of 2020. Interbank liabilities also decreased.

Structure of bank liabilities



² Regulation on Defining the Criteria for Writing Off Impaired Financial Assets of Ukrainian Banks against Estimated Expected Loan Loss Provisions approved by NBU Board Resolution No. 49 dated 13 April 2020.

Despite the crisis, hryvnia retail deposits grew rapidly in 2020, by 26.5% yoy. Considerably cheaper FX deposits rose by 0.6% yoy in the US dollar equivalent. In 2020, the largest growth in hryvnia deposits was seen in PrivatBank and privately owned banks. FX deposits grew the most in banks with foreign and private capital.

When the first signs of a crisis emerged in March, banks experienced a traditional wave of cash withdrawals. However, the panic was short-lived. With plenty of liquidity, the banks had no difficulty fully repaying deposits on customers' first demand, thus retaining their trust. The outflow of hryvnia retail deposits lasted for less than two weeks. In contrast to previous crises, the banks did not have to raise deposit rates so as not to lose customers. The situation was also manageable in the segment of FX deposits: their year-end volumes equaled the volumes at the start of the year.

At the same time, pandemic-driven uncertainty and interest rates that were lower than in 2019 provided no incentives to make term deposits. Retail term deposits grew considerably more slowly. Growth in retail deposits was driven by demand deposits. The share of hryvnia retail demand deposits increased over the year by 8.3 pp, to 55.2%.

Hryvnia corporate deposits rose by 34.5% yoy, while foreign currency ones grew by 2.2% yoy in the US dollar equivalent. The largest growth in hryvnia corporate deposits was recorded at privately owned banks and PrivatBank.

The dollarization of the economy continued to decline thanks to the introduction of currency-differentiated reserve requirement rates starting on 10 March 2020, a relatively stable US dollar exchange rate, and lower interest rates on FX deposits. Over the year, the level of dollarization of customer deposits decreased by 1.8 pp, to 38.0%. It was 41.8% for retail deposits and 34.1% for corporate deposits. Enduring macrofinancial stability and changes in the preferences of depositors and borrowers will contribute to the further natural de-dollarization of banks' balance sheets.

The banks had sufficient liquidity to absorb shocks throughout the year. The majority of the banks complied with the LCR by a comfortable margin.

Interest Rates

The start of the pandemic coincided with the NBU's monetary policy easing cycle. The NBU cut its key policy rate four times in H1 2020, by a total of 7.5 pp, to an all-time low level

of 6% per annum. These decisions contributed to lower loan interest rates, in spite of the crisis. Banks paused their interest rate cuts for two months in spring, but resumed them again as early as in May. As a result, rates on both retail deposits and hryvnia corporate loans entered single-digit territory in 2020.

The weighted average interest rate on new 12-month hryvnia retail deposits fell to 8.7% per annum in December 2020 (from 15.1% in December 2019), and those on 12-month US dollar deposits declined by 1.2 pp, to 1.4% per annum³. However, the spread between interest rates on 3-month and 12-month retail deposits remained less than 1 pp.

Over the year, interest rates on new hryvnia corporate loans decreased to 9.2% per annum, down from 15.7%. The average cost of FX corporate loans hovered near 5% per annum. Ultra-short loans and loans to high-quality borrowers were the cheapest. Retail deposit rates declined by 3.1 pp in 2020, but still were around 30% per annum due to the large share of high-risk consumer loans. Mortgage loan rates decreased by 6.6 pp, to 14.0% per annum, for secondary market property, and by 4.6 pp, to 16.9% per annum, for the primary market⁴.

Profit or Loss and Capital

The coronavirus crisis affected the banks' financial position only slightly. The banking sector's profit in 2020 was 29.2% less than in 2019, reaching UAH 41.3 billion. Five banks accounted for 90% of the sector's profit, with more than a half of it generated by PrivatBank. The number of loss-making banks did not rise, and stood at eight banks. Half of top-20 banks had return on equity of above 15%.

Provisioning for expected losses was the main reason for the sector's worsened financial performance in 2020. Some banks recognized asset quality deterioration caused by borrowers' financial difficulties, which made loan loss provisions increase by 91%, to UAH 20.8 billion. At the same time, credit risk losses compared to the size of banks' portfolio (CoR) showed no significant growth, remaining at an acceptable level. PrivatBank's provisions against legal risk accounted for another quarter of the total provisions made in the sector. However, even taking into account these expenses, the total losses of the sector were significantly smaller than during previous crises.

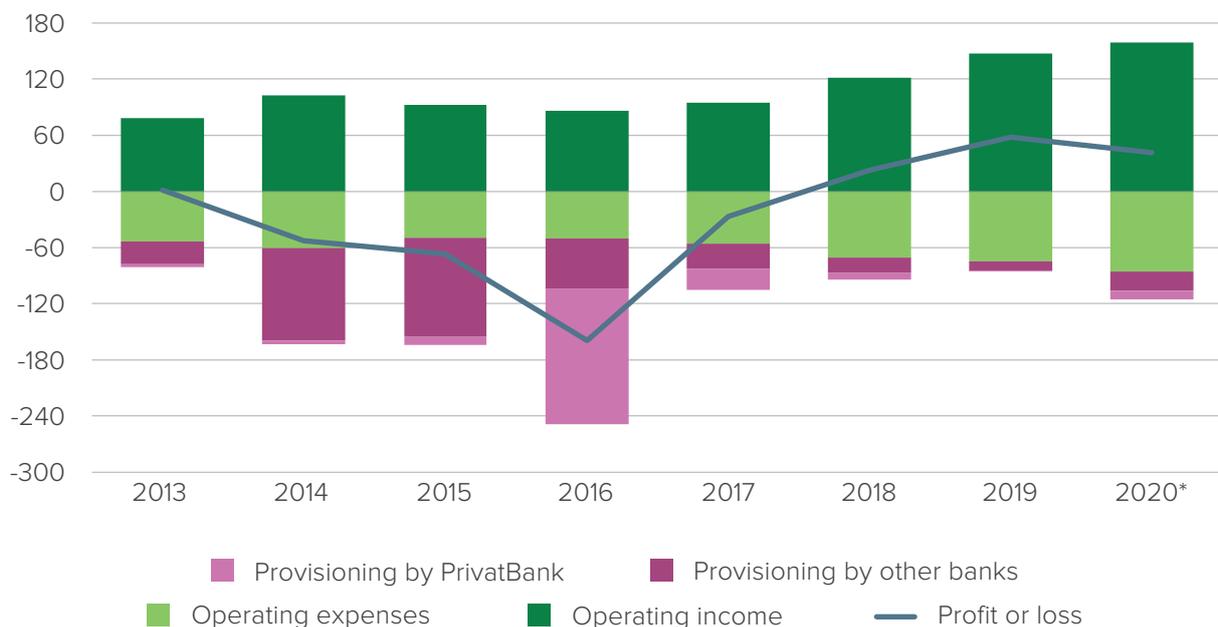
³ Based on the Ukrainian Index of Retail Deposit Rates.

⁴ Effective interest rates.

The overall decline in business activity during the quarantine and lower demand for loans and banking services had a negative impact on banks' operating income. At the same time, the operation of bank branches during the pandemic and the transition to an online format required additional operating expenses. As a result, in 2020 banks' operating income increased by 8.2% yoy, while their operating expenses were up by 14.2% yoy. Net operating profit thus grew by only 1.8% yoy, and operational efficiency deteriorated: the sector's CIR was 53.6% versus 50.8% in 2019.

The rates of growth in net interest income and fee and commission income were at four-year lows. At the same time, interest income and fee and commission income started to recover from the shock experienced in spring, which affected performance in Q2, growing rapidly in Q4. As of the year-end, net interest income grew by 7.0% yoy, and net fee and commission income by 5.8% yoy. Gains from revaluations and purchase and sale transactions were 32.1% higher than in 2019, mainly on account of the revaluation of domestic government debt securities.

Profit/loss* and return on equity of banks



*Current data are provided for 2020.

At the very start of the coronavirus crisis, the NBU took the decision to postpone the implementation of capital buffer requirements, in particular the capital conservation buffer and systemic importance buffer. Among capital requirements, only the minimum capital adequacy requirements for common equity and regulatory capital remained mandatory in 2020. The NBU also recommended that banks refrain from distributing dividends until the consequences of the crisis can be accessed more accurately. These steps allowed banks to use capital buffers to continue lending to the economy and cover potential credit losses.

At the same time, as the banks remained profitable, they were able to maintain their capital at levels much higher than the minimum requirement. The year-end average adequacy

ratio of regulatory capital was 22.0%, while that of common equity reached 15.7%. The banks' authorized capital grew by 2.0%, reaching UAH 480.4 billion at the end of the year. Their regulatory capital rose by 21.1%. Such a safety cushion allows the further harmonization of bank capital requirements with Basel recommendations and EU directives. In particular, the NBU has obliged the banks to deduct the value of noncore assets from their common equity, which is to be done in stages starting from January 2021. This rule will encourage the banks to get rid of noncore assets in a timely manner, which will increase the banks' financial resilience and make their financial reporting data more reliable. In addition, risk weights for foreign currency government securities and for unsecured consumer loans will start to be raised gradually from this year onward.

Key banking sector indicators

Banks that have a banking license to provide banking services	74 ⁵
Registered standalone units of Ukrainian banks operating in Ukraine (including subsidiaries and representative offices)	8,098
Operating branches of Ukrainian banks on the territory of Ukraine	7,057
Standalone units of Ukrainian banks operating in Ukraine that were closed in 2020	1,036
Standalone units of Ukrainian banks operating in Ukraine that were opened in 2020	161
Standalone units of Ukrainian banks operating abroad	3

Bank Charter Approval

The charter of a legal entity that intends to engage in banking activity (a new bank) is subject to NBU approval. Moreover, the NBU approves any changes to the charter of an

operating bank. When a bank's authorized capital is increased, the NBU checks the sources of the funds that are injected into the bank's authorized capital by its shareholders. These funds cannot be borrowed from third parties, and must be the bank's own funds.

	2018	2019	2020
Document packages submitted:			
total	137	57	58
for an increase in authorized capital	42	26	25
for a decrease in authorized capital			1
Changes to charters approved:			
total	105	45	44
for an increase in authorized capital	32	19	18
for a decrease in authorized capital			1
Changes to charters refused:			
total	3	3	2
for an increase in authorized capital	3	2	2
Document packages returned	30	1	2

⁵ MistoBank was declared insolvent in 2020, and its license was revoked in 2021.

Approval of Bank Top Managers

In accordance with the established procedure, the NBU approves the appointment of bank top managers (chairperson, deputy chairpersons, and members of the supervisory board; chairperson, deputy chairpersons, and members of the management board; the chief accountant and deputy chief accountants) and the head of internal auditing (hereinafter referred to as top managers). To approve bank top managers, the NBU verifies their compliance with qualification

requirements. These include an impeccable business reputation and professional aptitude, including the expertise and professional and managerial experience necessary for bank top managers to properly fulfill their job duties taking into account the bank's business plan and strategy, as well as the functional load and responsibilities of that particular managerial position; independent directors must also meet independence requirements.

Approvals of bank top managers by the NBU in 2020	Quantity
Received document packages for approval of bank top managers	253 (of which 33 are still under review)
Outcomes of the review of submitted documents:	
approved appointments	176
rejected appointments	19
document packages returned (to be reworked, on the basis of a bank's request, not reviewed, or for other reasons)	25

Supervision over Bank Owners

The Law On Banks and Banking and NBU regulations set requirements for business reputation and financial standing or the property status of owners of qualifying holdings in a bank.

These requirements must also be met by entities that acquire or increase a qualifying holding in a bank. The NBU approves or rejects the acquisition of a qualifying holding after checking these entities.

In 2020, the NBU	Quantity
received applications to become a qualifying holder	16
approved applications to become a qualifying holder	4
rejected applications to become a qualifying holder	2
returned applications to become a qualifying holder	4
determined the existence of a decisive influence and recognized the entity as a qualifying holder	0
imposed fines for the unauthorized acquisition of a qualifying holding	1

Supervision over Ownership Transparency

The NBU monitors the transparency of bank ownership structures. The ownership structure reflects the links between a bank and its owners. In 2020, the NBU made public 118 pieces of information about banks' ownership structures. As of today, the owners of all banks are known, and each bank has a qualifying holder.

Supervision over Banking Groups

The NBU performs supervision over banking groups. Pursuant to the Law On Banks and Banking, banking groups must comply with requirements set by the NBU.

As of the end of 2020, 24 banking groups operated in Ukraine (25 banking groups as of the end of 2019).

In 2020, the NBU	Quantity
Approved changes in ownership structure for	7 banking groups
Recognized	1 banking group
Derecognized	2 banking groups

Implementation of Risk-Based Supervision

In 2020, the NBU continued to implement a risk-based approach to banking supervision by following the guidelines of the European Banking Authority on common procedures and methodologies for the Supervisory Review and Evaluation Process (SREP), as well as the recommendations of the Basel Committee on Banking Supervision, applying a proportional approach to supervision.

Such an approach focuses on bigger, more complex and more risk-exposed banks, considering their risk profile and main lines of activity. NBU risk-based supervision contributes to ensuring the financial stability of the banking system and the protection of the interests of bank creditors and depositors, and it complies with the best world practices.

Main Results of Off-Site Banking Supervision

Within the framework of risk-based banking supervision, the NBU implemented offsite banking supervision on an individual and consolidated basis, taking into account the requirements, established by the NBU in 2020 on the peculiarities of bank regulation aimed at recovery from the negative impact of banking system restrictions and adaptation to new conditions caused by quarantine, by:

1) evaluating banks based on SREP methodology

In 2020, 72 banks were assessed according to SREP methodology, the results of which determined the further strategy of banking supervision for 2021.

The assessment was conducted based on four components:

- analysis and assessment of banks' business model viability and strategy sustainability
- corporate governance quality assessment, including the systems of internal control and risk management
- assessment of capital adequacy for coverage of the main types of risks inherent to a bank's activities
- assessment of liquidity adequacy for coverage of liquidity and financing risks.

When performing the assessment, the NBU ensured close communication with the heads of banks in order to discuss the assessment results, identify risks inherent to each bank, and define measures to avoid or remedy

undesired consequences that can threaten the security of depositors' funds or damage proper banking activities.

The banks submitted their business plans and development strategies for 2021-2023, which will be assessed in 2021.

2) conducting ongoing monitoring of banks' financial standing and bank groups' indicators

The ongoing monitoring resulted in:

- an analysis of the main measures planned by banks for 2020 according to their action plans, in order to mitigate the negative impact on their operating activities caused by the pandemic expansion and the introduction of restrictive measures and quarantine
- an analysis of the strategies of problem assets management and operating plans developed by banks for work with NPLs and foreclosed property, as well as measures taken to write off impaired financial assets through estimated loss allowances to clean up the banks' balance sheets from the accumulated nonperforming assets and creating prerequisites to restore economic lending
- expedient supervisory responses to:
 - the identified negative trends in the activities of individual banks that have higher risks, with respective recommendations provided, along with follow-up monitoring of their implementation
 - violations by banks and banking groups of banking laws, as well as risky activities threatening the interests of depositors or other bank creditors.

Where violations were found, the NBU took, pursuant to applicable laws of Ukraine, adequate corrective actions in order to prevent the affected banks' financial standing from deteriorating, mitigate the current risks, and protect the interests of depositors and other bank creditors. According to the findings of offsite banking supervision in 2020, 44 corrective measures were imposed on banks, including written warnings – 21; restrictions of certain types of transactions, including related party transactions – 12; charging fines to banks – 4; entering into a written agreement – 1; classifying bank as insolvent - 2; and revoking banking license and bank liquidation - 1.

3) identifying banks' related parties, ensuring control over banks' transactions with their related parties, and analyzing the terms of banks' transactions with their customers to identify collaboration that is not market-driven

In 2020, the NBU maintained effective control over banks' implementation of action plans aimed at bringing their activities into compliance with applicable laws and NBU regulations concerning related-party transactions and monitoring of related parties and agreements concluded under terms that are noncompliant with current market conditions.

As a result, during 2020:

- four of seven banks successfully implemented their planned measures and brought the regulatory ratio of maximum credit exposure to related parties (H9) in line with regulatory requirements, with three banks ahead of deadline. The rest of banks (three) maintained their planned indicators of H9 ratio (not more than 25% of regulatory capital), and performed their activities in the framework of the agreed upon action plans, to be finally implemented in 2021
- a review of the banks' credit portfolios was conducted to identify the agreements concluded on terms that do not conform to the current market conditions and to find the signs of relatedness to the bank
- the NBU assessed the risks of RP transactions as part of the SREP.

Among the key tasks in 2021 in monitoring RP transactions remains controlling for banks' compliance with their action plans, as well as analyzing the terms of their transactions with customers and their reporting, in order to identify signs of relatedness and nonmarket terms of cooperation. Another task is assessing RP transactions risks within SREP.

4) assessing banks' resilience

In 2020, the NBU conducted an assessment of banks' and banking system resilience in one stage (without stress testing) due to quarantine.

The resilience assessment implied an asset quality review (AQR) in all 75 Ukrainian banks.

As part of the resilience assessment, the NBU verified the credit risk assessment of banks'

assets, which were included in the sample pursuant to the Terms of Reference.

In 2020, the NBU conducted reviews of the implementation of capital increase/restructuring programs developed by banks, which were then obliged to implement measures to increase their capital based on resilience assessment findings in 2019.

5) quality control of audit services

In 2020, the NBU continued to enhance its quality analysis of auditor reports on banks' annual financial statements. In particular, this was accomplished by verifying reports on the results of bank asset quality reviews and the acceptability of collateral under credit operations as part of banks' resilience assessment.

In 2020, the NBU analyzed auditor reports that reviewed the annual financial reporting of 74 banks and 27 auditor reports that reviewed the annual consolidated financial statements of the banks, placed on their official websites.

Also, the NBU reviewed bank compliance with the legislative restrictions on the maximum term for reaching agreements with auditors of their annual and consolidated financial reporting for not more than seven consecutive years.

Main Results of Onsite Banking Supervision

In 2020, the NBU continued to implement its risk-based approach to onsite banking supervision, particularly with the integration of supervisory assessments based on the results of inspections, as well offsite supervision as part of the single bank supervisory assessment – SREP. The CAMELSO bank assessment rating system was declared invalid⁶.

Within the single bank supervisory assessment SREP, a standardized format of a Report on Inspection Review was drafted, and its authors updated the model program of inspection review and internal methodology of inspections, which is now focused on SREP components.

As part of its onsite banking supervision function, the NBU planned in 2020 to conduct 45 onsite inspections at banks with combined assets of UAH 849.1 billion, or 45.9% of the banking system's total.

⁶ NBU Board decision No. 393 dated 1 November 2016, On Approval of Inspection Procedures (as amended), was amended by NBU Board decision No. 610 dated 30 September 2020, On Amending Certain Administrative Acts of the National Bank of Ukraine On Inspection Procedures.

In Q1 2020 three planned inspections took place. Another six inspections, which had been started, were suspended for a quarantine period⁷, and owing to the prolongation of quarantine measures, were recognized as uncompleted.

The NBU Board declared its 2020 inspections plan to be invalid, excluding the completed inspections. Six additional unscheduled inspections were conducted, one unscheduled inspection was transferred for 2021, and one unscheduled inspection was stopped when the bank was classified as insolvent.

In total, 14 inspections started in 2020 were targeted ones, including nine completed. The findings of the inspections were sent to banks.

The main targeted areas of inspections were assessment of collective suitability and qualification of the banks' top management as fulfilment of Ukraine's undertakings in the framework of the Stand-By Arrangement with the IMF set out in the Memorandum

on Economic and Financial Policies dated 5 March 2018; assessment of risk management system; asset quality review and acceptability of security; verification of adequate definition by banks of credit exposure.

Others targeted inspections were not conducted in 2020 due to quarantine restrictions.

The supervisory actions based on inspection findings in 2020 were focused on offering constructive and effective recommendations in order to avoid repeated violations and to eliminate vulnerabilities in banks' activities, based on best practices and professional judgement.

However, in 2020, corrective measures were imposed for violations of regulatory requirements. In particular, restrictions were placed on certain transactions of one particular bank.

Based on the inspection results, banks were issued recommendations aimed at correcting their main performance indicators:

Key adjustments	UAH, millions
to decrease regulatory capital	954.5
to increase uncovered credit risk exposure	310.3
to reduce profit/loss	10.9
Total	1,275.7

Supervisory Findings of Financial Monitoring and Compliance with Currency and Sanctions Law by Banks and Nonbank Financial Institutions.

In 2020, the NBU conducted four scheduled onsite inspections, started four scheduled onsite inspections – which were suspended

as of 1 January 2021⁸ – and three unscheduled onsite inspections, as well as having conducted 55 bank offsite inspections. The purpose of these actions was to ensure the proper supervision of compliance by banks and NBFIs with the requirements of financial monitoring and sanctions laws.

Inspection findings:

Indicator	Quantity
Bank inspections held, including:	66
Scheduled onsite	8 ⁹
Unscheduled onsite	3
Offsite inspections	55
Banks/nonbank institutions with violations:	18

⁷ According to the Ukrainian Laws No. 530 dated 17 March 2020, On Amending Certain Legislative Acts of Ukraine Aimed at the Prevention of the Occurrence and Dissemination of Coronavirus Disease (COVID-19), and No. 533 dated 17 March 2020, On Amending the Tax Code of Ukraine and Other Laws of Ukraine Regarding Support of Taxpayers for the Period of Measures to Prevent the Occurrence and Dissemination of Coronavirus Disease (COVID-19), and the NBU Board Resolution No. 34 dated 18 March 2020, On Suspension of Onsite Bank Inspections (as amended).

⁸ According to NBU Board Resolution No. 34 dated 18 March 2020, On Suspension of Bank Onsite Inspections (as amended).

⁹ Four of them were suspended according to NBU Board Resolution No. 34 dated 18 March 2020, On Suspension of Bank Onsite Inspections (as amended).

Besides this, in order to introduce new qualitative approaches to organizing and conducting offsite supervision, the NBU has combined its reviews of financial monitoring and compliance with currency and sanctions legislation, and implemented a single standard for bank and nonbank institutions inspections.

This standard was established in the Regulation on the Procedure for Organizing and Exercising 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) approved by NBU Board Resolution No.90 dated 30 June 2020.

Implementing the principle of transparency, the NBU publishes an annual plan of onsite inspections on financial monitoring and compliance with the currency and sanctions legislation. Besides that, the NBU started to inform the banks and nonbank financial institutions on the findings of its onsite inspections not later than five days prior to the collegial meeting between the top management of a bank/nonbank institution and the NBU to discuss the violations found and provide recommendations. The banks/nonbank institutions may prepare their explanations and comments on the inspection findings in advance of this meeting. When deciding on its corrective measures, the NBU invites obligatorily the representatives of a bank/nonbank institution to offer personally their explanations or objections. Those are taken into account in the final decision-making on imposing a corrective measure.

Cooperation with Law Enforcement Bodies Based on the Findings of Financial Monitoring and Supervision on Compliance with Currency and Sanctions Laws

In 2020, the NBU sent information¹⁰ to the Security Service of Ukraine regarding 16 banks and four nonbank financial institutions, namely:

- based on the findings of financial monitoring, the NBU sent 15 letters to law enforcement authorities to report on suspicious financial transactions by bank and nonbank financial institution customers, totaling about UAH 25.53 billion, USD 24.9 million

- based on the findings of the currency legislation supervision and in order to implement state policy on combating organized crime, the NBU sent eight¹¹ correspondences to report large-scale financial transactions by bank customers for a total amount of about USD 244.2 million, or EUR 14.5 million.

At the same time, in 2020, the NBU sent three notifications on suspicious financial transactions to the National Anti-Corruption Bureau of Ukraine, and in accordance with the requirements of the Criminal Procedure Code of Ukraine, one statement was sent to the National Police of Ukraine on a criminal offenses uncovered during bank offsite supervision for compliance with the law regulating relations in the sphere of preventing and combatting money legalization (laundering) of the proceeds from a crime, terrorism financing and financing of proliferation of weapons of mass destruction.

The information transferred to law enforcement bodies was largely related to financial transactions by customers of banks/nonbank financial institutions that conducted operations whose character or consequences offer the grounds that could tie them to capital withdrawals, the legalization of proceeds from crime, the conversion of cashless funds into cash, tax evasion, etc.

Application of corrective measures based on the findings of financial monitoring and supervision on compliance with currency and sanctions law

Acting on the identified violations, the NBU imposed corrective measures/sanctions, including in the form of fines and warning letters. The NBU regularly releases information on corrective measures imposed on banks and nonbank financial institutions through press releases published on its official website. This information contains the name of the bank or nonbank financial institution and the imposed corrective measures, and provides a summary of the identified violations and grounds for the corrective measures. If a decision to impose corrective measures is appealed in court, such complaints and any information on their results are also published.

¹⁰ Pursuant to Article 18 of the Law of Ukraine, On the Procedural and Legal Framework for Combating Organized Crime.

¹¹ They included four correspondences with information obtained from financial monitoring and currency supervision inspections, and which were part of the aforementioned correspondences sent by the NBU to the Security Service of Ukraine based on their results.

Application of corrective measures/sanctions for violations of financial monitoring and sanctions legislation in 2020

Indicator	Quantity ¹²
Warning letter to bank	10 ¹³
Fine imposed on a bank	15 decisions totaling UAH 16,676,677.42
Fine imposed on nonbank financial institution	6 decisions totaling UAH 212,500.00
Written request to bank to remedy (and prevent in the future) breaches of Ukrainian legislation	18 ¹⁴
Written request to nonbank institutions to remedy (and prevent in the future) breaches of Ukrainian legislation	5

Application of corrective measures/sanctions for violations of Ukraine's currency legislation in 2020

Indicator	Quantity
Warning letter to bank	12
Warning letter to nonbank institution	8
Fine imposed on a bank	5 decisions totaling UAH 200,800.11
Written request to bank to remedy (and prevent in the future) any breaches of Ukraine's currency legislation and NBU regulations	3
Written request to nonbank institution to remedy (and prevent in the future) any breaches of Ukraine's currency legislation and NBU regulations	12

¹² Legal proceedings were initiated regarding some of the decisions.

¹³ Of 10 warning letters, five were issued to banks, including for violation of currency law.

¹⁴ Of 18 written requests, one written request was issued for violation of currency law.

Harmonization of Prudential Requirements for Banks with the EU Laws and Recommendations of the Basel Committee on Banking Supervision

In 2020, the NBU continued the implementation of measures within the framework of the Strategy of Ukrainian Financial Sector Development until 2025, the NBU's Action Plan on Enhancing Banking Supervision, and the Action Plan to implement the EU-Ukraine Association Agreement. This was done in conjunction with the IMF, World Bank, European Commission, and other IFIs.

I. In order to lay the legal groundwork for the further implementation of EU standards, the NBU developed the Draft Law of Ukraine *On Amendments to Certain Laws of Ukraine on Improving Corporate Governance in Banks and other Operational Issues of the Banking System*, which had been approved by IMF experts and submitted to the Verkhovna Rada of Ukraine for passage (Draft Law No. 4367).

The Draft Law's provisions will promote the following:

- strengthening of corporate governance in banks, including the improvement and enhancement of the effectiveness of their internal control systems, including risk management
- introduction of the updated requirements for capital structure and capital adequacy ratios in line with the CRD IV/CRR Directive
- implementation of the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) by banks and banking groups, taking into account their inherent risks
- introduction of modern supervisory instruments and practices.

II. With the aim to improve the effectiveness and ensure the stability of the Ukrainian banking system, pursuant to the provisions of European legislation, the recommendations of the Basel Committee on Banking Supervision, the documents of the European Banking Authority, and taking into consideration the world's best practices, the NBU issued the following regulations.

1. With the aim to stimulate banks to reduce the considerable volumes of noncore assets accumulated on their balance sheets through their exercise of pledgee's rights, NBU Board

Resolution No. 22 dated 27 February 2020 introduced the requirements to gradually deduct the book value of assets that are not used by banks in their banking activity (noncore assets) from the core capital of banks..

2. With the aim to improve and simplify the procedure for bank licensing, the NBU approved the changes to Regulation On Bank Licensing approved by NBU Board Resolution No. 149 dated 22 December 2018, particularly:

- NBU Board Resolution No. 66 dated 25 May 2020 simplified the criteria and the list of documents for annual assessment of financial/property standing of owners of qualifying holdings in banks and also specified the procedure for informing the NBU about opening a standalone unit by a bank
- NBU Board Resolution No. 121 dated 19 August 2020 optimized the procedure for approval of bank managers and articles of association, improved the methodology for assessment of property standing of individuals, introduced the revision procedure (amending or repealing) for decisions on declaring a person an owner of a qualifying holding.

3. NBU Board Resolution No. 77 dated 18 June 2020 reduced the requirements to the minimum amount of the regulatory capital of banks to UAH 200 million taking into consideration the Law of Ukraine *On Amending the Tax Code of Ukraine and Other Laws on Additional Support to Taxpayers for the Period of Actions Aimed to Prevent the Spreading of the Coronavirus Infection (COVID-19 Disease)* adopted by the Verkhovna Rada of Ukraine as No. 591-IX dated 13 May 2020 that reduced the minimum amount of the authorized capital of a bank from UAH 500 million to UAH 200 million.

4. Taking into consideration the Law of Ukraine On Amendments to Certain Legal Acts of Ukraine on Improvement of Facilities to Regulate the Banking Activity adopted by the Verkhovna Rada of Ukraine as No. 590-IX dated 13 May 2020, NBU Board Resolution No. 80 dated 22 June 2020 approved the criteria for audit companies that have the right to assess financial and economic activities of banks and estimate the value of shares in order to determine whether any damage has been caused to participant(s) in a bank.

5. With the aim to improve the approaches to establishing corporate governance in banks, NBU Board Resolution No. 153 dated 30 November 2020 approved the Regulation on the requirements to rules, procedures and reports on remuneration to members of supervisory board and management board of a bank.

This regulation sets the requirements to rules and procedures in banks on remuneration to members of their management bodies (supervisory board and management board), reports on remuneration to members of the management bodies, and procedures for their development/compilation, approval, and publication by banks.

6. With the aim to support the financial stability and increase the sustainability of the the banking system, NBU Board Resolution No. 166 dated 22 December 2020 starting from 1 April 2021 introduced a new liquidity ratio – net stable funding ratio (NSFR), which determines the minimum liquidity level of a bank for a one year horizon.

With the aim to establish the initial minimum level of NSFR and set the schedule to gradually reach 100% of the ratio, the banking system calculated the ratio in the testing mode during 2020. Based on the results of the testing calculations, the NBU established the initial minimum level of NSFR at 80% and set the goal of reaching the ratio during the year by 1 April 2022.

7. With the aim to improve the approaches to organization of risk management systems in Ukrainian banks and banking groups, NBU Board Resolution No. 172 dated 29 December 2020 approved the amendments to the Regulation On Organization of Risk Management System in Ukrainian Banks and Banking Groups.

The amendments cover the following:

- control over evaluation of property obtained by banks as collateral under their granted loans
- rights of the responsible person of a banking group to organize a risk management system without taking into consideration the banking group participants that have no significant influence on the operation of banks that are participants of the banking group
- procedures for the automated approval of decisions on granting standard credit products
- frequency of reporting and stress testing of the operational risk

- improvement of requirements to banks for outsourcing some of their functions.

8. With the aim of improving the procedures for imposing corrective measures, the NBU approved the changes to Regulation, On Application of Corrective Measures by the National Bank of Ukraine, approved by NBU Board Resolution No. 346 dated 17 August 2012, particularly:

- NBU Board Resolution No. 58 dated 28 April 2020 improved the procedure for drafting and approving action plans by banks for improving their financial position.
- NBU Board Resolution No. 79 dated 22 June 2020 brought the form of the NBU's decisions on corrective measures in line with the Law of Ukraine No. 590-IX *On Amendments to Certain Legal Acts of Ukraine on Improvement of Facilities to Regulate the Banking Activity* dated 13 May 2020, and introduced a possibility for a representative of an entity under corrective measures to object and give their explanations at a meeting of the NBU Board or the Committee on Banking Supervision and Regulation and Oversight of Payment Systems.
- NBU Board Resolution No. 139 dated 7 October 2020 implemented new legal requirements and provisions of international standards in financial monitoring.

III. In 2020, given the epidemiological situation related to the coronavirus infection (COVID-19 disease), the NBU, as well as regulators in other countries, directed their efforts to minimize the adverse effects of the introduced antiepidemic measures on the financial and banking systems, and with that aim approved some temporary rules for the application of certain regulations.

Specifically:

- NBU Board Resolution No. 37 dated 24 March 2020 postponed the requirements on maintaining the capital conservation buffers and the systemic importance buffers by banks
- NBU Board Resolution No. 39 dated 26 March 2020 gave temporary permission to banks for the following:
 - not to downgrade the class of borrowers considering information from the credit register
 - not to reevaluate or check the condition of mortgaged property
 - not to classify borrowers as near-default if the Debt/EBITDA ratio exceeds 7

- not to recognize certain default triggers on restructured assets
 - continue the portfolio-based evaluation of restructured assets where frequency of debt repayments is less than once per month/quarter
 - to omit the performance indicators of budgets during assessments of borrowers that are budget-funded entities
 - Resolution No. 46 dated 3 April 2020 allowed the following:
 - for managers and candidates for managerial positions at banks not to come for the testing. Interviews with candidates are conducted by means of video communication
 - not to submit any documents in paper form provided that such documents or their electronic copies are submitted via e-mail (system of electronic document flow) of the NBU and signed with a qualified electronic signature
 - NBU Board Resolution No. 25 dated 5 March 2020 and NBU Board Resolution No. 72 dated 4 June 2020 postponed until 1 April 2021 the requirement to risk weigh debt securities of central executive authorities of Ukraine denominated in foreign currencies and extended said requirement on debt securities acquired by banks after 1 April 2021
 - NBU Board resolution No. 73 dated 4 June 2020 provides for the following:
 - to keep from applying corrective measures to banks and banking groups until 1 June 2021 for their failure to comply with the established requirements for capital adequacy, liquidity, credit risk, and restriction of transactions between the bank and the persons related to subordinated debt investors
 - for banks to submit a well-grounded judgement on the reasons for these violations
 - to submit remediation action plans by banks to maintain or restore their capital level, along with monthly reports on their implementation
 - to set restrictions on bank activities (prohibition on related party transactions; buyback/early repayment of securities of own issue; capital allocation in any form (excluding allocation to the authorized capital, emergency fund, absorbing losses from previous years); and payments of any additional remunerations to bank managers.
 - NBU Board Resolution No. 100 dated 13 July 2020 prescribed assessment of sustainability of banks in 2020 without stress testing under the baseline and adverse macroeconomic scenarios
 - NBU Board Resolution No. 104 dated 23 July 2020 allowed the banks, which forecasted probability of violations based on their professional judgement, to submit their action plans or capital increase plans before the day when actual violations occur
 - NBU Board Resolution No. 158 dated 11 December 2020 gave banks more time to clean up their balance sheets from assets that are not used for their banking activity (noncore assets).
- NBU Board Resolution No. 160 On Approval of Rules of Operation of Banks of Ukraine due to Imposing Quarantine Regime and Introducing Restricting Countermeasures to Prevent the Spread of the COVID-19 Infection and Amending Certain Regulations of the National Bank of Ukraine dated 21 December 2020 prolonged the anti-crisis measures introduced in March-April 2020 (by NBU Board resolutions No. 39 and No. 46) relating to the following:
- not applying certain default triggers to loans to be reconstructed: until 30 April 2021 – for borrowers who are individuals; until 31 May 2021 – for borrowers that are legal entities
 - problem assets management
 - submission by banks of their business recovery plans developed in 2020
 - approval of candidates for top managerial positions at banks in remote mode
 - submission of documents to the NBU via e-mail with an affixed qualified electronic signature.
- IV. The Verkhovna Rada of Ukraine adopted the Law of Ukraine *On Financial Monitoring*, which took effect on 28 April 2020.
- The Law was adopted in accordance with Ukraine's commitments to implement the provisions of international and European laws into the national legal framework. Particularly, the Law On Financial Monitoring includes the requirements of Directive (EU) 2015/849 of the European Parliament, and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist-financing, and Regulation (EU) 2015/847

of the European Parliament and of the Council on information accompanying transfers of funds, which are obligatory for implementation by members of the European Union and countries wishing to gain membership in the EU.

The Law *On Financial Monitoring* establishes comprehensive legal changes that include the following:

- implementing the risk-based approach in all the processes of reporting institutions
- laying the groundwork to enable reporting institutions to perform remote customer verification, which is especially important in the conditions of COVID-19 spread in Ukraine
- reducing the number of financial transaction attributes from 17 to 4, for which reporting institutions are obliged to report to a specially authorized body – the State Financial Monitoring Service of Ukraine. Therefore, reporting institutions will have to report financial transactions involving cash, crossborder transfer of funds, politically exposed persons, and customers from the countries included in the list of countries that fail to comply with recommendations of international and intergovernmental organizations that conduct AML/CFT activities
- increasing the threshold for financial transactions from UAH 150,000 to UAH 400,000, about which reporting institutions are obliged to report to the State Financial Monitoring Service of Ukraine
- improving the procedures for identifying ultimate beneficial owners
- improving the facility for imposing targeted financial sanctions pursuant to recommendations 6 and 7 of the Financial Action Task Force (FATF), particularly, introducing the procedure for freezing/unfreezing assets
- introducing the facility for delegating performance of due diligence to third parties
- setting new requirements for accompanying funds transfers with information on the originator and recipient of funds.

Pursuant to part eight of the final and transitional provisions of the Law of Ukraine *On Financial Monitoring*, the NBU – which performs state regulation and control over banks and branches of foreign banks in the AML/CFT area – had an obligation to bring its regulations in line with

said law within three months from the date the law came into force.

To implement the requirements of the Law *On Financial Monitoring*, the NBU Board approved the Regulation On Conducting Financial Monitoring by Banks, that came into force on 22 May 2020 (hereinafter – Regulation No. 65) with NBU Board Resolution No. 65 dated 19 May 2020. Regulation No. 65 sets forth the general requirements on banks in the area of financial monitoring.

The main innovations introduced by Regulation No. 65 are the following:

- a new procedure has been set for remote customer identification and verification
- possibility to use e-passports and international e-passports for identification and verification purposes has been introduced
- requirements for identification of ultimate beneficial owners have been updated
- new approaches for banks to working with politically exposed persons, members of their families and their related persons have been set
- measures regarding foreign correspondent financial institutions have been listed
- rules on funds transfers have been detailed
- a whistleblowing procedure has been introduced for informing about any financial monitoring violations
- a procedure has been established for freezing/unfreezing assets of persons listed as terrorists
- a basic list of risk criteria and indicators of suspicious financial transactions has been established
- the reliance instrument has been introduced. Banks will be able to use identification and verification results obtained from obliged third parties and delegate this function to agents
- attributes of an improper risk management system in banks have been listed.

Taking into consideration the difficulties that reporting institutions may have after the Law on Financial Monitoring takes effect, NBU Board Regulation No. 65 dated 19 May 2020 sets forth the timeframe for banks/branches of foreign banks to adjust their internal documents, procedures, and software to the new legal requirements.

Information Security and Cyber Defense at Banks

In 2020, the Cyber Security Center of the National Bank of Ukraine continued increasing its potential in ensuring cyber security. The NBU's major focus was on advancing the abilities of the Cyber Security Incidents Response Team of the National Bank of Ukraine (CSIRT-NBU) to detect, respond, and neutralize cyber attacks and incidents, as well as increase sources of information on current cyber attacks.

In order to improve information sharing instruments on current cyber threats and respective indicators, CSIRT-NBU has established an information sharing platform on cyber threats, the Malware Information Sharing Platform & Threat Sharing (MISP). This platform enables users to receive quickly information on current cyber threats and respective indicators. MISP accumulates information provided by CSIRT-NBU, similar platforms, the Cyber Security Situation Centre of the Security Service of Ukraine, and the National Coordination Center for Cybersecurity of the National Security and Defense Council of Ukraine.

In 2020, CSIRT-NBU examined 2,500 samples of malware, informed Ukrainian banks on detected cybersecurity incidents and reported attempted cyberattacks.

CSIRT-NBU continues to cooperate with the national cyber security agencies of Ukraine, other states and cyber security companies. Furthermore, international cooperation in cyber security continues.

Also, in 2020 for the purpose of fulfilling the authority in the Law of Ukraine, On the National Bank of Ukraine, the NBU standardized the issue of identifying critical infrastructure entities and critical information infrastructure entities in the banking system of Ukraine in the Regulation, On Identifying Critical Infrastructure Entities in the Banking System of Ukraine¹⁵.

The NBU ensured timely detection, analysis, and effective responses to cyber attacks in 2020 regardless of the increasing number and variety of cyber threats, which was due to the introduction of cutting-edge security technologies, the effective

use of security suites and systems, and improving information sharing mechanisms on cyber attacks and incidents.

An evaluation of the current security of information network resources and its capability to withstand external and internal cyber threats – according to findings of the external audit of information security – showed that the NBU ensured effective and targeted security in the information infrastructure of the NBU for quality and timely performance of functions established by the Law of Ukraine, *On the National Bank of Ukraine*.

In 2020, the information cryptographic protection system of the NBU was upgraded, while resilience and fault tolerance were advanced in the system for collecting and storing data of electronic fiscal devices.

The NBU cooperated with payment market participants to improve the effectiveness of approving documents. In particular, with the aim of streamlining the approval of operation conditions and procedure for protecting data and e-money usage, the NBU drafted a range of recommendations, selected typical comments and descriptions, and posted them on the NBU's official website.

Furthermore, the NBU took care to spread electronic trust services in the banking system, expand the range of remote customer services, and ensure the security, quality, convenience and expediency of customer banking. In 2020, three providers of electronic trust services of the banking system were awarded the status of qualified service provider by the Certification Center: the NBU, UKRSIBBANK JSC, and Credit Agricole Bank JSC. The Certification Center has generated the following public key certificates for them:

- six certificates using the DSTU-4145 state electronic signature algorithm
- two certificates using the ECDSA international electronic signature algorithm
- two certificates using the RSA international electronic signature algorithm

¹⁵ approved by NBU Board Resolution No. 151 dated 30 November 2020

The NBU has taken another step towards regulating cyber security, information security, and electronic trust services in the banking system of Ukraine. To improve banking in the view of current cyber threats, a regulation was drafted on the control of bank compliance with legal requirements to information security, cyber security, and electronic trust services¹⁶.

According to the World Economic Forum, in 2020 cyber-attack risk ranked eighth by impact and entered into the Top 10 risks by likelihood¹⁷. Therefore, enhanced control over banks' cyber- and information security measures, a new type of control in the templates for onsite inspections and offsite supervision of banks, and self-assessment of information and cyber security by banks will improve banks' capabilities to resist current cyber threats. Besides that, the regulator will be able to assess:

- information security system effectiveness
- integrity of bank compliance with the NBU's regulations on information security and cyber security
- bank management of information security risks and cyber risks.

To alleviate the regulatory load on banks during the pandemic restrictions, the NBU suspended scheduled onsite inspections, including inspection of information and cyber security. Instead, the NBU paid additional attention to other forms of control, and offered advisory and methodological assistance to banks in ensuring information security, for example, for the time of introducing remote work of employees, which promoted banks' adjustment to operating during quarantine and its inherent risks.

¹⁶ approved by NBU Board Resolution No. 4 dated 16 January 2021

¹⁷ http://www3.weforum.org/docs/WEF_Global_Risk_Report_2020.pdf.

Revision and Implementation of Macroprudential Policy

In 2020, macroprudential policy was shaped by the COVID-19 crisis and related restrictions, as well as the NBU's new mandate to regulate and supervise the nonbank financial services market (the Split project). These developments prompted the NBU to revise its plans regarding the introduction of macroprudential instruments.

The spread of the pandemic in early March and the associated quarantine restrictions posed systemic risks to financial stability. At the same time, the coronavirus crisis proved the effectiveness of previously introduced macroprudential measures. The NBU's efforts to clean up the banking sector, the implementation of internationally recognized capital and liquidity requirements, regular stress testing, the risk-based supervisory approach, and incentives for banks to build a margin of safety in good times had prepared banks well for this crisis. As a result, banks entered the crisis well-capitalized, profitable, and with a significant margin of liquidity. In addition, before the crisis broke out, the regulator successfully resolved the sector's legacy related-party lending problems, which had been amplifying the negative effects of previous crisis episodes on the financial system and the real economy.

After quarantine restrictions were imposed, the NBU took every step necessary to mitigate the impact of the COVID-19 crisis on the financial system and the economy as a whole. The NBU used the same arsenal of anti-crisis instruments as the world's top central banks and regulators, including steps in regulation and supervision. Specifically, within the macroprudential policy framework, the regulator took the following measures:

- The NBU postponed the introduction of the capital conservation buffer and the systemic importance buffer. The NBU recommended that banks delay making dividend payouts until macroeconomic uncertainty cleared. This advice enabled the banks to have enough capital to reduce their losses and continue to finance the economy.
- The NBU postponed the introduction of tighter capital requirements to cover credit risks of FX-denominated domestic government debt securities.
- To ease the regulatory burden on banks, the NBU extended the deadline for banks

to draft and approve their nonperforming exposure management strategies and recovery plans. The NBU canceled the annual stress testing of banks in 2020, conducting express stress testing in Q2 instead.

- In order to support bona fide solvent customers, the NBU encouraged banks to restructure loans to borrowers affected by pandemic-related restrictions. The NBU temporarily relaxed credit risk assessment requirements, so that loans that were restructured on time due to quarantine restrictions would not adversely affect banks' capital.

These measures, combined with an accommodative monetary policy, liquidity support, and low inflation, helped ensure that the financial sector came through 2020 without significant losses, without becoming a factor that deepened the crisis, and continuing to act as a financial intermediary and support for the economy.

In May, the NBU held express stress tests of 26 banks that jointly accounted for 91% of the sector's assets in order to assess the possible fallout from the crisis over a one-year horizon. The stress tests assessed how a macroeconomic scenario that was slightly worse than the NBU's forecast at the time would impact banks' capital. Even in the face of extremely unfavorable developments, only nine banks, including two state-owned ones, were found to require capital during the year. In total, the banks needed an estimated UAH 10.3 billion in additional capital. Subsequently, state-owned Ukreximbank received UAH 6.8 billion in recapitalization funds, significantly mitigating capital risks to the banking system. Overall, banks in 2020 performed better than expected and showed resilience to adverse developments.

Taking into account the economic recovery, which started in H2 2020, and the need to ease the existing risks, which relented somewhat during the crisis, the NBU continued work to gradually introduce certain changes in banking regulation.

Some of the novelties planned by the regulator are as follows:

- In H2 2021, there will be a two-stage increase in the risk weights for unsecured consumer loans – to 150%, compared to the current 100%. This will help reduce the systemic risk associated with the high sensitivity

of these loans to changes in macroeconomic conditions, and the possible underestimation by banks of this factor when calculating expected credit losses.

- In April, nonzero risk weights for FX domestic government debt securities will be introduced. The weights will be set as per the general rules for sovereign securities and will depend on international rankings. Risk weights will be applied only to the securities that banks buy starting in April 2021, and additional weight reduction ratios will be in effect for another nine months. This will allow banks to plan their investment policies.

Regulations aligning the operation of Ukrainian banks with the recommendations of the Basel Committee on Banking Supervision and EU regulations will also continue to be introduced:

- The introduction of the Basel liquidity ratios is coming to an end: effective 1 April 2021, the minimum value of the NSFR will be set at 80%, and it will gradually increase to 100% in April 2022. Banks have been calculating the NSFR in test mode since August 2020.
- In H1 2021, the NBU will decide on the capital buffer formation schedule for banks, which will take into account the state of the banking system and macroeconomic conditions.
- In H2, the assessment of domestic capital adequacy and internal liquidity (ICAAP/ILAAP) will start, in test mode at first.

- Effective 1 January 2022, minimum capital requirements will be introduced to cover operational and market risks. This will also be preceded by a test calculation period.

On 1 July 2020, the NBU became a regulator for insurers, financial companies, credit unions, and pawnshops, which required an update of its Macroprudential Policy Strategy. According to an analysis conducted by the central bank, the nonbank financial sector currently does not generate systemic risks due to its small size, the low interconnectedness of its practitioners with each other and with the banks, and the nature of its business models. As a result, the application of additional macroprudential instruments to this sector is not warranted in the near future. However, the NBU will continue to monitor the development of the sector and, if necessary, use macroprudential instruments to safeguard the financial system against the accumulation and materialization of systemic risks. The use of these tools will be based on a functional approach. This means that if systemic risks arise from a financial activity (e.g., certain types of lending), similar instruments will be applied to all types of financial institutions that carry out these activities and that fall under the NBU's supervision.

The NBU's updated Macroprudential Policy Strategy was published at the end of December 2020. Its implementation will contribute to the stability of the financial system and thus to sustainable economic growth.

Ensuring Transparent Operations and Reporting of Financial Sector Participants by Implementing Financial Reporting System for Submitting Financial Statements Prepared in Accordance with IFRS Taxonomy in Single Electronic Format iXBRL

In 2020, financial regulators continued to work hard to develop and implement the Financial Reporting System. The system allows the electronic collection and processing of financial data received from reporting entities.

The regulators are continuing to fulfill the requirements of the Memorandum of Understanding on Developing and Implementing the Financial Reporting System, No. 102/15 dated 18 December 2017, which aims to define the scope of cooperation and interaction between regulators, in line with the Law of Ukraine On Accounting and Financial Reporting in Ukraine.

The new financial reporting system is based on the iXBRL electronic format under the UA IFRS Taxonomy, and is designed to improve the market's transparency by providing market participants and regulators with exhaustive and reliable financial data. The financial reporting system is based on resources provided by the National Securities and Stock Market Commission. The system is designed to function as a single window, i.e. as a financial statement collection center accessible by other regulators (to administer reporting and upload information to their own data repositories).

Financial statements will be presented in the international format familiar to foreign investors and stakeholders that monitor the development of the Ukrainian financial sector. XBRL is a common international standard for submitting IFRS financial statements in electronic form. This format is popular across the globe and supports multiple qualitative and quantitative indicators. Implementing iXBRL-based IFRS reporting is an essential step towards raising the information disclosure standards for reporting entities, particularly for banks and other financial institutions.

Submitting electronic financial statements through the single point of entry of the Financial

Reporting System will streamline the financial sector's transition to paperless technologies. Moreover, the central bank will be able to process standardized and consolidated financial reporting data quickly and automatically in order to analyze financial statements and perform supervisory functions. This includes the timely detection and prompt response to risks, and thorough monitoring of annual financial statements submitted by banks and other financial institutions in line with IFRS.

In 2020, the NBU together with working group participants (banks and insurance companies) tested the iXBRL Report Compilation System software (developed by JEVERA), which is used to record financial reporting indicators and create iXBRL-format report packages. Based on the test results, the NBU reviewed the working group's comments on the testing, and its suggestions for eliminating flaws in the software. The NBU also reviewed methodological issues regarding the filling in of reporting indicators, and suggestions for improving and amending Taxonomy 2020 with regard to the banking and insurance sectors.

UA XBRL IFRS Taxonomy 2020 (v.1.0) has been updated and developed. In order to register reporting entities in the Financial Reporting System, the NBU created a working group to deal with registering reporting entities and monitoring their registration data.

The Financial Reporting System Management Committee met on 24 December 2020 to discuss the need to extend the deadlines for submitting electronic-format financial statements for 2020 in a package of four financial reporting forms. After Taxonomy 2020 is successfully tested by reporting entities – tests were to start in late February 2021 in the iXBRL Report Compilation System – a decision will be taken on the further submission of interim financial statements in 2021.

COVID-19-Related Application of the International Financial Reporting Standards

In 2020, the outbreak of the COVID-19 infection caused by the SARS-CoV-2 virus (hereinafter referred to as “the COVID-19 infection”) and associated government measures for containing the spread of the infection affected both the global and Ukrainian economies. Uncertainty surrounding the future scenario of the pandemic’s spread – as well as the timeframe required to overcome it – has further complicated forecasting. The risks associated with the COVID-19 infection affect the accounting and financial reporting of companies, as well as Ukrainian banks.

On 27 March, the International Accounting Standards Board (IASB) published a clarification on the application of IFRS 9 in light of the COVID-19 uncertainty and the effects on accounting for expected credit losses. Accordingly, banks need to take these factors into account and report in the financial statements material information on the nature and level of risks associated with financial instruments and risk management mechanisms.

In 2020, the NBU issued a clarification on the requirement to assess the impact of economic measures on recognized financial assets, to amend conditions for using such and to determine possible modifications to a financial asset that may cause its derecognition.

At present, IFRS 9 does not prescribe special requirements for such circumstances, so such need to be reflected in the reporting policy of the bank in line with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and general principles of IFRS 9. Heightened uncertainty on potential future economic scenarios affect estimates of expected credit losses (ECLs) and may demand consideration of additional economic scenarios for estimating ECLs. IFRS 9 requires adjustments to ECL estimates under different circumstances, so banks need to adjust modelling outcomes based on expert judgment for recognizing credible information as of the reporting date.

The NBU drew the banks’ attention to the fact that in order to estimate ECLs, the following needed to be considered:

- analysis findings of the types of customers and regions that may be seriously affected by COVID-19

- amendments to the conditions and modifications of loan agreements (extensions, loan repayment holidays etc.), however these amendments should not be automatically considered as a major increase of credit risk as of the primary recognition in line with the pre-pandemic methodology.

The consideration was that information on borrowers on an individual basis may be very limited. So in order to determine key factors of credit risk, estimates of major credit risk increases on portfolio basis may be applied. Furthermore, the regulator suggested full-time tracking and reviewing forecasts upon receiving new information, since the environment changes rapidly, as well as facts and circumstances.

In May 2020, amendments to IFRS 16 Leases were published pertaining to COVID-19-related rent concessions and applied to reporting periods commencing from or after 1 June 2020. Lessees are permitted to apply the practical expedient and not to assess whether COVID-19-related rent concessions are a modification.

The NBU issued its own recommendations on applying amendments to IFRS 16 Leases. Lessees applying the practical expedient for some or all effective contracts should disclose this fact, as well as the amount of recognized profits or losses to recognize changes in rental payments arising from such COVID-19-related rent concessions.

The NBU also clarified that a separate disclosure of information in interim financial statements – based on IAS 34 Interim Financial Reporting prescribing major changes that occurred as of the last annual financial statements. Therefore, clarification of the COVID-19-related events and transactions will ensure with the necessary transparency for users of financial statements, as well as to understand major changes in reporting policy.

In its annual financial statements for 2020 the NBU recommended banks to pay special attention to disclosing information on the COVID-19-related effect on bank operations, financial results, changes in equity, and cash flow.

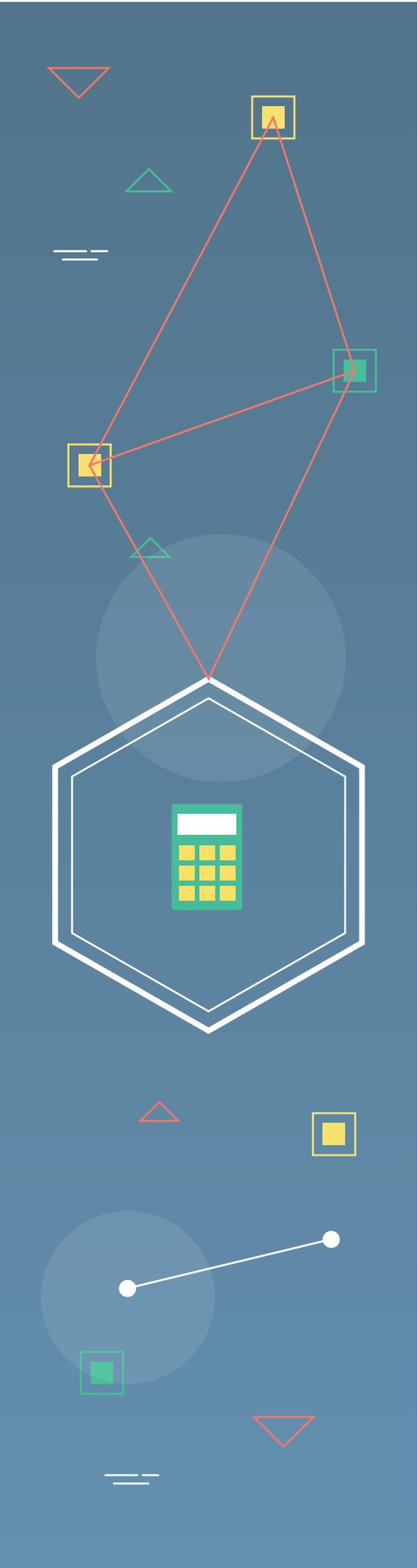
One of the key issues is the application of business continuity assumption. According to IAS 1 Presentation of Financial Statements, when preparing financial statements a business entity

should assess its capability to continue business, meaning managerial staff considers the available information on the future for at least 12 months from the reporting date but not limited to this period. If during its assessment the managerial staff considers the uncertainty associated with events or conditions that may threaten the business continuity of the business entity, the business entity should disclose such information. If a business entity prepares financial statements without the business continuity assumption, the business entity should disclose this fact and indicate the grounds for preparing the financial statements this way, including the reasons when its business cannot be assumed continuous. Also, the information on applying professional judgements and assumptions of the managerial staff that have a material effect on the recognition and size of assets, liabilities, income, expenses, and equity in the financial statements. Furthermore, future, as well as assumptions should be disclosed

on other sources of uncertainty associated with estimates as of the reporting date that may cause major risks of sufficient adjustments to the carrying amount and of assets and liabilities in the next reporting year. The COVID-19-related effect may generate coverage, and contingent assets and liabilities, as well as lead to impairment of assets to be reported by banks in the notes to the financial statements.

In line with IAS 10 Events after the Reporting Period, information on the events should be disclosed after the reporting period: on favorable and adverse events that occurred as of the end of the reporting period, and before the approval date of the financial statements for release.

The clarifications provided in the COVID-19-related application of International Financial Reporting Standards will assist banks in disclosing information in the financial statements and boost trust of stakeholders in Ukrainian banks.



Resumption of Lending



In 2020, the NBU took the following measures to revive the economy and support economic recovery:

- conducted an accommodative monetary policy and took several steps to give banks more flexibility in managing their own liquidity (adapted the operational design of its monetary policy, optimized the calculation of required reserves, extended the list of eligible collateral, and so on)
- introduced new instruments, namely long-term refinancing, and interest rate and FX swaps. Among other things, the NBU announced in Q4 that it would continue holding interest rate swap auctions in order to promote long-term lending. These instruments aim to support banks' liquidity, while also helping decrease interest rates in the economy
- took efforts to improve corporate governance at banks and reduce their share of NPLs.

As a result, banks increased their hryvnia lending in 2020, although not during the period of strict lockdown.

Mortgage lending recovered at the fastest pace. It grew by 11.5% in 2020. However, the growth started off from a low base, with the mortgages-to-GDP ratio being extremely low at 0.7%. The NBU's goal is to increase the ratio of mortgages to GDP from the current level of 0.7% to 2% by 2024.

Improving the quality of banks' loan quality creates the basis for lending growth. The banks' NPL ratio declined to 41% at year-end 2020, after exceeding 48%. The imposition of requirements for banks to manage problem assets contributed to the progress in NPL resolution. Furthermore, in 2020 the NBU defined the criteria for writing off nonperforming exposures. The NBU has the ambitious target of reducing the NPL ratio to an acceptable level of around 20% by 2023.

The main impediments to lending growth and loan rate cuts are beyond the scope of the banking system. They include a lack of solvent borrowers, weak protections for creditors, the moratorium on foreclosing on collateral for FX mortgages, a lack of required laws and the non-transparency of the primary housing market, and so on.

In Q4 2020, the NBU developed and approved the comprehensive Lending Resumption program, which is aimed at attaining the ambitious goals in lending development. The comprehensive program includes projects that the NBU intends to implement in the financial sector in the near future:

1) taking a set of measures to protect creditors' rights:

- resolving the issue of sham appeals against loan and security agreements
- introducing a system to freeze borrowers' accounts automatically
- settling the issue of mortgage lending secured by unfinished property and preparing legislative amendments to reduce the risks for investors in the primary real estate market
- regulating legal risks at foreclosure on mortgage loans
- taking a set of measures to reduce the duration and cost of debt recovery and collateral sale
- canceling the moratorium on foreclosing on FX mortgages
- improving Ukraine's bankruptcy code for individuals and legal entities;

2) taking a set of measures to encourage lending development:

- providing banks with access to information from state registers when they issue financing to borrowers in order to reduce credit risks and verify information
- introducing financial asset securitization and develop the securitization market
- envisaging the possibility of providing state-owned property as collateral
- developing sustainable and green financing; implementing ESG risk assessment
- providing the Cabinet of Ministers of Ukraine with a complete list of recommendations on how to optimize and improve state financing programs and transform provider institutions.



Effective Regulation of the Financial Sector

Split Law Implementation

Implementation of the Revised Payment Service Directive (PSD2) and Future Regulation of Payment Systems

Status of the Ukrainian Payment Market

Regulating Payment Systems

Oversight of Financial Market Infrastructures

Regulation of Cash Circulation

Regulation and Supervision over Nonbank Institutions in Financial Monitoring, and Compliance with Currency and Sanctions Laws

State of Nonbank Financial Services Market

Regulation of Nonbank Financial Services Market



Split Law Implementation

Since 1 July 2020, the NBU has been the regulator of the majority of the nonbank financial sector. That's the date when the Law of Ukraine, *On Amendments to Certain Laws of Ukraine On the Consolidation of Functions of State Regulation of Financial Services Markets* (hereinafter referred to as the Split Law), took effect (adopted by the Verkhovna Rada of Ukraine on 12 September 2019).

Before the Split Law adoption, the regulation and supervision of the financial services markets was performed by three regulators:

- National Bank of Ukraine – banking services market, funds transfer, and currency transactions
- National Securities and Stock Market Commission (NSSMC) - securities and derivatives market
- National Commission for the State Regulation of the Financial Services Markets (NFSC) – other markets of nonbank financial services.

Since 1 July 2020, the entire financial sector is regulated by two regulators: the NBU and the NSSMC. The NFSC functions were divided between these two state authorities.

After the Split Law adoption, the NBU scope of regulation and supervision covers the following:

- banks
- insurers and insurance intermediaries
- leasing companies and lessors-legal entities
- factoring companies
- credit unions
- credit bureaus
- pawnshops
- others financial institutions (performing currency exchange, fund transfers, lending, providing guarantees, etc).

The NBU started to prepare for the Split reform already in 2016. The NBU obtained the technical assistance from a series of international donors in order to update its model of financial sector regulation. But the active phase of preparing to the reform started upon the adoption of the Split Law.

In 2019 and H1 2020, the NBU did the following:

- preliminary analysis of nonbank financial sector segments and development of a vision for their future regulation in the form of White Papers

- ensuring acceptance of the documents of nonbank financial institutions, work of registers and databases regarding 2,089 nonbank financial institutions and 1,398 other participants of financial services markets
- reviewing applicable regulations on the nonbank financial market
- studying the international experience of nonbank financial services regulation
- launching the drafting of new sectoral laws
- organizing a range of meetings with the market participants to obtain proposals on future regulation and implement the change of the regulator as clearly as possible.

The future regulation of different segments of nonbank financial market is laid out in the following White Papers:

- The Future of Regulating the Nonbank Financial Sector (the draft providing the NBU's vision of new regulation of the nonbank financial market after the Split Law took effect)
- Future Regulation of the Insurance Market
- Future Regulation of Finance Company Lending
- Future Regulation of Credit Unions
- Future Regulation of Factoring Market
- Future Regulation of Pawnshops
- Future Regulation of Nonbank Leasing.

Furthermore, the NBU established new functional departments for the regulation and supervision of nonbank financial institutions:

- 1) Nonbank Financial Institutions Regulation Methodology Department – responsible for drawing up proposals to Ukrainian laws and drafting NBU regulations and administrative acts
- 2) Nonbank Financial Services Supervision Department – directly responsible for supervision. The unit performs offsite supervision, addresses legislative violations or risky activities threatening depositors, identifies related parties, and controls transactions with them, etc.

After the Split Law adoption, the functions of a number of the NBU's units were expanded, including the Licensing Department, Onsite Bank Inspection Department, and the Statistics and Reporting Department.

To ensure the business continuity of nonbank financial institutions, the NBU approved some

“transitional” resolutions related to the following activities: general issues of nonbank financial institutions operation, their licensing and registration, inspections, corrective measures, and reporting.

These resolutions also define the peculiarities of use by the NBU of the documents of the previous regulator being in force until the approval by the NBU of its own regulations.

The active work on new legislation and regulatory acts is under way, taking into account the previous regulator’s experience, market proposals

and the goals of development the NBU defines for the nonbank financial sector.

The main purpose is to build the regulation of nonbank financial institutions aimed at market efficiency and transparency, as well as compliance with EU law requirements and world standards.

More detailed information on the new regulation of the nonbank financial institutions market can be found in the Regulation of Nonbank Financial Services Market section of this Report.

Implementation of the Revised Payment Service Directive (PSD2) and future regulation of payment systems

In 2020, the NBU's efforts were focused on implementation of PSD2 and renewing the legal regulation of the payment services market. Also, in order to meet the Financial Inclusion strategic goal, the NBU worked hard on implementing the innovative projects of its Cashless Economy program:

1. The Verhovna Rada of Ukraine registered Draft Law No. 4364 on payment services aimed at bringing up to date the regulation of Ukraine's payments and transfers market.

If adopted, this Draft Law will adapt the Ukrainian legal framework to EU laws and create a legal foundation for integrating the Ukrainian payment market with the European one. Besides, this will foster the modernization of the Ukrainian payment market and pave the way for further development.

This document is intended to change the outdated approaches of regulation of the payment market, to expand the range and streamline operation of payment service providers on the payment market, to set rules for providing payment services in Ukraine and requirements to payment service providers, to safeguard consumer rights of respective services, to advance security and effective service, and to promote innovations.

The new payment market regulation framework prescribes the following changes on the payment services market:

- nine payment services will be defined, whereof seven are financial payment services, and two – nonfinancial. The respective providers will be determined,
- requirements will be introduced to authorization of payment service providers and creating environment for small payment institutions with simplified requirements. Payment service providers will acquire the status of financial institutions along with the authorization to provide payment services
- nonbank financial institutions will provide payment services without the need to be a participant of a payment system
- payment services providers other than banks will be permitted to issue e-money and payment cards, upon gaining the respective license

- the NBU authorities will be defined for establishing a regulatory platform for testing services, technologies, and instruments on the payment market based on innovative technologies. requiring the regulator to closely cooperate with startups and comprehend needs
- a foundation will be created for open banking in the Ukrainian payment infrastructure
- accounts will be determined for payment service providers to transact payments, also nonbank payment service providers will be permitted to open settlement accounts
- terms and conditions for providing payment services will become transparent and customers will receive more information on such services
- more attention will be paid to consumer rights protection for minimizing cyber fraud, and liability will be tightened for unlawful actions with payment instruments and access to bank and/or payment accounts, etc.
- requirements to security of payment transactions will be tightened, including the advanced authentication of users by payment service providers in defined cases.

2. The regulator prepared for the financial market comprehensive changes to remote customer identification and verification.

Together with financial market participants, the NBU developed new instruments and means for remote identification, depending on the selected model and channels for attracting customers. Banks and financial institutions will be able to select the required model according to the purpose, capacities required to upgrade software suites, and respective risk assessment of these operations. In particular, the following can be selected:

- fully-fledged models of remote identification and verification:
 - verification of customer's identification data using the NBU's BankID system and the customer's qualified electronic signature (QES)
 - video verification
 - the procedure of remote identification and verification of the bank customers having

digital passports in the mobile application Diia. From now on, when opening a bank account remotely, citizens need not submit physically an identity card or biometric passport if they have a digital identity card or passport in the mobile app Diia. Each Ukrainian having biometric document - identity card and passport, can use this method. All that is required is to install the Diia app on a smartphone and verify themselves in order to obtain a digital version of an identity card or passport through the NBU BankID System;

- such simplified models with certain restrictions on the transaction amount and balances on customer accounts:
 - NBU BankID verification
 - QES verification
 - paying to a separate bank account from a customer's account accompanied by the full name of the customer
 - remote reading of customer data from the his/her biometric documents (for instance, foreign passport or ID card) using an NFC module on a smartphone and respective bank mobile application
 - verifying data from the credit bureau with customer confirmation using the password sent by the bank to a customer's financial number listed in his/her credit history.

Also, when applying some simplified methods customers need to be photographed using liveness detection and a personal identification document.

According to the outcomes of simplified models' discussion with the financial market participants, the regulator determined restrictions to such simplified customer verification models, such as:

- the total limit on debit transactions on all customer accounts opened with the bank shall not exceed UAH 40,000 per month and UAH 400 per year

- the total balance on all customer accounts and e-purses with the bank shall not exceed UAH 40,000

3. The NBU has approved the Fintech Development Strategy in Ukraine until 2025 (Fintech Strategy) that is a step-by-step plan for creating in Ukraine a full-fledged fintech ecosystem that will offer innovative financial solutions and accessible digital services.

The key components of the Fintech Strategy are as follows:

- developing and introducing a comprehensive regulatory sandbox for quick testing of innovative projects
- improving financial awareness and inclusion of the public and business
- launching an academic base for open banking – a mini-MBA in Digital Finance 4.0 – with the Ministry of Education of Ukraine to improve the level of financial literacy of households and businesses.

The main indicators of a successful Fintech Strategy are as follows:

- transitioning most market players towards open banking standards and instruments of remote identification and verification
- launching a regulatory sandbox and increasing innovative product testing by the respective sandbox by 16 – 20 products per year
- balanced development of all fintech areas
- spread of innovative technologies in supervisory and regulatory processes
- improving digital and financial literacy of the public, as well as training of professionals on the market, and developing a talent pool based on the academic community
- the NBU's accession to the Global Financial Innovation Network.

Status of the Ukrainian Payment Market

In 2020, following the adoption of the Law of Ukraine *On Amendments to Certain Laws of Ukraine On the Consolidation of Functions of the State Regulation of the Financial Services Markets* (Split Law), the licensing procedure for nonbank financial institutions was changed.

The NBU revised the licensing procedure for fund transfers in hryvnia without opening an account (the License) to harmonize it with the Split Law requirements.

In accordance with these novelties, the regulator:

- reduced the timeframe for considering documents from 60 to 30 business days
- loosened the requirements to applicants holding sufficient funds to cover expenses set out in the business plan for the first year of transacting fund transfers. Now, the applicant is obligated to hold funds sufficient to cover expenses on executing fund transfers
- changed the NBU's mandate for consideration of the documents. Instead of returning the documents without consideration, the regulator is authorized to waive consideration of the licensing application. Yet, the NBU has no right to suspend the consideration of documents and return such for finalizing.
- will refund payments for considering documents for licensing if the application was waived, provided the applicant failed to resubmit documents within three months of the return of documents for eliminating the reasons for waiving or upon the applicant's request (if the service was not provided). Consequently, payments for licensing services will be clearly regulated and transparency of communication between the applicant and the regulator will be ensured
- will issue a license along with making a record in the State Register of Financial Institutions or the register of entities other than financial institutions that are licensed to provide certain financial services. The record is made in the respective register no later than on the following business day after approving the decision on licensing
- will send a notification to the applicant of the approved decision according to the outcomes of consideration of documents submitted for a license not later than

on the following business day as of the approval of such decision. A nonbank institution will be issued an extract from the respective register along with the notification of the decision on license issue

- revised the list of grounds for license revocation in line with the Split Law.

Such amendments became the first step to creating uniform approaches to licensing nonbank financial services. They reduced the time for considering documents and ensured legal certainty for the applicants for respective licenses after the Split Law came into effect.

In general, a multitude of payment systems and settlement systems operate on the Ukrainian payment market. At the end of 2020, 50 payment and settlement systems were operating in Ukraine, including:

- 26 established by residents:
 - 7 with a bank as the payment system operator (1 – national, 6 – international)
 - 19 with a nonbank institution as the payment system operator (13 – national, 6 – international)
- 13 established by nonresidents:
 - 4 international card payment systems
 - 9 international money transfer systems
- 9 intrabank payment systems
- 2 state-operated payment systems.

Furthermore, 34 payment service providers operate on the Ukrainian payment market.

Registration of Payment Systems, their Participants, and Payment Service Providers

In 2020, new players appeared on the payment market. Thus, during the last year, the NBU registered

two payment systems established by residents:

- HERTS national payment system (payment system operator – FC HERTS LLC)
- MONEYCOM national payment system (payment system operator – FC SWIFT GARANT LLC)

- one payment system established by a nonresident – CLEAR JUNCTION international fund transfer system [payment system operator – CLEAR JUNCTION LIMITED (UK)]

five new payment service providers:

- PAY PLACE UKRAINE LLC
- CITY WORLD GROUP LLC
- FIBO PLUS LLC
- IT SOLUTIONS LLC
- UAPROM LLC

Licensing for Conducting Money Transfers in Hryvnia without Opening Accounts

As of 1 January 2021, 65 nonbank institutions held licenses to make fund transfers in hryvnia without opening accounts.

In 2020, the NBU issued two licenses to the following nonbank institutions without opening accounts:

- FC ONE SPACE LLC
- FC EVO LLC

Regulating Payment Systems

The NBU took the following steps in continuing to implement the Strategy of Ukrainian Financial Sector Development until 2025 and the NBU Strategy regarding development of cashless payments for improving payment system regulation.

The regulator revised the requirements to registration of payment systems, payment systems participants and operators of payment infrastructure services, including:

- provided the option of submission to the NBU of documents not only in printed but also in electronic form with an affixed electronic signature of the authorized person
- streamlined requirements to rules of payment systems and resident payment system operators submitted to the NBU to register such payment systems. Now the provisions on financial monitoring need not be prescribed by rules of payment systems. These provisions should be recorded in the internal documents of the payment system operator. They should be drafted within three months of the date of the NBU's submission of the notification on the respective payment system, however before the first day of the first fund transfer in the payment system
- revised requirements to payment system institutions with resident/nonresident payment system operators regarding protection of information when transacting fund transfers
- provided greater detail for requirements to registration of indirect payment system institutions of a resident payment system operator and ensured the option to submit documents for such registration not only by the payment system operator, but also by the payment system institution
- provided the option to receive copies of certificates on agreement of rules and amendments to rules of the resident payment system and the registration certificate of the agreement and amendments to the agreement on participation in a nonresident international payment system in case of document loss or damage
- harmonized the procedures for submitting documents to the NBU for registration of payment service institutions and payment service providers by submitting information in the questionnaire.

In addition, the NBU issued a permit to nonbank financial institutions and postal service operators

licensed by the NBU to conduct fund transfers in hryvnia without opening accounts and that are payment system operators and/or payment system institutions, and to transfer the authorization to similar institutions or operators to accept cash for following transfer by entering into a respective agreement. This novelty will assist companies in expanding their business, and consumers in selecting convenient points of service.

Furthermore, the regulator has streamlined requirements to the procedure for opening and closing accounts to bank customers and authorized banks as follows:

- to set out in the powers of attorney certified by an authorized bank employee the right of attorneys to open/dispose of/close customer accounts with this bank
- to refrain from repeated identification and verification of the customer (the attorney) for account opening, if the entity was identified and verified previously in line with financial monitoring laws
- to open an account to a customer that had no account with this bank before on the basis of the documents submitted by the customer (the customer's representative) when establishing business relations remotely in compliance with the requirements established in the NBU regulation on financial monitoring
- to close current (subordinated) accounts of the customer on grounds prescribed by laws on financial monitoring and according to Article 69 of the Tax Code of Ukraine
- to issue certificate of deposit in investment metals
- to receive information on registering self-employed individuals or individuals with a similar status in the controlling authority on Records of taxpayer registration disclosed on the official web-site of the State Tax Service of Ukraine.

In 2020, the regulator continued revising the regulatory framework on the payment market operation. In particular, the procedure was set for:

- opening and closing of accounts for resident corporate investors (operators) under production sharing agreements
- attracting deposits by banks from sole proprietors, nonresident legal entities, representative offices of nonresident legal entities in Ukraine, investors (representative

offices of foreign investors in Ukraine) under production sharing agreements and executing associated transactions

- issuing and repaying certificates of deposit denominated in investment metals
- opening accounts by banks to standalone units of foreign NGO, representative offices, branches of a foreign charities.

Also, a ban was imposed on banks to close current accounts of customers if account funds were blocked or financial transactions were ceased on the account in line with laws on financial monitoring.

Furthermore, the regulator determined requirements:

- agreements entered into by and between a banks and a depositor when opening accounts, including authorizations to individuals to sign agreements with a digital signature
- the list of persons authorized to dispose of the account.

Furthermore, in 2020 the NBU regulated the following:

- electronic workflow of collection letters (orders) and the option for the tax agent to withhold individual income tax from income on a uniform account of the State Tax Service of Ukraine
- optimizing the procedure of transferring funds for paying salary to the accounts of company (institution, organization) employees, including accounts opened with different banks, according to a payment summary generated by an employer.

Persons who expressed their wish to use banking and/or financial services can opt for a digital signature to sign documents.

The regulator clarified requirements for drafting a payment order in foreign currency or investment metals, and also authorized the principal (an entity requesting a bank guarantee) to purchase foreign currency for paying fee and commission, and repay expenses in case of opening a guarantee in foreign currency and insufficient funds in foreign currency.

Concerning the electoral legal framework concerning banks:

- the procedure was set for opening and closing accounts of campaign funds
- the obligation was prescribed to inform the Central Election Commission, regional or local representative office of the Central Election Commission, local election commission and the National Agency on Corruption Prevention on opening an account for a campaign fund

for a respective entity of the electoral process and its bank details.

The NBU improved regulation of the e-money market, including:

- defining the procedure of use of e-purses
- cancelling restrictions for identifying and verifying users regarding amounts in e-money that may be used for settlements and transfers in compliance with Ukrainian AML/CTF laws
- setting requirements to user rights protection in e-money and advance requirements to commercial agents of issuers executing e-money transactions.

Furthermore, in 2020 the NBU clarified the procedure for executing a payment order on mandatory direct debiting the bank's correspondent account. The obligation will be introduced to verify decisions or rulings of the court on enforcing funds in the Uniform State Register of Court Rulings.

In 2020, the regulator approved the Rules for generating and using QR-code for credit transfers to provide a uniform instrument on the market to improve user-friendliness of settlements.

Uniform approaches to generating and using QR-codes will resolve the issue of compatibility for different payment market infrastructures. Furthermore, a uniform approach primarily covers the needs of those payment market participants who cooperate with service providers (including state, administrative, and utility services, etc.). Also, this will also expand the use of QR-codes when paying for goods and services, and transfer of funds from account to account.

To improve customer servicing and provide free-of-charge QR-codes for a year, the NBU worked on introducing an initiation code of a payment application. Any bank will integrate this code in its in-house payment application (the payment application) for automatic initiation.

When the customer cancels the QR-code to transact payment the bank application launches automatically on his or her smartphone with a generated payment order. If the bank's application is not installed on the customer's device that can process such QR-code, the customer will be redirected to the website with information on banks that provide applications with the required function.

At the same time the regulator optimized data encryption for automatic data transfer from QR-code to applications and reduced the size of QR-code.

Oversight of Financial Market Infrastructures

Oversight is an important central bank function aimed at safe, effective, and sustainable performance of financial market infrastructures.

According to the global practices and international oversight standards (the Principles for financial market infrastructure (PFMI) of the Bank for International Settlements¹⁸), the following five financial market infrastructures are subject to oversight:

- payment systems
- central securities depositories
- securities settlement systems
- central counterparties
- trade repositories¹⁹.

In 2020, considering recommendations of the International Monetary Fund, the regulator conducted a self-assessment of performance of regulator functions in compliance with the international oversight standards.

According to the self-assessment findings, the regulator's oversight of financial market infrastructure overall is in compliance with the international oversight standards.

In 2020, the NBU conducted the following activities as part of payment system oversight:

- verification of compliance of NBU SEP with international oversight standards as a systemically important payment system in Ukraine.

According to the comprehensive assessment findings the regulator drew up recommendations on streamlining SEP operation with international oversight standards, including on managing cyber risks, ensuring cyber resilience, effectiveness, and efficiency of the payment system.

- offsite monitoring of overseen entities that ensures control of compliance with Ukrainian law, including the following:
 - commencement of operations by overseen entities only after registering their data in the Register²⁰
 - operational compliance of payment systems and participants with the rules set

by payment system operators

- compliance of overseen entities with regulatory requirements of the NBU to posting information on official websites of payment system operators and payment system participants

According to the findings of offsite monitoring, the NBU made recommendations to overseen entities on bringing their operations in line with the legal framework

- onsite monitoring of overseen entities is conducted to control compliance with Ukrainian law, and to detect and prevent risky operations.

The main violations found by onsite monitoring were as follows:

- noncompliance with the protection of consumer rights in terms of payment system services
- services provided in violation of rules approved by the NBU
- failure to ensure business continuity and information security
- misrepresentation of financial statements on operation of the payment system and its participants in violation of NBU regulations.

The NBU imposed corrective measures on overseen entities in response to the detected violations as set out in Article 41 of the Law of Ukraine *On Payment Systems and Money Transfer in Ukraine*.

In 2020, the NBU conducted the following activities as part of its oversight mandate:

- the NBU and the National Securities and Stock Market Commission signed a Memorandum of Understanding regarding cooperation in oversight and supervision of the Ukrainian capital market infrastructures.

This document established the foundation for the NBU's oversight of key capital market infrastructures (securities settlement systems, the Central Securities Depository, central counterparties, and trade repositories) and further

¹⁸ Drafted by the Payments and Market Infrastructure Committee of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions.

¹⁹ In June 2020, the Law of Ukraine On Capital Markets and Regulated Commodity Markets was adopted prescribing establishment and operation of a trade repository in Ukraine. After creating such an infrastructure and amending the law the NBU's oversight function will apply to trade repositories as well according to PFMI.

²⁰ The Register of payment systems, settlement systems, as well as participants and payment infrastructure service providers.

assessment for compliance with the international standards.

The NBU will assess of capital market infrastructures for compliance with the international standards together with the National Securities and Stock Market Commission. Based on international standards the financial regulators also jointly draw up recommendations on risk management of capital market infrastructures.

Furthermore, the financial regulators will work together on amendments to the legal framework in order to prescribe the NBU's authority to oversee key infrastructures of the capital market.

- comprehensive assessment of the central counterparty, the Settlement Center, on performance of the Strategy of Ukrainian Financial Sector Development until 2025 and with consideration of expert recommendations of the International Monetary Fund.

The Settlement Center is the only central counterparty in Ukraine and a systemically important infrastructure of the Ukrainian financial market, and according to the international

standards, it plays a critical role in preserving financial stability of the country.

The working group conducting the assessment included representatives from the NSSMC being the responsible regulator and supervisor of the Settlement Center's operation on the stock market. Based on the assessment findings, the NBU has made recommendations to improve operation of the Settlement Center to bring it closer to the international standards.

- comprehensive assessment of the NBU Depository for compliance with the international oversight standards commencing in the end of 2020 in compliance with the Strategy of Ukrainian Financial Sector Development until 2025.

The NBU Depository plays an important role on the stock market of Ukraine, as well as on the public securities market. The NBU Depository authority in depository recordkeeping is one of the main functions of the central bank prescribed by the Law of Ukraine *On the National Bank of Ukraine*.

Assessment of the NBU Depository will be completed in 2021.

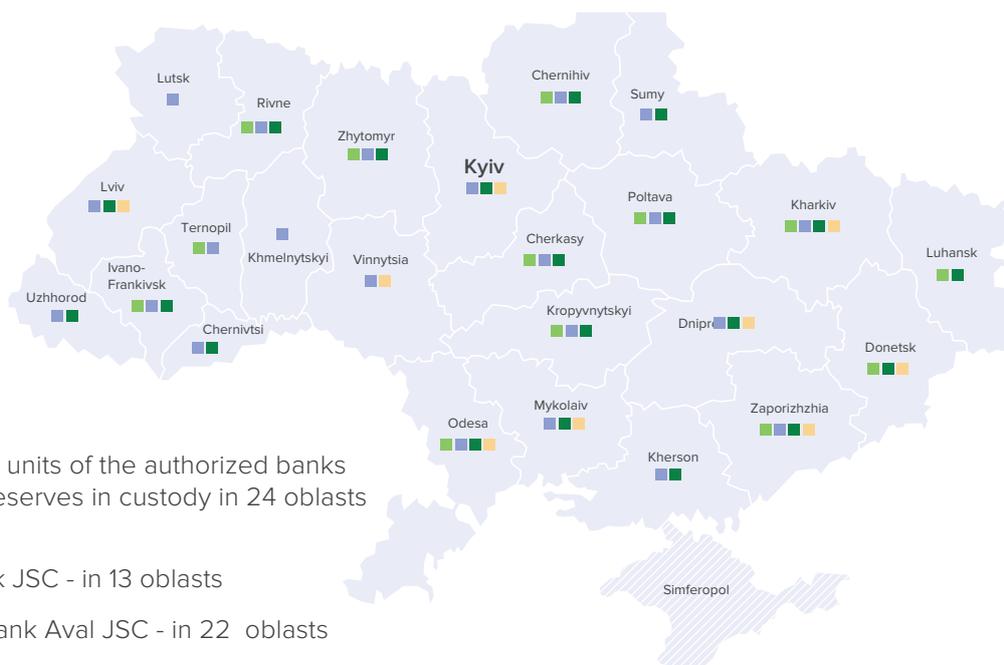
Regulation of Cash Circulation

In 2020, the NBU continued to transfer its cash inventories into the custody of authorized banks. They were transferred under respective agreements with Oschadbank JSC, CB PrivatBank JSC, Raiffeisen Bank Aval JSC, and the FIRST UKRAINIAN INTERNATIONAL BANK JSC.

For those banks, respective limits were set for cash custody volumes in all oblasts of Ukraine (including the territories of the Donetsk and Luhansk oblasts controlled by the Ukrainian government), the city of Kyiv, and Kyiv oblast. As of the end of 2020, the number of authorized bank locations was 73 units. It is seven units more than as of the end of 2019 (66 locations).

In 2020, the NBU and the British company Vaultex signed a Memorandum of Understanding supporting the NBU's Cash Circulation Strategy. Vaultex UK Limited is one of the largest British cash processing companies. It is one of the four members of the delegation model of cash circulation in Great Britain. Considering its longstanding experience in managing cash circulation, Vaultex will support the NBU in implementing elements of the Strategy of Ukrainian Financial Sector Development through 2025 for further improving the state's cash circulation system.

Cash circulation servicing in 24 regions by authorized banks (as of 1 January 2021)



73 structural units of the authorized banks have cash reserves in custody in 24 oblasts of Ukraine:

- Oschadbank JSC - in 13 oblasts
- Raiffeisen Bank Aval JSC - in 22 oblasts
- CB PrivatBank JSC - in 20 oblasts (28 units)
- FUIB JSC - in 9 oblasts (10 units)

With a view to improve and perform cash handling quickly, reliably, and effectively, the central bank in 2020 updated its regulations and upgraded its software on Transferring Cash Inventories to Authorized Banks, which is a part of the central bank's centralized system for automating cash circulation.

Optimizing Banknote and Coin Denominations

As with other central banks, the National Bank of Ukraine constantly improves the security features

of its banknotes. It is done to combat counterfeiting and to make it possible for people to identify authentic hryvnia banknotes easily and conveniently.

In 2020, the NBU finalized the upgrading of banknote and coin denominations. In particular, new banknotes and coins with updated design and security features introduced into circulation are:

- 200-hryvnia banknote designed in 2019 - from 25 February 2020
- 10-hryvnia circulating coin - from 3 June 2020.



From 1 October 2020, hryvnia banknotes of all years of issuance designed before 2003 and 25-kopiika coin ceased to be a legal tender.

A gradual withdrawal from circulation of 1- and 2-hryvnia banknotes of the 2003–2007 designs and circulating coins of 1 hryvnia minted before 2018 (which still remain legal tender) started.

As a result, when these coins and banknotes of old design are withdrawn, the hryvnia currency series will be reduced from 16 to 12 denominations. The new series will have six denominations of coins (10 and 50 kopiikas; 1, 2, 5, and 10 hryvnias) and six denominations of banknotes (20, 50, 100, 200, 500, and 1000 hryvnias).

Furthermore, in 2020²¹:

- the Banknote Printing Plant produced 234,871 tons of paper (100% of plan)
- The Banknote Printing and Minting Works produced and transferred to the Central Vault 292.176 million pieces of banknotes (101% of plan) and 341.0 million pieces of coins (100% of plan).

Cash collection

In 2020, the NBU continued to outsource cash handling to third parties (CIT companies). Cash handling will be conducted according to rules set by the central bank and supervised by the regulator. As of the end of 2020, 11 legal entities obtained the right to provide banks with cash collection services. They serviced 609 bank offices, 1,486 customers on cash collection, 181 customers on cash delivery, and 1,494 ATMs and self-service kiosks.

In 2020, CIT companies started operations on cash processing and storage. During the year, they processed 11,756 bundles of cash in total amount of UAH 2.9 billion.

In the framework of implementation of the Concept on Organization of Cash Circulation in Ukraine in 2020, the NBU reviewed sets of documents from two other CIT companies to obtain approval on performing operations on cash processing and storage.

In addition, the NBU specified in its regulations certain issues on the activities of legal entities licensed for providing cash collection services and approvals for cash processing and storage.

Inspections

The NBU conducts audits and reviews of cash custody storage pursuant to its statutory control function on compliance by the authorized banks with NBU regulations on the organization of work with cash reserves in custody, the procedure for their storage, proper sorting during their automated processing, and oversight of cash issuance into circulation.

In 2020, the regulator conducted unscheduled inspections of banks and the premises of banks-legal entities for compliance with the requirements of the organization of securing bank premises in Ukraine. This was done to perform oversight over banks' compliance with NBU regulations on cash circulation.

²¹ According to NBU Board decision No. 429 dated 25 June 2019 On Organization of Production of Banknotes, Circulating Coins, and Banknote Paper in 2020 (as amended)..

Regulation and Supervision over Nonbank Institutions in Financial Monitoring, and Compliance with Currency and Sanctions Laws

Regulation of Nonbank Institutions in the Area of Financial Monitoring

After the Law of Ukraine On Financial Monitoring took effect at the end of April 2020, the NBU started performing state regulation and supervision in the area of financial monitoring of nonbank financial institutions, particularly insurers (reinsurers), insuring (reinsuring) brokers, credit unions, pawnshops, payment system operators, participants or members of payment systems that provide financial services based on respective licenses or registering documents, postal service providers, and other institutions that provide services of money transfer or conducting currency transactions, as well as branches or representative offices of foreign economic entities that provide financial services in Ukraine and other legal entities that have no legal status of a financial institution but provide certain financial services.

To implement the requirements of the law on financial monitoring, the NBU Board approved Regulation On Conducting Financial Monitoring by Institutions with its Resolution No. 107 dated 28 July 2020 (hereinafter Regulation No. 107). The Regulation No. 107 sets forth the general requirements to nonbank institutions in the area of financial monitoring.

The main conceptual approaches of Regulation No. 107 are the following:

- applying a risk-based approach
- establishing a proper risk management system
- setting requirements to the institution's employee responsible for financial monitoring
- applying enhanced and simplified customer due diligence
- applying remote identification and verification
- introducing the reliance instrument. Nonbank financial institutions will be able to use identification and verification results from obliged third parties and delegate this function to agents
- setting a list of risk criteria and indicators of suspicious financial transactions

- applying the risk-based approach when applying measures to customers who are politically exposed persons, as well as to members of their families or their associates.

Taking into consideration the specifics of the nonbank financial sector, Regulation No. 107 simplifies certain requirements on financial monitoring to nonbank institutions compared with the requirements to banks, for example:

- it is recommended that most nonbank institutions have automated systems of financial monitoring, though it is required only for institutions that provide money transfer services
- assessment of customer risk occurs under simplified methods. In particular, nonbank institutions can assess customer risk on a group basis instead of a solo basis
- special requirements are set for insurance companies to perform due diligence of their customers and beneficiaries
- nonbank institutions are not required to have their employee responsible for financial monitoring approved by the NBU. Additionally, said responsible person may hold multiple jobs and combine positions
- the NBU simplified the procedure for postal service providers to identify and verify recipients of pensions, financial aid, subsidies, and other social payments. This decision will enable postal service providers to ensure uninterrupted payments of pensions and financial aid considering the lack of automation at their branches. At the same time, Ukrainian pensioners and other recipients of social payments will not feel any inconveniences during their identification and verification.

Taking into consideration the difficulties that nonbank institutions may have after the law on financial monitoring enters into force, NBU Board Regulation No. 107 dated 28 July 2020 (as amended) set forth the timeframe for nonbank institutions to adjust their internal documents, procedures, and software to the new legal requirements.

Supervision over Nonbank Institutions in Financial Monitoring and Compliance with Currency and Sanctions Laws

During 2020, in order to ensure proper supervision over compliance with the legal requirements on financial monitoring, currency and sanctions by nonbank institutions, the NBU conducted three scheduled onsite inspections,

Inspection results:

Indicator	Quantity
Conducted inspections in nonbanks, including:	86
Scheduled onsite inspections	4 ²²
Unscheduled onsite inspections	2 ²³
Scheduled onsite inspections of structural units of nonbank institutions for compliance with procedures for foreign exchange transactions	38
Offsite inspections	42
Nonbank institutions with detected violations	5

Additionally, with the aim of introducing brand new approaches to preparing and conducting onsite inspections, the NBU combined inspections on financial monitoring with inspections

started one scheduled onsite inspection (at present it is suspended) and two unscheduled onsite inspections, and conducted 42 offsite inspections. Furthermore, the NBU conducted 38 scheduled onsite inspections of structural units of nonbank financial institutions for compliance with procedures for organizing and conducting foreign exchange transactions.

on compliance with currency and sanctions laws, as well as implemented a single standard for inspecting banks and nonbank institutions.

²² One of them was suspended in accordance with NBU Board Resolution No. 34 dated 18 March 2020 On Suspension of Bank Onsite Inspections (as amended).

²³ Including two inspections started in 2020.

State of Nonbank Financial Services Market

The active development of nonbank financial services has been a notable trend on the global financial markets for the past two decades. Thanks to the technological developments, the globalization of finance, and regulatory flexibility, nonbank financial services quickly gained a significant market share, especially in developed countries. The Ukrainian financial sector, on the other hand, remains bank-centric: the share of nonbank financial institutions in the financial sector's assets remained moderate and then declined in 2020 due to slightly lower growth rates compared to banks.

The assets of nonbank financial institutions in Ukraine had been growing rapidly for a long time, and new companies entered the market. This

was foreshadowed by shortcomings in the legislation and a lack of institutional capacity of the former regulator, the National Commission for State Regulation of Financial Services Markets. The relative softness and obsolescence of regulation and supervision led to a build-up of risks and a decrease in the sector's transparency. Nonbank institutions were also sometimes used to redistribute funds among business groups, and for tax evasion purposes. In July 2020, the Split Reform was implemented, which effectively split the regulation of the nonbank financial market between two regulators. The reform aims to boost the transparency of the sector, eliminate potential regulatory arbitrage, and create a system of proportional regulation of the nonbank market.

Main Ownership Structure Issues of Nonbank Financial Institutions

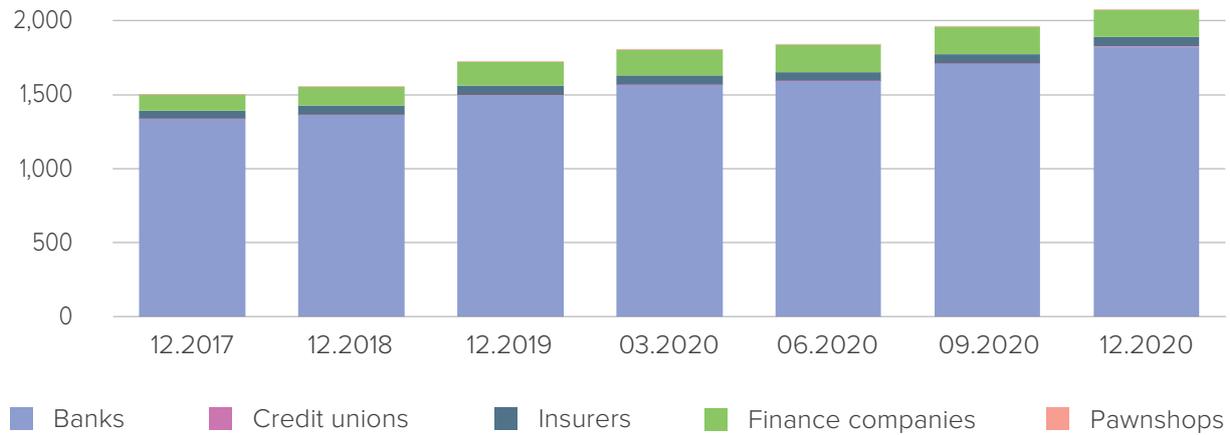
A preliminary assessment shows that the ownership structures of the majority of insurance companies have signs of non-transparency. Other nonbank financial institutions also show signs of having opaque ownership structures. The most common ways to hide the ultimate beneficiaries of nonbank financial institutions are:

- “football teams” – a situation where, in order to evade the regulator's approval of the acquisition of a qualifying holding, a block of shares (shares in the authorized capital) of a company is distributed among 11 shareholders (participants), none of whom owns a qualifying holding in the company
- nominal owners – a situation in which one or more shareholders (participants) act in the interests and follow the instructions of other persons (the actual owners), who remain undisclosed
- trusts and other similar legal vehicles – which envisage splitting the ownership into nominal and beneficial, with no information disclosed about beneficial owners
- cyclical ownership structures – a situation where the company owns its own shares (shares in the authorized capital), and the actual owner holds a small block of shares (shares in the authorized capital) in the company, but has a decisive influence on the management and operations of the company.

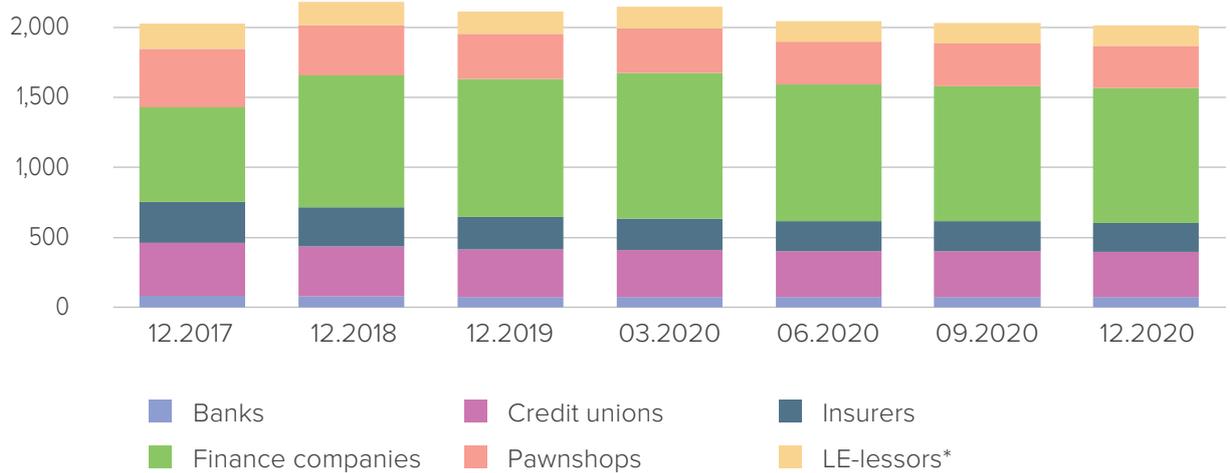
The positive results of the reform will be fully realized in the long run. Inactive participants are gradually leaving the market. A number of companies voluntarily surrendered their licenses for some types of financial services. Also, companies with licenses revoked earlier have been excluded from the State Register of Financial Institutions. This trend may continue due to a significant number of companies being inactive or not prepared to comply with prudential requirements and disclose their ownership structure. In some sectors, for example in the insurance sector, total assets decreased as companies exited the market.

At the same time, the trends for nonbank financial services in 2020 were largely determined by the coronavirus crisis, which had an uneven impact on market participants. In particular, the growth in assets slowed significantly, while for some financial institutions it did not resume until the end of the year. The mixed dynamics of nonbank financial institutions' assets determine the structure and trends of the sector. Finance companies currently have the largest assets among nonbank financial institutions. Finance companies account for a total of 72% of the assets held by NBU-regulated nonbank financial institutions. The second largest segment is that of insurance companies. Other nonbank financial institutions hold as little as 2.4% of assets.

Assets of financial institutions under NBU regulation, UAH billion

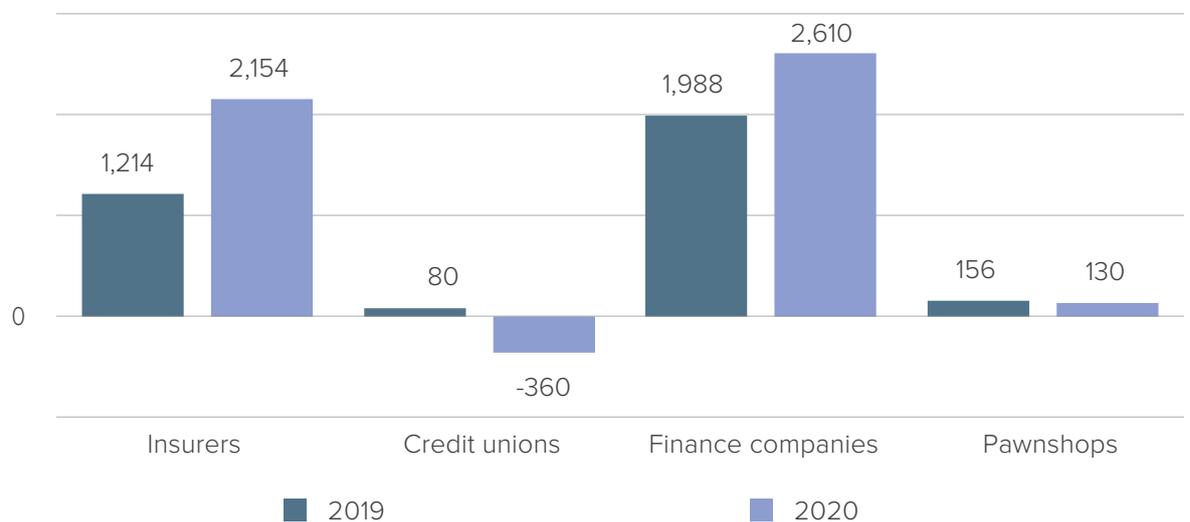


Number of financial service providers



* Legal-entity lessors do not belong to financial institutions, but financial leasing services are regulated by the NBU.

Net profit or loss for the year, UAH million



Insurers

Insurance penetration is extremely low in Ukraine compared to other European countries. The small share of life insurance is another important feature of the Ukrainian financial sector. Premiums for this type of insurance account for around 10% of total premiums, and slightly more than 0.1% of GDP.

Following a decrease caused by the coronavirus crisis, gross insurance premiums for nonlife and life insurance are gradually returning to pre-crisis levels. The insurers' loss ratio did not change significantly during the year (not taking into account the heavy provisioning in aviation insurance), and remained at around 40%. The ratio is typically higher for compulsory nonlife insurance, at more than 50%. Domestic reinsurance declined in 2020, while the level of claim settlements under reinsurance contracts increased markedly and even outstripped insurance after a number of insurers left the market.

The operational efficiency of nonlife insurers remains stable but low. The combined ratio

of most insurers now approaches 100%. This high combined ratio is driven by large expenses on running the insurance business, other than the cost of claims settlement and provisioning. Nevertheless, insurers remained profitable throughout the year, and in 2020 showed their best financial performance in the past five years. Return on assets more than doubled compared to 2019.

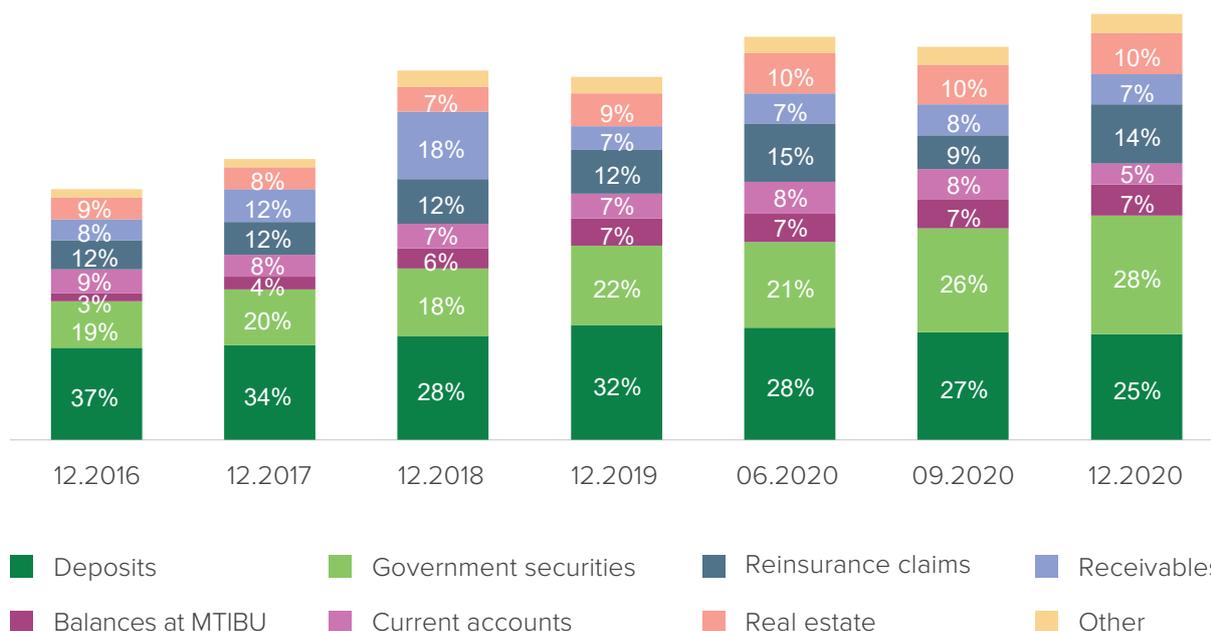
The transition period for insurers to fully comply with the requirements for solvency and capital adequacy ended in 2020. This exacerbated problems at those insurance companies that were in breach of the regulator's requirements in 2020. However, the number of violating companies is gradually declining. A positive development of 2020 was a fall in the share of accounts receivable in assets that cover the solvency requirement for insurers. On top of that, the share of cash, domestic government debt securities, and balances with the Motor (Transport) Insurance Bureau of Ukraine (MTIBU) increased. However, overvalued real estate still accounts for a large share of the assets of mostly small insurers.

Financial result (profit/loss) as a cumulative total, and operating performance indicators of nonlife insurers, UAH billion



* Excluding loss provisions made due to the crash of the Ukraine International Airlines plane in Iran in January 2020 that were released over the year.

Structure of assets eligible to cover provisions of nonlife insurers, UAH billion



Insurance market structure in 2020

Indicator	Quantity		
Number of registered insurers as of 31 December 2020	210		
	Nonlife	Life	Unlicensed
	179	19	12
Number of insurers excluded from the register in July–December 2020	5		
Number of companies denied licenses in July–December 2020	2 – denied ²⁴ 3 – left without consideration		

Credit Unions

The credit union sector was probably hit the hardest by the current crisis, and is recovering slowly. At the beginning of the quarantine, credit unions faced a temporary ban on serving customers at their branches. Although the same ban was imposed on the majority of nonbank financial institutions, they continued to serve their customers online. This was not possible for credit unions, which had a negative impact on both loan volumes and the dynamics of credit unions' assets.

The loan portfolio quality of credit unions deteriorated in 2020. This was due to the lack of instruments to deal with problem debts, in addition to borrowers' lower paying capacity. Like other lenders, credit unions could not impose

finances or penalty interest on individuals for being late on their loan payments. About a fourth of loans were more than 90 days past due – twice as much as in 2019. Loans for business needs, many of which were restructured, performed the worst. Changes in requirements for assessing the quality of loans for credit unions took effect starting March 2020. This led to a significant increase in credit risk provisions, especially in Q4.

Large credit risk losses and high operating expenses made a number of credit unions loss-making. The inability to generate profit and equity leads to violations of regulatory capital requirements by individual credit unions.

²⁴ Insurers already operating in the market that applied for new licenses, not only so-called "new market players."



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



Operational efficiency, UAH billion



Credit union sector structure in 2020

Indicator	Quantity
Number of registered credit unions:	
as of 31 December 2020	322
Number of credit unions that have left the market since the start of the Split Project implementation (1 July 2020)	6
Number of credit unions with valid licenses, including:	248
licenses for both lending and borrowing	175
licenses for only one type of financial services ²⁵	73
Number of credit unions without any valid licenses	74 ²⁶

²⁵ Meaning one of the two types of services: (1) lending, which includes issuing financial loans, or (2) raising financial assets with a commitment to repay them later.

²⁶ Almost all credit unions that fall into this category are located in the temporarily occupied territory of the Autonomous Republic of Crimea and the area of joint forces operations.

Finance Companies

The assets of finance companies grew in 2020. A significant decline in lending volumes in Q2 was offset by growth in factoring transactions. Factoring, a large part of which is the purchase and sale of problem debts from banks, became more popular during the coronavirus crisis. Banks sold more problem loans, cleaning up their balance sheets.

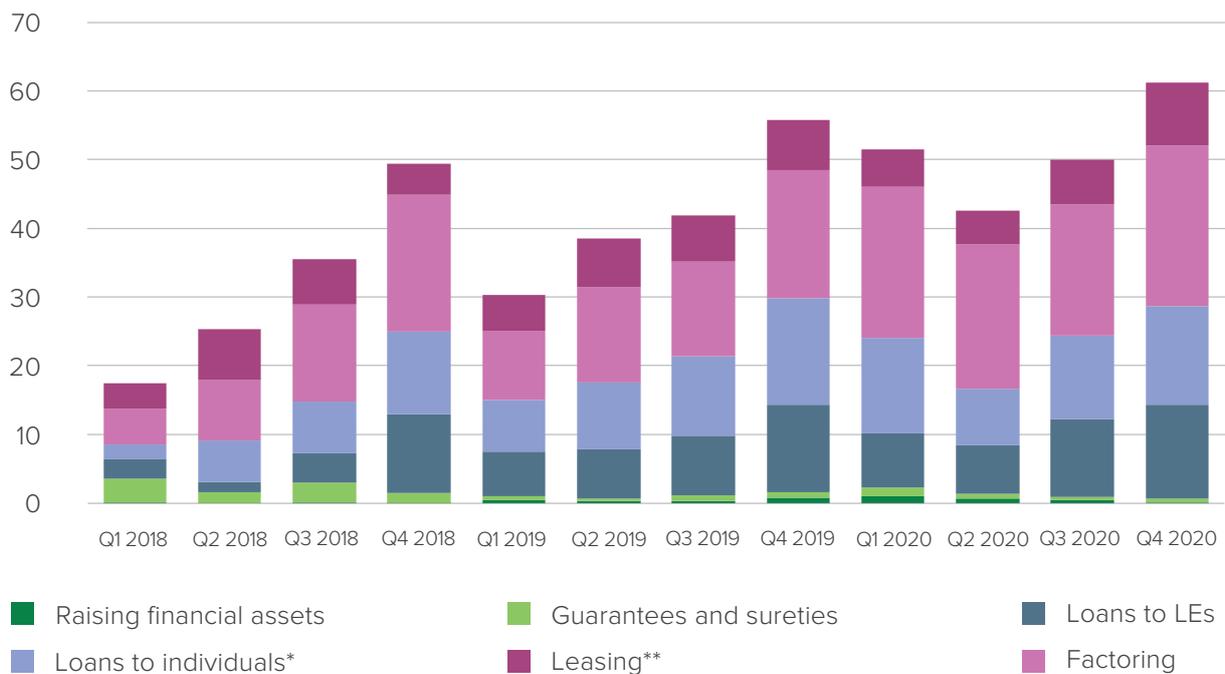
Lending fully recovered at the end of the year. Financial leasing recovered along with lending. However, finance companies generate only one tenth of total financial leasing volumes. The rest of the market consists of legal entity lessors that do not belong to financial institutions.

The loan portfolios of finance companies contain a large share of loans to corporate borrowers, which

mainly reflects the redistribution of cash within groups under joint control. At the same time, classic retail finance companies engaged in lending are also present in the market, with a large share of their new loans issued to households. These loans are largely short-term, but mostly blank, thus carrying high risk. The risks, however, are offset by high interest rates. Financial institutions are keeping rates fairly high, despite the increased competition in the sector.

In general, in 2020 quarantine restrictions had a major impact on finance companies. In early 2020, they reported losses, following more than two years of profitability. Nevertheless, the total financial result for the year was already higher than in the previous year, and profitability ratios improved.

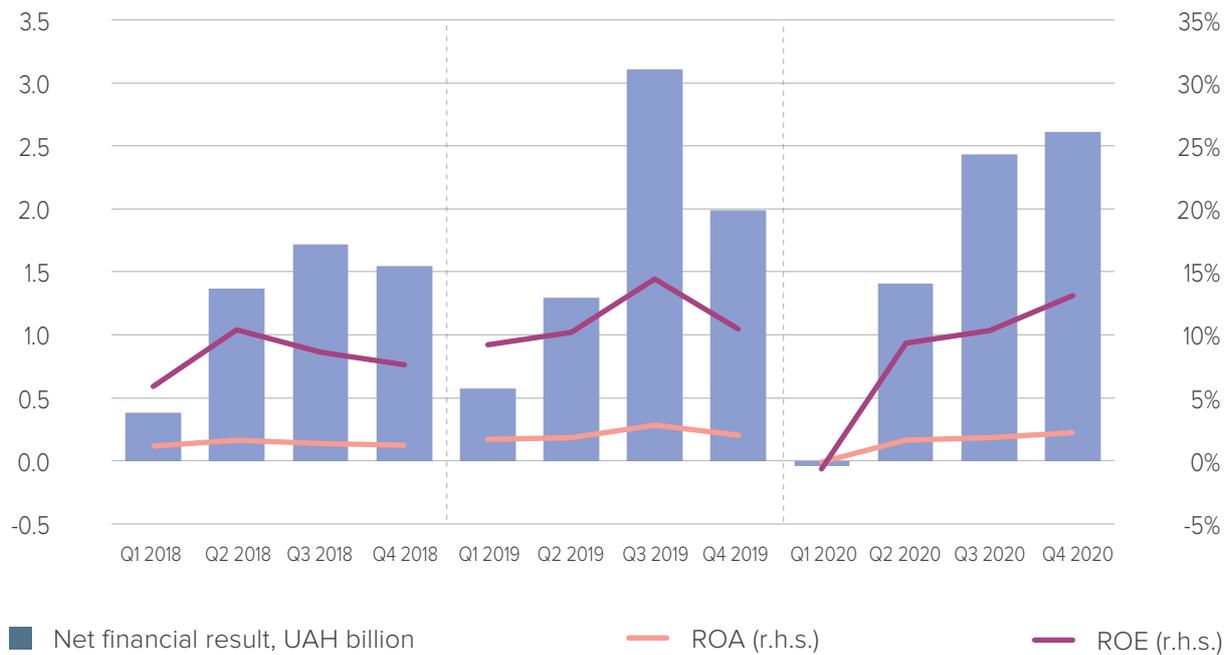
Financial services provided by finance companies and legal entity lessors, by type of service (quarterly data), UAH billion



* Including sole proprietors.

** Legal entity lessors and leasing companies.

Financial result (cumulative total) and profitability ratios of finance companies

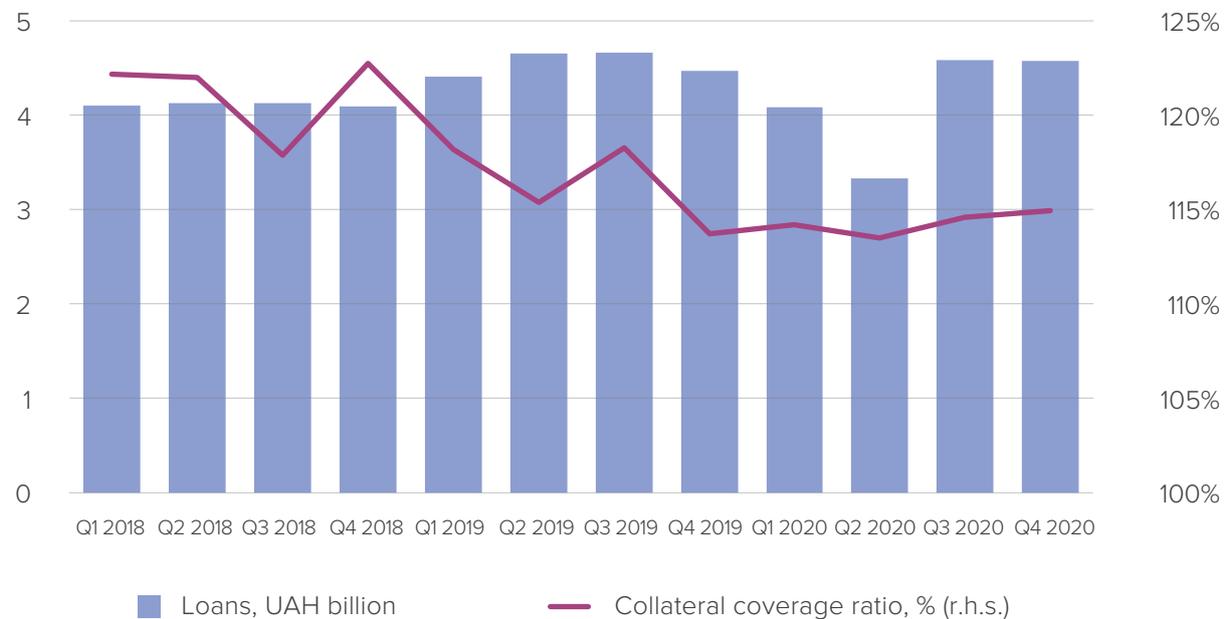


Pawnshops

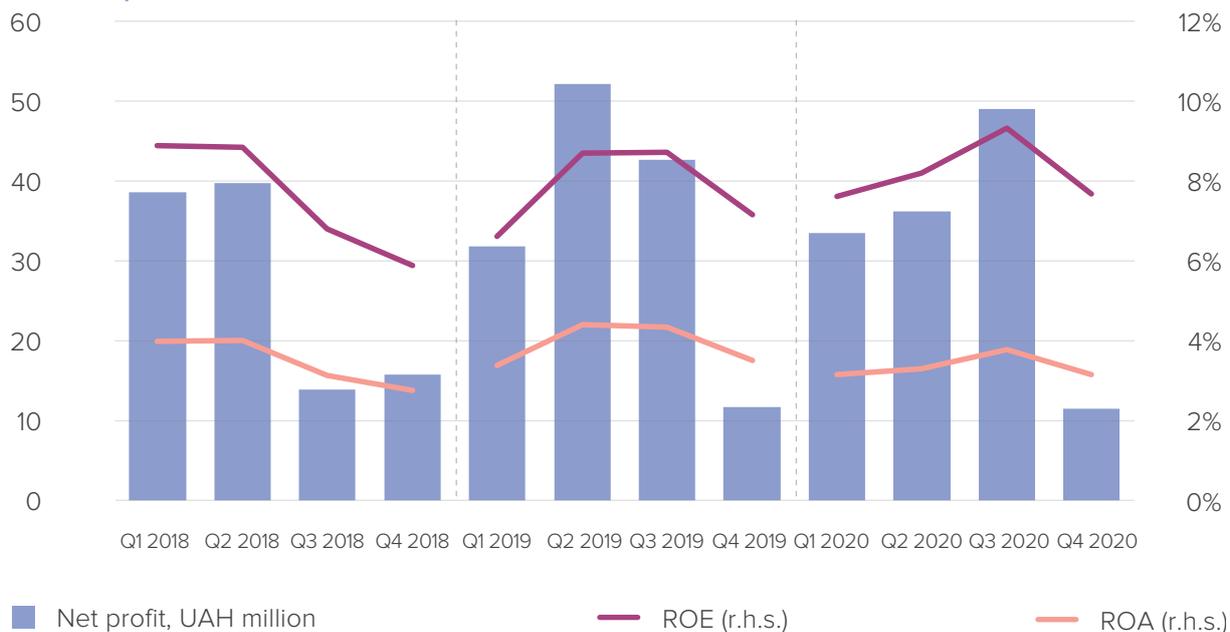
Pawnshop lending also slowed during the year due to the coronavirus crisis, especially in Q2. Pawnshops' performance recovered at the end of the year, and they remained profitable.

Their main regular source of income was accrued interest on issued loans. Loan parameters also did not change much during the year: the average loan was almost UAH 1,700, and collateral coverage was close to 115%.

Loans issued during the quarter, and collateral coverage



Financial performance indicators



Market structure of finance companies, pawnshops, and legal entity lessors in 2020

Indicator	Quantity		
	finance companies	pawnshops	legal entity lessors
Number of registered companies (as of 31 December 2020)	960 ²⁷	302	146
Number of newly registered providers of financial services		16	
Number of institutions that received new licenses in July–December 2020		26	
Number of financial service providers excluded from the register		40	

²⁷ Excluding financial companies that manage construction financing funds, which are supervised by the National Securities and Stock Market Commission.

Regulation of Nonbank Financial Services Market

The first year following the Split is a transition period, during which the NBU is laying the foundations of the new form of regulation of the nonbank financial services market. The main aim of the new form of regulation is to create favorable conditions for the stable development of the market, as well as its transparency and openness. It also aims to provide equal access to financial services, solve its existing systemic problems, and protect the rights and interests of customers.

This involves making efforts in two directions: updating the legislation, and the NBU's regulations.

In 2020, we prepared proposals for draft laws that will regulate general issues in providing financial services and the activity of finance companies, insurers, and credit unions. This includes new wording of the Laws of Ukraine *On Insurance*, *On Credit Unions*, and *On Financial Services and Finance Companies*.

The approach to regulation and supervision proposed in the draft laws comply with the EU-Ukraine Association Agreement, and take into account the provisions of a number of EU directives – namely Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), and Directive 2016/97 on insurance distribution. Moreover, the draft laws have been drawn up so as to take into account the provisions of the Model Law for Credit Unions, developed by the World Council of Credit Unions (WOCCU). When preparing the draft laws, the NBU analyzed global practices of nonbank financial institution regulation and supervision, as well as materials of the World Bank, the EU's Strengthening the Regulation and Supervision of the Nonbank Financial Market (EU-FINREG) project, and USAID's Credit for Agricultural Producers (CAP) and Financial Sector Transformation projects.

The new wording of the draft law on financial services and finance companies is mainly aimed at tightening the requirements for protecting consumer rights and ensuring good-faith market conduct, ensuring the transparency of ownership structure, and setting requirements for high-quality corporate governance and a risk-based approach to supervision, depending on a company's risk profile.

The main changes in the insurance law are related to introducing a new regulation and supervision model for the insurance market. This concerns improving requirements for licensing insurers, assessing their solvency and liquidity, the requirements for an efficient governance system, and applying risk-based prudential supervision and

market conduct supervision. The draft law will also define the procedures for reorganizations, the resumption of activities, the withdrawal of insurers from the market, and the transfer of insurance portfolios. An important point is the establishment of new requirements for other participants in the insurance market, namely insurance intermediaries. Today the terms of their activity and requirements, and responsibility for noncompliance with these terms, are insufficiently regulated. However, for consumers of insurance services it is the level of professional aptitude of insurance intermediaries that is most important.

The draft law on credit unions is meant to expand the opportunities and prospects for the development of credit unions, as well as update requirements for their regulation and supervision. This is necessary to create the conditions for a stable, efficient, competitive, and transparent market of credit unions, and to better protect the rights of credit union members. The draft law proposes to expand the list of services that credit unions can provide to their members, and widen the circle of their eligible members. Moreover, it will allow licensing and corporate governance requirements to be improved, and establish the procedure for a credit union to withdraw from the market. The changes will help improve credit unions' capitalization and stress resilience, and strengthen the sector's reliability and trustworthiness.

While working on these legislative amendments, we are also developing new NBU regulations.

In H2 2020, the NBU developed and announced to the market nine regulatory acts in the domain of regulating the operations of nonbank financial institutions. These are documents that cover the most important aspects of the regulation and supervision of nonbank financial services. They include documents on licensing, the disclosure of ownership structures, reporting, off-site supervision, inspections, risk assessments, the application of corrective measures, and so on. In addition to regulatory acts, the NBU has developed other acts that are not considered regulatory, but are important for the effective functioning of nonbank financial services markets.

The NBU has already finalized a number of documents based on the results of public discussion, and the NBU Board has passed the relevant resolutions.

First, the central bank has identified the criteria for assessing the risk level and social importance of market participants, which will determine

the frequency of scheduled inspections. This was adopted under NBU Board Resolution No. 157, dated 11 December 2020. The document will allow supervision to be focused primarily on nonbank financial institutions that have high social importance and critical risk levels.

Second, the NBU approved the procedure for off-site supervision of nonbank market participants. This was adopted under NBU Board Resolution No. 169, dated 28 December 2020. The document will allow the NBU to effectively and in a timely manner receive up-to-date information about the market, prevent violations, communicate with market participants in a timely manner, and guarantee that the rights and interests of market participants are respected.

Third, NBU Resolution No. 162, dated 21 December 2020, approved the procedure for certifying provisional administrators of nonbank financial institutions. This document will mean that only those persons who have high professional and moral qualities, an impeccable business reputation, an economic or legal education, and the experience necessary to perform the required functions will be engaged as provisional administrators.

Fourth, the NBU has developed a number of regulations that lay down the rules for applying corrective measures to nonbank financial institutions. In particular, this refers to two new documents:

- The Regulation On the Application by the National Bank of Ukraine of Corrective Measures in the Area of the State Regulation of Nonbank Financial Services Markets, approved by NBU Board Resolution No. 12, dated 1 February 2021
- The Regulation On Specifics of the Application by the National Bank of Ukraine of Corrective Measures in the Form of Suspending Top Managers from Their Duties of Managing a Financial Institution and Appointing a Provisional Administration, approved by NBU Board Resolution No. 13, dated 2 February 2021.

The regulations on corrective measures envisage a proportional approach to applying corrective measures. In particular, the NBU can use a wide range of corrective measures depending on the nature, circumstances, causes, and consequences of an institution's violations, as well as risks to its depositors and customers. The second of the above regulations defines the specifics of the procedure for applying corrective measures through suspending top managers from their duties and appointing a provisional administrator.

The NBU applies this type of corrective measure only to high-risk institutions – insurers and credit unions. The relevant regulations were approved in January 2021.

Fifth, the NBU has defined the procedure for supervising the activities of credit bureaus. The procedure is set out in NBU Board Resolution No. 171 dated 29 December 2020. The NBU will supervise the activities of credit bureaus through off-site monitoring and the analysis of available information, documents, and written explanations.

In 2020, the NBU adapted to changes caused by the spread of the coronavirus disease COVID-19. Nonbank market players and those planning to enter the market are allowed to submit documents in electronic form by sending them to the NBU's email address. This is laid down in NBU Board Resolution No. 161, dated 21 December 2020.

In addition, in 2020 the NBU published drafts of a number of key documents to be publicly discussed with participants of the nonbank financial services market. To be approved in 2021, the documents cover the following:

- determining the conditions for providing financial services that require a relevant license (licensing conditions)
- arranging, conducting, and recording the results of inspections of nonbank financial services market participants
- requirements for the ownership structure of financial services providers
- mandatory criteria and standards for insurers' capital adequacy and solvency, liquidity, profitability, asset quality, and risk exposure
- declaring void some outdated regulations issued by previous regulators of the nonbank financial services market.

The NBU discusses all documents that regulate the operations of nonbank financial institutions with the market, without exception. The central bank collects and reviews all comments and suggestions made by market participants. Each draft regulatory act is discussed for at least one month.

The NBU is guided by the principles of transparency and partnership. To this end, a section dedicated to the regulation of the nonbank financial services market was added to the NBU's official website. In this section, all market participants can access the current legislation on the regulation and supervision of nonbank financial institutions. Published drafts of documents regarding nonbank financial market participants are also available in this section. The NBU urges nonbank financial institutions to participate in regulatory activities, so as to ensure that the new form of regulation meets the needs of both market participants and financial services customers.



Free Movement of Capital

Development of Capital Market Infrastructure

Currency Liberalization



Development of Capital Market Infrastructure

In 2020, the NBU took an active part in discussing and drafting the Law of Ukraine No. 738–IX *On Amendments to Certain Laws of Ukraine on Streamlining Investment and Implementing New Financial Instruments* (adopted on 19 June 2020). This law made it possible to initiate a number of reforms in the capital market, including:

- eliminating the monopoly of the Settlement Center for Servicing Financial Market Agreements (hereinafter the Settlement Center) over settlements in securities transactions, in line with the delivery versus payment principle, and in order to facilitate competition among market practitioners rendering this service
- transforming the Settlement Center into a nonbank financial institution and ensuring that the composition of shareholders can be changed, in order to facilitate more efficient operations and further develop this institution, in line with market needs and the demand for these services from market practitioners
- creating competition in the clearing services market by ensuring there are equal opportunities for market entry
- ensuring that entities comprising capital market infrastructure can open accounts with the NBU, so as to increase security and reduce the risks to settlements in transactions made in this market
- introducing a liquidation netting procedure to mitigate the risks faced by parties to derivative contracts and deals involving financial instruments and currency valuables, and to make the capital market safer
- establishing a trade repository to ensure that transactions are transparent and to reduce market risks associated with financial derivatives.

During 2020, the NBU depository introduced a number of technological and regulatory developments, including a mechanism for the clearing of FX domestic government debt securities, which allowed the Ministry of Finance to improve the administration of FX repayments on public debt.

The NBU also introduced a new product called the interest rate swap, changed the model of accounting for securities pledged as collateral for NBU loans, and expanded the list of instruments that can be so pledged.

Furthermore, the Settlement Center and the NBU depository in 2020 introduced the controlled-risk repo, a service long-awaited by market practitioners. This opened up new opportunities for making securities transactions with effective risk management by the capital markets infrastructure.

In 2020, the NBU depository continued to cooperate with foreign depositories. In particular, it communicated with the central securities depository Clearstream on introducing additional mechanisms for settling cross-border transactions, and on increasing the list of instruments that can be accounted for within the correspondent relationships between depositories.

In addition, the NBU held a series of talks with representatives of the international central securities depository Euroclear in order to approve the prerequisites for opening an account with the NBU depository. During the talks, the two institutions agreed on further joint steps in this direction.

Currency Liberalization

Guided by the ultimate goal of currency liberalization – the transition to the free movement of capital – the NBU has been simplifying the anti-crisis restrictive measures. The main steps towards currency liberalization are outlined in the Currency Restrictions Abolition Roadmap.

During 2019–2020, the NBU managed to lift some of the anti-crisis measures and ease most of the remaining currency restrictions. In particular, in 2020, the central bank adopted a number of regulations that:

- harmonized its regulatory framework with the changes stipulated in the Law of Ukraine On Preventing and Counteracting the Legalization (Laundering) of the Proceeds of Crime, the Financing of Terrorism, and the Financing of the Proliferation of Weapons of Mass Destruction. In particular, the NBU increased the cap on FX transactions subject to simplified currency regulation and supervision requirements from the equivalent of UAH 150,000 to the equivalent of UAH 400,000
- eased the ban on residents making certain FX transactions in certain foreign jurisdictions (countries on the FATF's gray list)
- allowed nonresident individuals to use their own current accounts in Ukrainian banks to make settlements under life insurance agreements and transactions to sell corporate rights and real estate
- allowed nonresident legal entities to make payments in domestic currency through their accounts in Ukraine when making transactions to sell Ukrainian Eurobonds.

As part of currency liberalization, the NBU in 2020 also simplified the requirements for issuing payment orders when transferring hryvnia funds through correspondent accounts of nonresident banks.

In addition, the regulator improved the conditions for insurance (reinsurance) brokers for making certain currency transactions while conducting their core business. Specifically, the NBU allowed them in certain cases to make these transactions under insurance agreements with nonresident insurers.

Some of the steps the NBU took in 2020 as part of its currency liberalization efforts were as follows:

- It simplified the procedure for the currency supervision of export transactions. This was done in order to facilitate the use of trade financing instruments by exporters, including the use of letters of credit in post-export financing transactions.

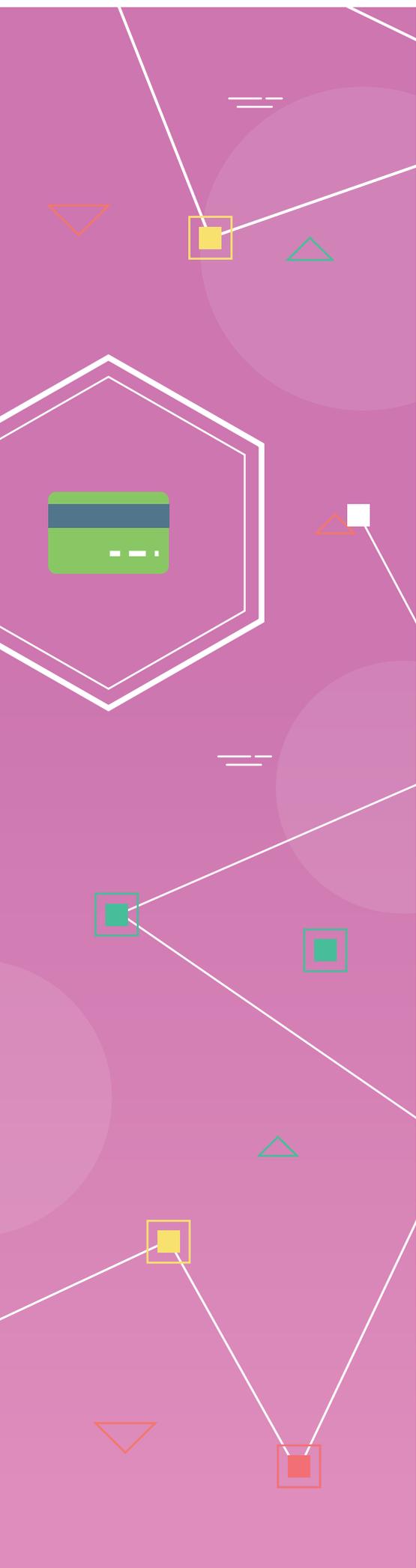
- The regulator harmonized some norms of currency regulation and supervision with the Law of Ukraine On Production Sharing Agreements. Specifically, the NBU identified cases where parties to a production sharing agreement were exempt from the protection measures introduced in the FX market. These exemptions apply to transactions carried out through the accounts of foreign investors in Ukraine under relevant agreements.
- The regulator determined that the payment deadlines set for exports and imports of goods would not apply to goods and services procured in accordance with agreements concluded by the nongovernmental organization National Olympic Committee of Ukraine, pursuant to Order No. 555 of the Cabinet of Ministers of Ukraine, dated 20 May 2020, On Amendments to the Annex to Order No. 76 of the Cabinet of Ministers of Ukraine dated 13 February 2019. This was done in order to ensure the participation of national teams and official delegations of Ukraine in the Olympic Games, Youth Olympic Games, European Games, and other international sporting events.

The steps taken by the NBU within the currency liberalization framework were balanced, did not disturb the equilibrium between supply and demand, and thus did not put pressure on the FX market.

The roadmap for abolishing currency restrictions does not set deadlines for the final cancellation of these restrictions. This cancellation will be carried out only if the macroeconomic preconditions are met.

At the next stage of currency liberalization, the NBU will first assess whether these steps comply with changes in the real sector of the economy and financial markets, including by analyzing macroeconomic indicators such as GDP growth, inflation, the FX market's performance, financial stability, the situation in the foreign markets, etc. In addition, the compliance of these steps with Ukraine's commitments under the Stand-By Arrangement with the IMF will be assessed.

In 2020, in order to support the financial system, the NBU also refilled banks' vaults with FX cash (U.S. dollars and euros) in exchange for noncash foreign currency (U.S. dollars and euros). These actions by the regulator were its response to a shortage of cash in the vaults of Ukrainian banks due to disruptions in air travel caused by the spread of COVID-19. At the same time, the central bank determined that the banks that it had identified as being systemically important could be participants in these transactions.



Financial Inclusion

Payments and Settlements

NBU System of Electronic Payments

PROSTIR National Payment System

NBU BankID System

Central Bank Digital Currency: Feasibility Study (E-hryvnia Project)

Protection of Financial Services Consumers

Improving Financial Literacy

Money Museum of the National Bank of Ukraine



Payments and Settlements

Operation of Money Transfer Systems in Ukraine

In 2020, 37 money transfer systems were operational, including:

- 30 systems established by residents
- 7 systems established by nonresidents.

In 2020, both residents and nonresidents used money transfer systems to conduct the following remittances (total):

- within Ukraine - UAH 255.2 billion (the equivalent of USD 9,489.6 million)
- into Ukraine – the equivalent of USD 2,697.4 million
- abroad – the equivalent of USD 556.2 million.

Volumes of transfers via money transfer systems, USD million (currency equivalent)



Operation of Money Transfer Systems Established by Residents

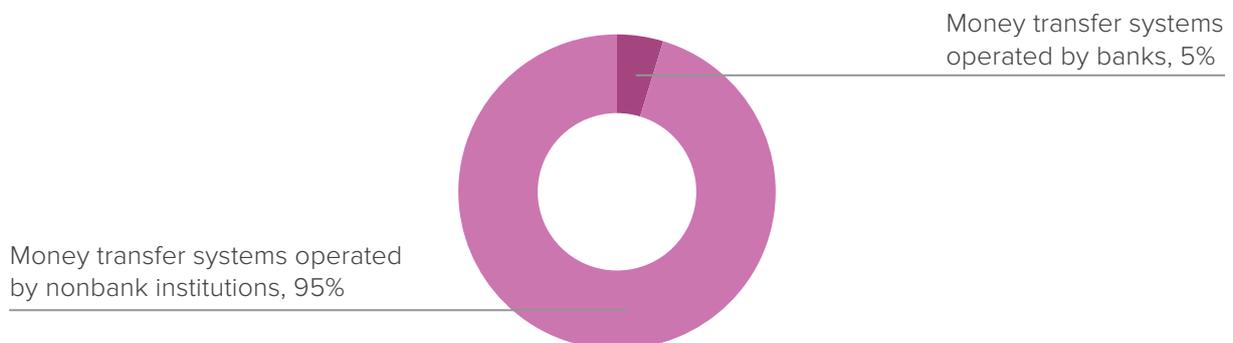
In 2020, the services on funds transfer were provided by:

- 7 systems established by banks
- 15 systems established by nonbank institutions
- 8 interbank transfer systems.

The following amounts were transferred via money transfer systems established by banks and resident nonbank institutions in 2020:

- within Ukraine - UAH 255.1 billion (the equivalent of USD 9,487.3 million)
- into Ukraine – the equivalent of USD 236.2 million
- abroad – the equivalent of USD 13.3 million.

Distribution of transfers via money transfer systems within Ukraine in 2020 (by transfer amount)



In 2020, money transfer systems NovaPay (UAH 118.1 billion) and Poshtovyi Perekaz (UAH 49.0 billion) became the leaders based on the sum of domestic transfers.

Operation of Money Transfer Systems Established by Nonresidents

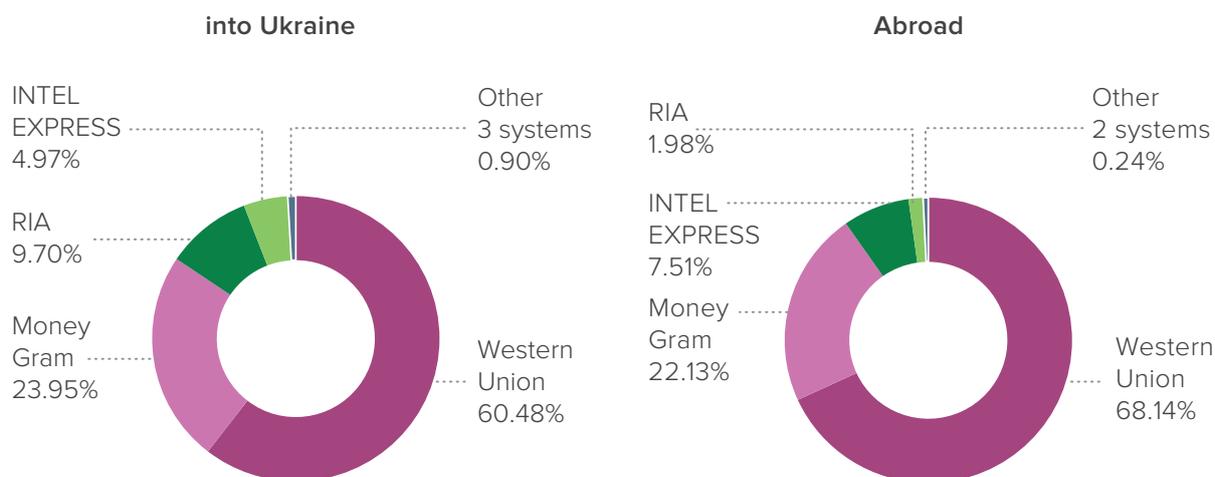
In 2020, seven money transfer systems operated in Ukraine that were established by nonresidents, whereof four are U.S. based, and by one from Georgia, Canada, and Azerbaijan.

In 2020, total volumes of transfers via money transfer systems established by nonresidents were as follows:

- within Ukraine - UAH 62.0 million (equal to USD 2.3 million)
- into Ukraine – the equivalent of USD 2,461.1 million
- abroad – the equivalent of USD 543.0 million.

In 2020, Western Union accounted for the greatest share of transfers both to Ukraine and abroad (55% of cross-border transfers to Ukraine and 67% to foreign destinations).

Distribution of cross-border transfers via nonresident systems (by transfer amount)



Ukraine remains a net recipient of cross-border transfers. In 2020, the amounts received in Ukraine through international money transfer systems exceeded the amounts sent abroad by almost five times.

The largest transfers to Ukraine came from the USA (18%), Italy (13%), and Israel (9%). Last year, the largest transfers from Ukraine were to Russia (30%), Georgia (16%), and Azerbaijan (5%).

Development of the Payment Card Market in Ukraine

Payment Card Transactions

In 2020, payment card transactions continued to increase (both cashless and cash withdrawals).

Transactions on payment cards issued by Ukrainian banks reached 5,997.1 million in number (by 18.6% yoy) and UAH 3,957.3 billion in value (by 10.6% yoy).

Most of these transactions were conducted in the proprietary networks of Ukrainian issuing banks (58.1% in number and 77.2% in value of all card transactions). Nonproprietary bank networks accounted for 38.5% in number and 19.6% in value of card transactions.

Transactions abroad with cards issued by resident banks remained as low as 3.4% in number and 3.3% in value. At the same time, the share of domestic transactions with cards issued by nonresident banks remained as low as 1.2% in number and 1.5% in value.

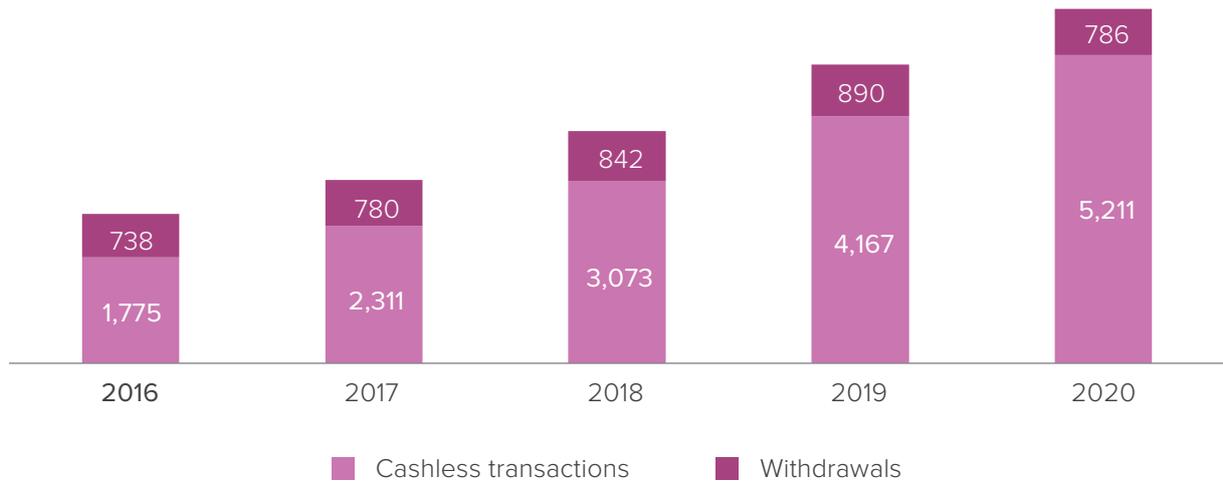
In 2019, in contrast to 2019, the number of cashless transactions with payment cards increased by 25.1% to 5,211.2 million (86.9% of total transactions) and the value – by 22.8% and reached UAH 2,208.7 billion (55.8% of the total value of card transactions).

At the same time, in 2020, in contrast to 2019, the number of cash withdrawals with payment cards increased by 11.7% and the value – by 1.7%.

Half of cashless payment card transactions (49.8%) were performed in retail networks accounting for 26.9% of the value of all cashless transactions. At the same time, over half of these transactions (56.8% – in number, 57.0% – in value) were conducted by means of contactless payment devices and NFC technologies.

Furthermore, 42.8% of the value of cashless payment card transactions were card-to-card transfers and accounted for 12.6%

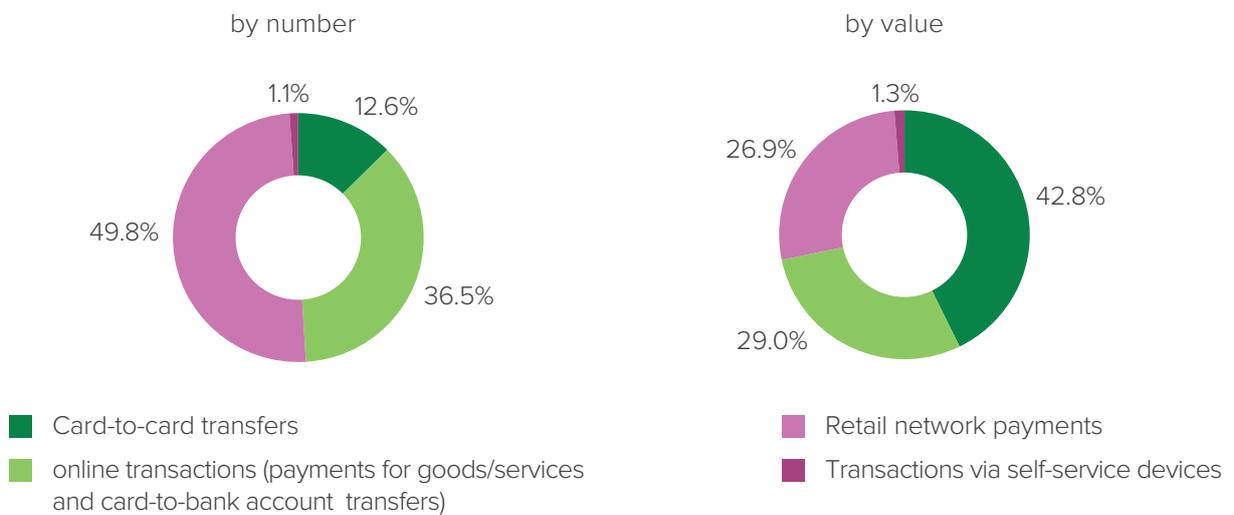
Number of payment card transactions, million



Value of payment card transactions, UAH billion



Cashless card transactions in 2020



Issue and Types of Payment Cards

The number of cards issued by Ukrainian banks as of 1 January 2021 was 73.4 million. This is a 6.6% increase over the previous year. The number of payment cards used for debit operations in December 2020 was 40.4 million (55.1% of issued cards).

The number of contactless payment cards used for transactions grew in 2020²⁸. Their number in December 2020 more than doubled to 13.2 million cards from 7.6 million in January 2020. In general, one-third (32.6%) of payment cards used in December for debit transactions were contactless cards.

As of 1 January 2021, most payment cards were issued in the international payment system MasterCard (47.6 million, or 64.8%). The second and the third place in terms of number of issued

cards were VISA (25.2 million, or 34.3%) and National Payment System PROSTIR (0.6 million, or 0.81%).

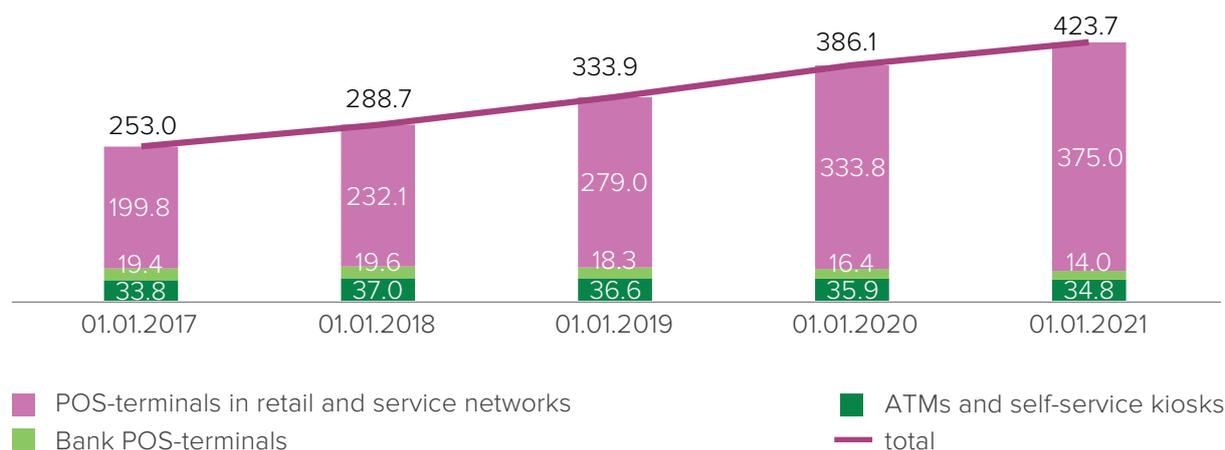
The leaders in issuance of cards were CB PrivatBank JSC (46.8% of all issued cards), Oschadbank JSC (18.4%), and Universal Bank JSC (6.0%).

Payment Infrastructure

In 2020, the payment infrastructure continued to develop. Thus, the number of POS terminals in retail and service networks grew by 12.3% to 375,000 in contrast to 2019, whereof 325,800 (86.9%) were contactless terminals.

In general, the number of POS terminals in retail and service networks in the last five years almost doubled from 199,800 to 375,000. At the same time, the last three years show a gradual annual drop in banking devices (ATMs, self-service kiosks, and POS terminals) from 56,600 to 48,700.

Payment infrastructure, thousands



The number of POS terminals in retail and service networks per 1 million of resident population of Ukraine²⁹ during the year increased from 8,400 to 9,400 (by 11.9%). The distribution of POS terminals by regions remains quite unequal. The top regions are the city of Kyiv (23,400 terminals per 1 million residents), the Kyiv oblast (13,800 terminals), and the Dnipropetrovsk oblast (11,800 terminals). The least number of terminals per 1 million residents is in the Zakarpattia (5,300 terminals), Donetsk (3,900 terminals), and Luhansk (2,400 terminals) oblasts.

The majority of POS terminals were operated by CB PrivatBank JSC (58.4% of all POS terminals), Oschadbank JSC (18.6%), and Raiffeisen Bank Aval JSC (8.7%).

Accepting Cash Payments for Further Transfer

In 2020, cash payments were accepted for further transfer:

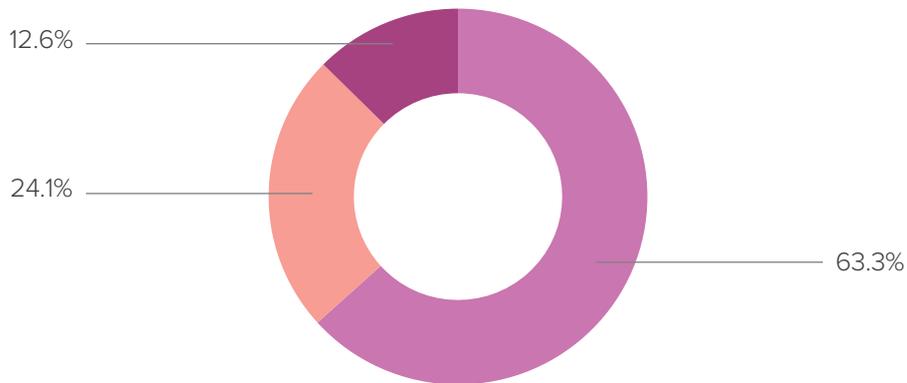
- via payment devices: by 18 nonbank institutions as part of fund transfer systems, 28 banks using proprietary payment devices and 13 agent banks
- via financial service points: by 27 nonbank institutions as part of fund transfer systems and 16 agent banks.

The sum of accepted cash payments for further transfer in 2020 amounted to UAH 665.9 billion. This is a 3.5% increase from the previous year.

²⁸ For active cards, the figures as of 1 January 2021 are compared with the figures of 1 February 2020 due to switching to monthly statistical reporting from the quarterly one after January 2020.

²⁹ Population as of 1 December 2020 according to the State Statistics Service of Ukraine.

Distribution of accepted cash payments for further transfer in 2020 by value



■ At SSK and POS of banks' agents

■ At SSK and POS of nonbank financial service providers

■ At self-service kiosks (SSK) of banks

The greater share of cash payments was accepted by bank payment devices (UAH 421.5 billion, or 63.3%).

and 0.1 million deposit accounts. Over 4 million business entities' accounts are serviced remotely and customers can track account balances and conduct transactions in real time.

Opening Accounts for Clients by Banks

As of 1 January 2021, Ukraine's banks were servicing 64 million customers, including:

- 2.7 million business entities, including 1.7 million sole proprietors
- 61.3 million individuals.

Individuals have opened 119.3 million accounts, including 102.9 million current accounts and 16.4 million deposit accounts. Over 55 million accounts of individuals are serviced remotely.

124.6 million accounts have been opened for bank clients.

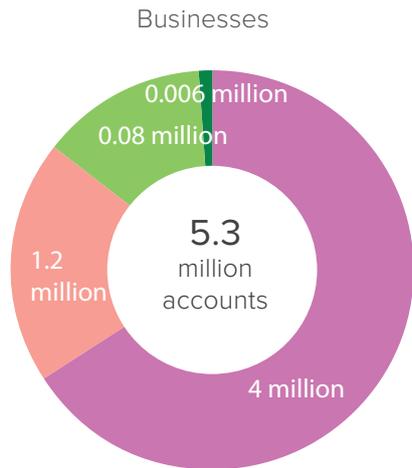
In 2020, a trend was observed of an increase in the number of accounts opened by business entities by 12.8% and accounts of individuals by 4.3%.

5.3 million accounts were opened for business entities, including: 5.2 million current accounts,

Also, as of 1 January 2021, 436 escrow accounts were opened for business entities and 328 such accounts for individuals.

Number of banking customers and accounts as of 1 January 2021



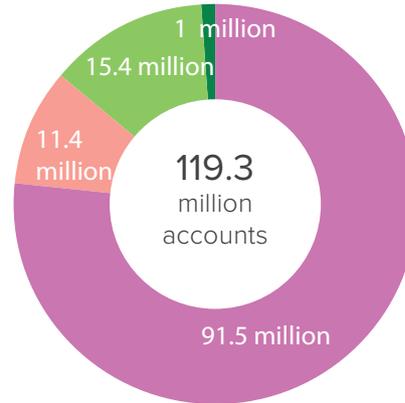


■ Hryvnia current accounts
■ Hryvnia deposit accounts

Deposit accounts
0.1 million

Current accounts
5.2 million

Individuals



■ FX current accounts
■ FX deposit accounts

Deposit accounts
16.4 million

Current accounts
102.9 million

Electronic Money

In 2020, the following banks issued e-money and conducted e-money transactions:

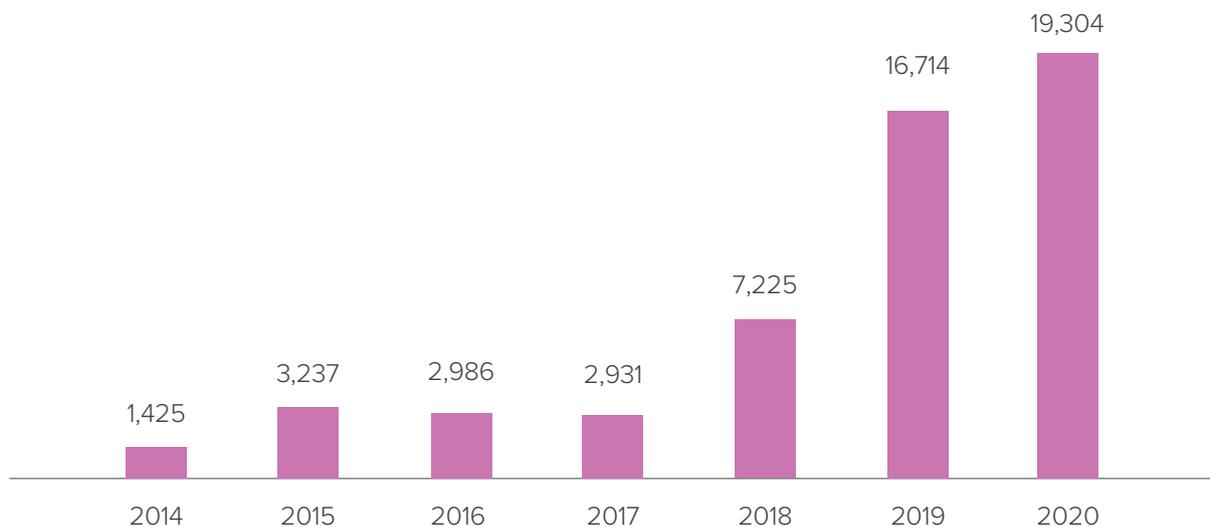
- Maksi (TASCOMBANK JSC)
- XPAY (BANK SICH JSC)
- FORPOST (ALFA-BANK PJSC)
- GlobalMoney (BANK ALLIANCE JSC)
- ELECTRUM (UKRGASBANK JSB)
- ALFA-MONEY (ALFA BANK JSC)
- MasterCard (BANK VOSTOK PJSC, ALFA-BANK PJSC, TASCOMBANK JSC, CB PrivatBank PJSC, FUIB PJSC, CRYSTALBANK JSC, OSCHADBANK JSC)

- Visa (OSCHADBANK JSC, FUIB PJSC, CB PRIVATBANK PJSC, INDUSTRIALBANK JSCB, JSCB CONCORD JSC, MEGABANK JSC, RAIFFEISEN BANK AVAL JSC)
- PROSTIR (UKRGASBANK JSB, ALFA-BANK JSC, UNEX BANK JSC, BANK VOSTOK PJSC).

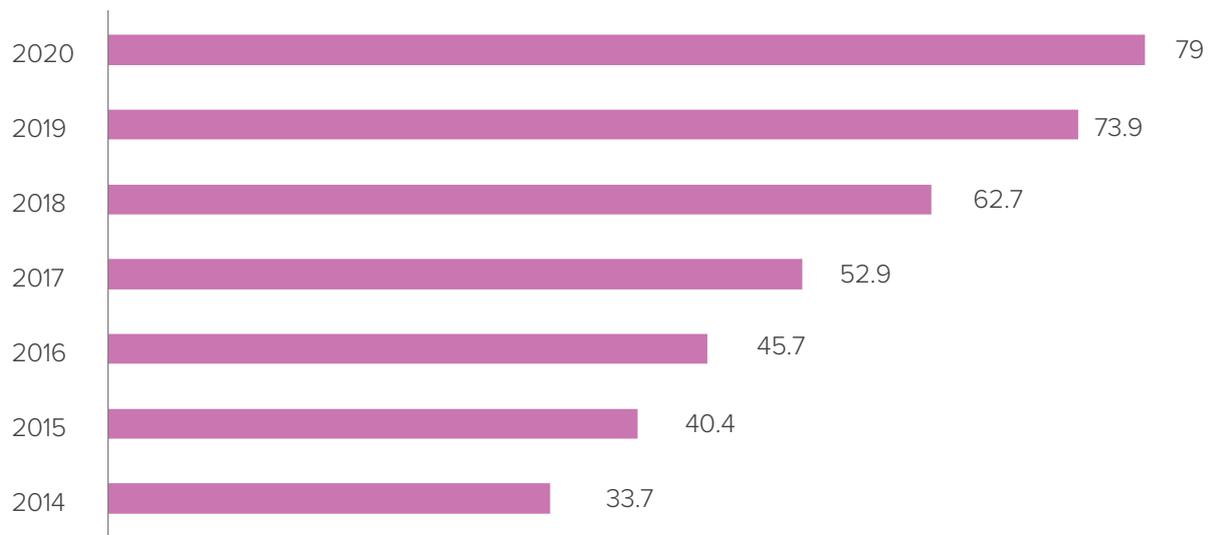
In 2020 compared with 2019, issuing banks increased:

- volumes of transactions with e-money - by UAH 2,590 million (15%), from UAH 16,714 million to UAH 19,304 million
- the number of e-wallets by 5 million (7%), from 74 million to 79 million.

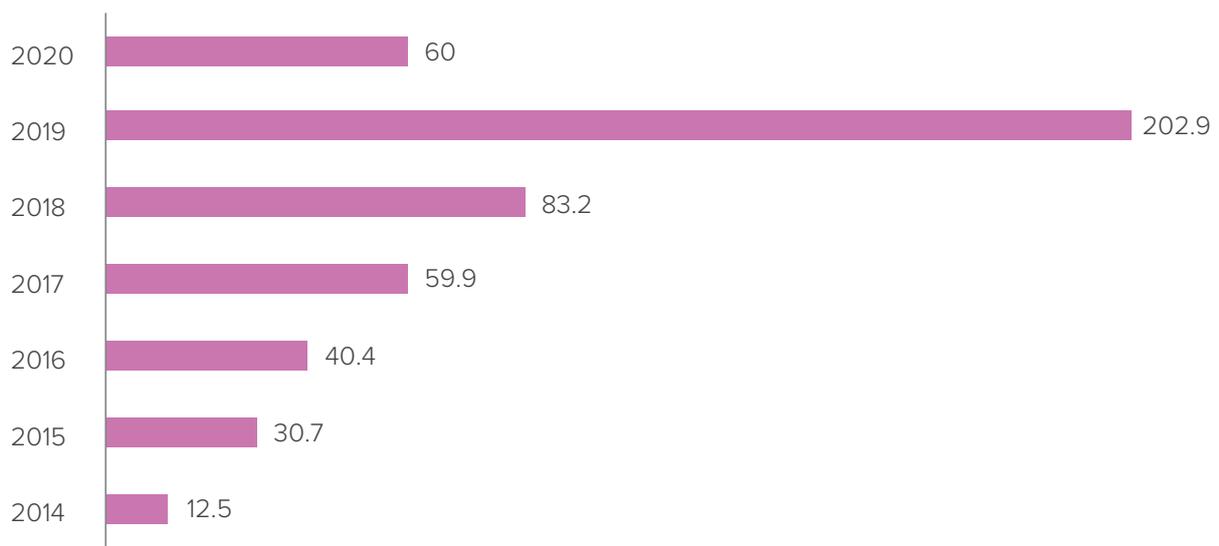
Volume of transactions (UAH million)



Total number of e-wallets (million)



E-money issued (UAH million)



At the same time, e-money issue decreased by almost UAH 143 million (3.4x) from UAH 203 million to UAH 60 million. This was caused by several big market players leaving the market in H2 2020.

In particular, ALFA-BANK PJSC halted its issue of FORPOST and PROSTIR e-money.

At the same time, an analysis of the e-money market for the 2014-2020 period demonstrated that in spite of a decline in 2020 of the volume of e-money issued by banks, the user demand for this product for payment for goods and services in Ukraine is still increasing.

NBU System of Electronic Payments

In 2020, the System of Electronic Payments of the National Bank of Ukraine (the SEP) functioned effectively and reliably, ensuring high security of interbank payments in domestic currency.

In 2020, 385 million initial payments totaling almost UAH 45 trillion were made through the SEP (vs 384 million initial payments for almost UAH 33 trillion in 2019). The number of transactions handled by the SEP grew by 0.4% in comparison with the previous year, and their value grew by 38%.

On an average day, the SEP processed 1.5 million initial payments in the amount of UAH 178 billion.

The average ratio of funds turnover was 218%, some days peaking at more than 750%. The turnover ratio increased by 42%.

In the reporting year, this state-owned banking payment system handled 96% of hryvnia-denominated interbank transfers within Ukraine.

In 2020, the NBU worked to implement the *Development of the Payment Infrastructure of Ukraine Based on ISO 20022* project.

At the beginning of 2020, SEP was completely transferred to use of the international standard ISO 13616 - IBAN bank account number, which was the first stage of the project.

At the second stage, SEP was switched to 23/7 operating mode from 3 August 2020.

To this end, the NBU:

- introduced a new SEP Operating Procedure
- updated the technology to enter and remove from the SEP Participants Directory and technologies mandatory direct debiting and attachment of the bank's funds.

The NBU has been upgrading SEP and working on introducing ISO 20022 into interbank payments, preparing respective project documentation for Sep participants, developing a new-generation prototype (SEP 4).

The priority objective of SEP operation in 2020 was to secure stable performance of interbank settlements amid the Covid-19 pandemic and its effects on the banking system.

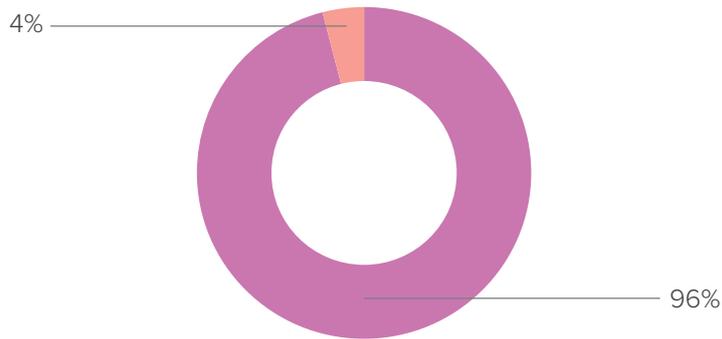
In 2020, the NBU ensured uninterrupted functioning of the SEP. Taking into account the government's decision to support the economy of Ukraine, the following changes were made to the SEP's tariff policy in 2020:

- charges for making payments via the SEP were cancelled for the period of quarantine measures introduced for four months due to the spread of COVID-19
- charges for transferring one-off financial aid to businesses via the SEP in December were cancelled due to enhanced quarantine pursuant to Resolution of the Cabinet of Ministers No. 1233 dated 9 December 2020.

SEP. Facts and Figures 2020

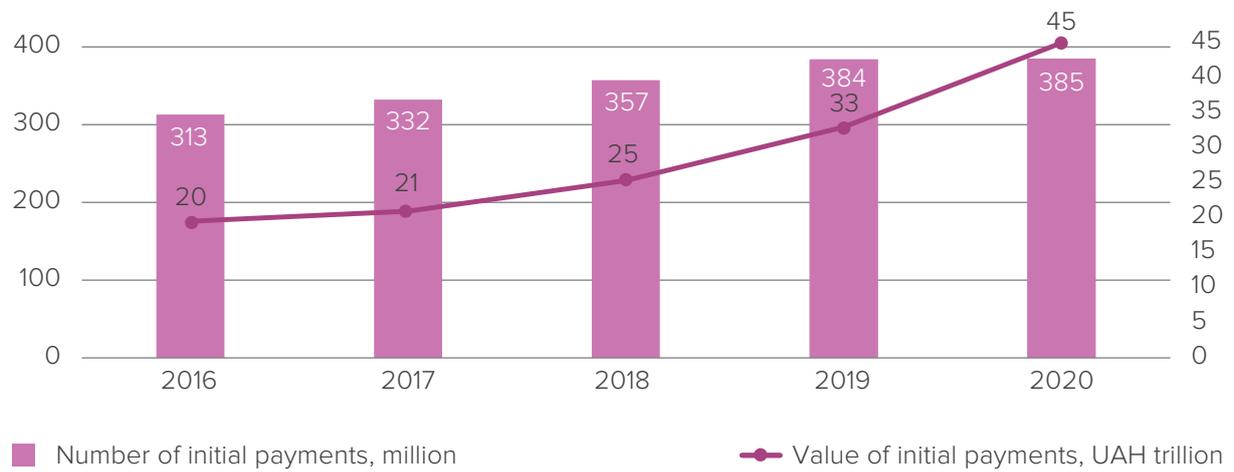
System corporate participants as of 1 January 2021	74 Ukrainian banks the State Treasury Service of Ukraine the National Bank of Ukraine
Number of transactions; Value of transactions	385 million payments; UAH 44,838 billion
Daily average transaction volumes	1.5 million payments; UAH 178 billion
Batch payments	383 million payments; UAH 22,137 billion
Real-time payments	2 million payments; UAH 22,701 billion
Average daily balances on the SEP participants' accounts	UAH 82 billion
Daily average turnover ratio on the accounts of system participants	2.18
Structure of payments (number)	under UAH 1,000 – 49% between UAH 1,000 and UAH 100,000 – 47% over UAH 100,000 – 4%
Structure of payments (value)	under UAH 1,000 – less than 1% between UAH 1,000 and UAH 100,000 – 5% over UAH 100,000 – 95%

Interbank hryvnia transfers through direct correspondent accounts and through the SEP

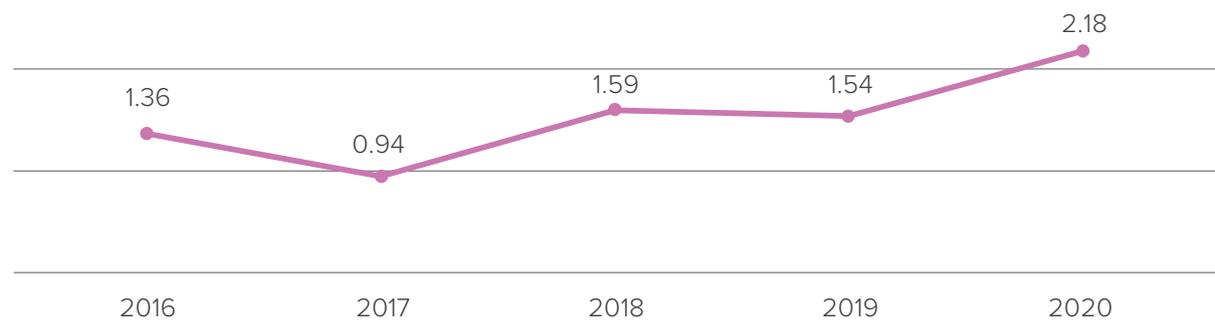


- Banks' correspondent accounts with the NBU, %
- Banks' direct correspondent accounts, %

Value of payments through the SEP



Daily average turnover ratio in the SEP



PROSTIR National Payment System

The development of the National Payment System PROSTIR (hereinafter referred to as the PROSTIR NPS) was one of the goals of the Strategy of Ukrainian Financial Sector Development through 2025 (hereinafter referred to as the Strategy). To attain the Strategy's goals, the NBU in 2020 actively worked with the participants of the Ukrainian payment market regarding their engagement and technical integration with PROSTIR NPS, as well as expanding the payment infrastructure for acceptance of PROSTIR cards.

PROSTIR Participants

In 2020 three banks joined the PROSTIR NPS: UKRSIBBANK JSC, ACCORDBANK PJSC, and A-BANK JSC. As of the end of 2020, the PROSTIR NPS had 54 participants,

including 36 participants performing issue and/or acquiring in the system. In 2020, five new participants joined the system: BANK FOR INVESTMENTS AND SAVINGS PJSC, ACCORDBANK PJSC, OKSI BANK PJSC, IBOX BANK JSC, and UKRPOSHTA JSC.

It is notable that UKRPOSHTA JSC was the first nonbank institution that joined the PROSTIR NPS and performs the acquiring of PROSTIR cards

in its network, which includes over 5,000 payment devices.

PROSTIR Payment Infrastructure

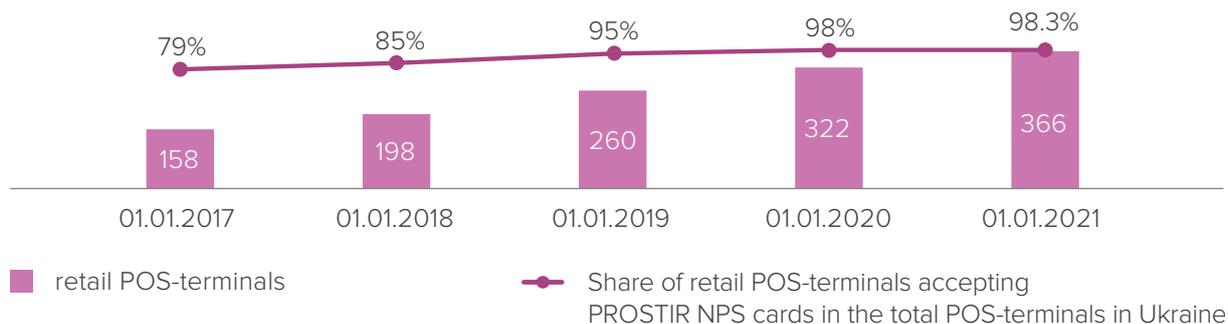
In 2020, the infrastructure of PROSTIR card acceptance grew significantly. Payments using PROSTIR cards may be performed in 366,000 retail POS terminals in Ukraine, accounting for 98.3% of the total number of POS terminals in Ukraine. Also 93% of all electronic commerce merchants accept PROSTIR cards for payments.

It became possible due to connection to the system of POS-terminals of UKRPOSHTA JSC, MEGABANK JSC, and traders who use Internet acquiring services of RAIFFEISEN BANK AVAL JSC, ALFA BANK PJSC, FORWARD BANK PJSC, and JSCB CONCORD PJSC.

Also in 2020, FUIB JSC completed all the required settings of its own POS terminals to accept PROSTIR cards using contactless payment technology. The share of retail POS terminals accepting contactless payments with PROSTIR cards as of the year end was 87%.

As of the end of 2020, 16,500 ATMs serviced PROSTIR NPS payment cards (87.7% of all ATMs in Ukraine).

Retail POS terminals servicing PROSTIR NPS cards (thousand)



PROSTIR Payment Cards and Transactions

As of the end of 2020, a unique product was introduced for the first time on the Ukrainian market – the co-badged PROSTIR-UnionPay International card. The project was implemented due to joint work of the PROSTIR NPS, international payment system UnionPay International, and UKRGASBANK JSB.

The co-badged card combines the technologies and advantages of two payment systems and works abroad according to the rules and in the infrastructure of UnionPay. In Ukraine, it works according to the rules and in the infrastructure of PROSTIR NPS.

Besides, in 2020, two banks more started to issue PROSTIR NPS cards: BANK FOR INVESTMENTS AND SAVINGS PJSC and TRUST CAPITAL BANK JSC. The latter has become the first partner

of POLLY SERVICE LTD in a project of issuing cards with chips and contactless payment technology.

As of the end of 2020, the total number of the PROSTIR payment cards issued by the participating banks was almost 600,000 units, including 58% of active payment cards (or 345,000 units.).

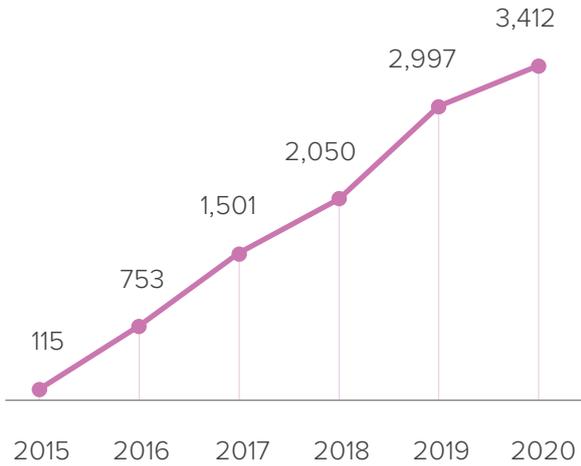
In 2020, the total volume of transactions with PROSTIR cards and electronic money issued by the banks that participate in the system was UAH 29,647 billion (of which 88% were transactions using the PROSTIR payment cards).

It should be noted that the volume of cashless transactions using the PROSTIR cards in 2020 increased almost fourfold, compared with 2019.

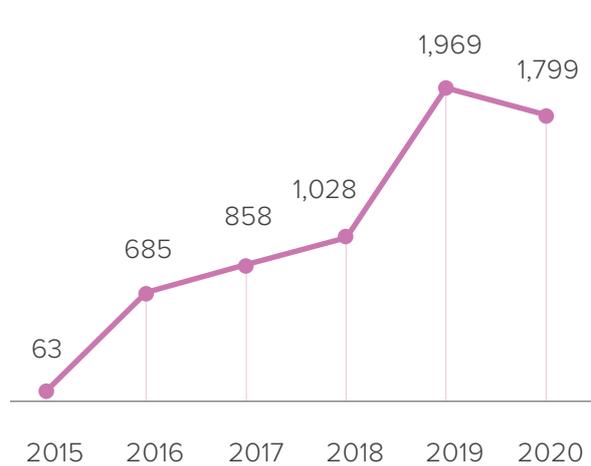
The number of transactions with PROSTIR cards and electronic money was 22,425,000, half of which were performed using PROSTIR cards.

In 2020, 69% of transactions using the PROSTIR cards were performed within the own networks of banks of issue (in 2019: 73%). The number of the interbank transactions processed by the Central Router of the PROSTIR NPS in 2020 was 3,412,000. This is a 14% increase from the previous year. These transactions amounted to UAH 1,799 million (the slight decline from 2019 occurred owing to a drop in transactional activities in April-May 2020 that resulted from the quarantine restrictions in the country).

Interbank transactions by number, thousand



Interbank transactions by value, UAH million



NBU BankID System

BankID System Participants

The NBU BankID System developed actively in 2020.

As of end 2020, the NBU BankID System had:

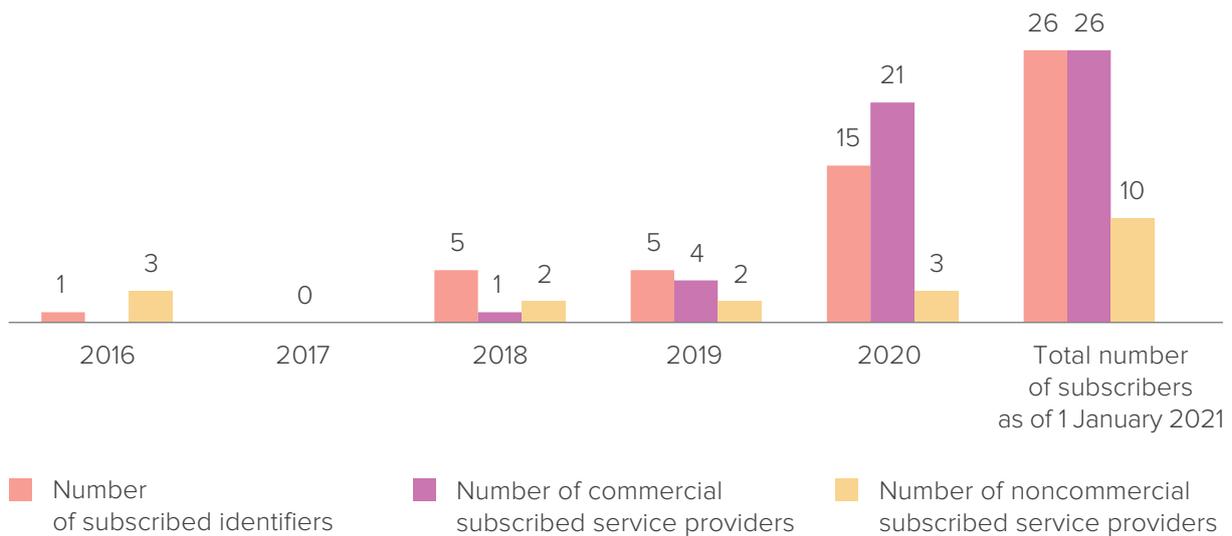
- 26 identifying subscriber (participating banks) – in 2020, 15 new banks joined the system. Online services using NBU BankID are available to 94% of payment card users on the market
- 36 service providers have subscribed. Among them are 21 commercial institutions that joined in 2020. As a result, the list of web sites

broadened substantially on which the users of the NBU BankID System can gain access to banking, financial, administrative (public), and other services.

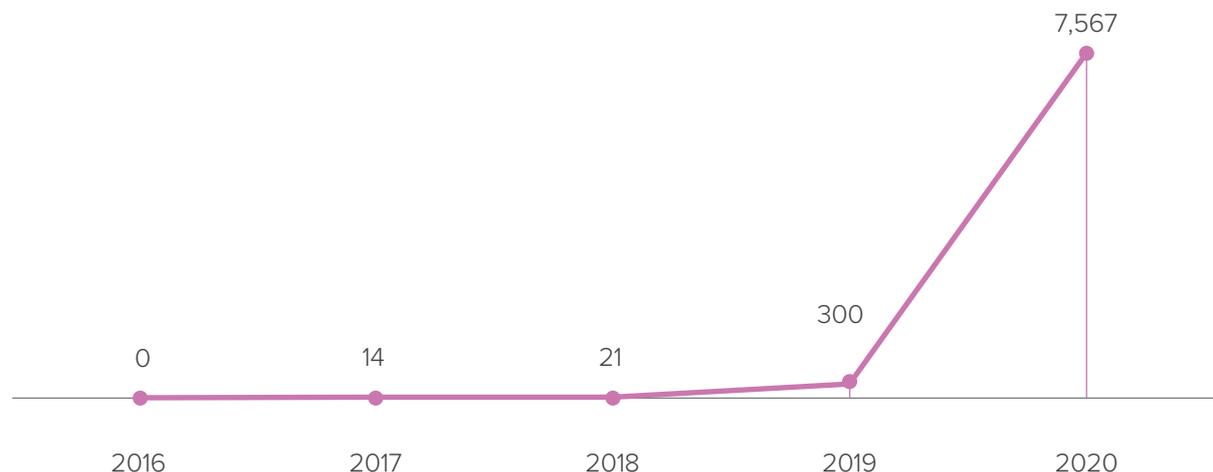
In 2020, the NBU integrated the BankID System into the services of the Ministry of Digital Transformation of Ukraine. In particular, the NBU BankID System is used as one of the main remote user identification instruments in the Diia mobile application.

The number of successful remote identifications in the NBU BankID System increased in 2020 in 25 times and made 7.6 million (in 2019 it was 300,000).

Subscribers joining the system



Number of identifications, thousand units



Commercial Model of the NBU BankID System Use

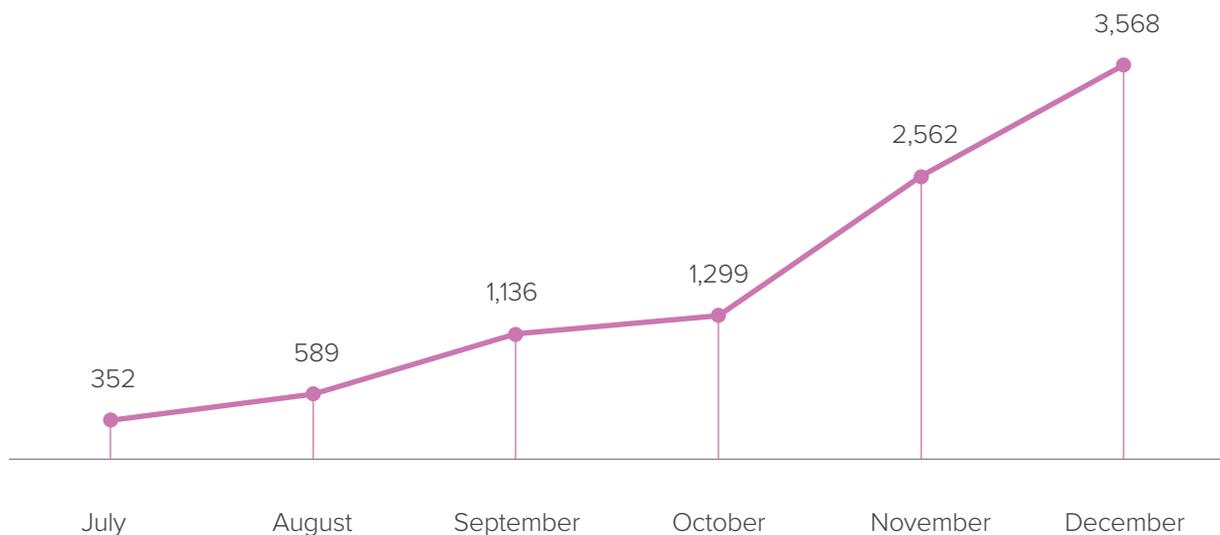
On 1 July 2020, a commercial model of the NBU BankID System was launched. It promoted a significant enlargement of its participants and resulted in additional income for the banks working in the system (identifying subscribers).

The transfer of user identification data to subscriber service providers offering noncommercial services (including

administrative and public) is free of charge. At the same time, payments between subscribers for user identification data transferred by banks to subscriber-service providers offering commercial services are also performed successfully in the NBU BankID System. The NBU is the settlement bank in the BankID System.

In H2 2020, banks earned UAH 9.5 million from the use of the commercial model.

Income of banks in 2020, UAH thousand



BankID System Maintenance and Development

In 2020, the NBU upgraded its BankID System website and adapted a mobile version for smartphone use, including for visually and hearing impaired users.

Also a separate section on the NBU BankID System was launched on the official NBU website. This section contains information on the list of subscribers, documents of the NBU BankID System, the terms and conditions for joining the system, etc.

The introduction of a commercial model of the BankID System became possible due to the development of the NBU BankID System

Management software module. This module automates the monitoring of payments, generation of interbank acts, statistical reports, and reports for settlements.

In 2020, the NBU amended the documents regulating the BankID System operation with the aim of:

- improving the reliability and security of the information transmitted via the system
- enhancing the protection of consumer rights in financial services
- clarifying and standardizing procedures of joining and making payments between the subscribers within the system.

Central Bank Digital Currency: Feasibility Study (E-hryvnia Project)

In 2020, the NBU studied the possibility of issuing its own digital currency. At present, the NBU is focusing on studying the possible spheres of use and potential demand for electronic hryvnia, taking into account the opinion of the financial market participants, consumers, and world practices.

Within the framework of this study, on 21 February 2020, the NBU hosted the Central Bank Digital Currencies: New Opportunities for Payments international conference, which was attended by experts and researchers from 15 countries, including from the World Bank; International Monetary Fund; the central banks of Japan, South Africa, Uruguay, Finland, Lithuania, Canada, and Sweden; and representatives of the financial market (banks and FinTech companies).

The participants of the conference exchanged their knowledge and experience regarding potential introducing of the central bank digital currency (hereinafter referred to as the CBDC) and its place in the financial ecosystem.

At present, the NBU, as with global economic experts, faces many questions as to the area of the digital currency use:

- what are the opportunities, potential,

and prospects of introducing CBDC?

- how could the financial ecosystem change with the introduction of CBDC?
- what business models of CBDC can be utilized? What are their benefits and weaknesses?
- what are the global trends of introduction and regulation of CBDC?

In order to obtain expert opinions on the prospects of e-hryvnia introduction and operation in Ukraine based on six different options of its use (so-called use cases) and differing audiences, the NBU has initiated a survey (questionnaire) of financial market participants.

Also, the NBU started the legislative regulation of e-hryvnia issuance by amending the draft Law of Ukraine On Payment Services to include the definition “digital money of the NBU” and providing for the NBU’s right to its issuance.

Protection of Financial Services Consumers

Effective 19 January 2020, the NBU was vested with powers to protect the rights of financial services consumers under Law of Ukraine No. 122-IX On Amendments to Certain Laws of Ukraine on Protection of Financial Services Consumers dated 20 September 2019.

In 2019, the NBU established the Office for Financial Services Consumer Rights Protection (the Office), which handles customer inquiries, sets consumer protection requirements for financial institutions, monitors compliance with consumer protection laws, and ensures that financial institutions disclose complete information about provided services, conditions, and prices on their websites and in advertisements. The Office is also responsible for supervising compliance by financial services market participants with financial services protection laws, and monitoring the observance of advertising legislation. The Office can carry out such supervision off-site. The Office also has the right to participate in on-site inspections of financial institutions.

In order to protect consumers of financial services, the NBU issued NBU Board Resolution No. 8, dated 16 January 2020, to amend the Rules for Ukrainian Banks for Calculating the Total Cost of Credit for Consumers and Real Annual Interest Rates under Consumer Loan Agreements.

In addition, the NBU set requirements for banks to disclose information about their services on their websites and in advertisements, which took effect on 1 September 2020 after being laid down in NBU Board Resolution No. 141 On Approving the Regulation on Banks Providing Their Customers with Information about Bank and Other Financial Services, which was issued on 28 November 2019.

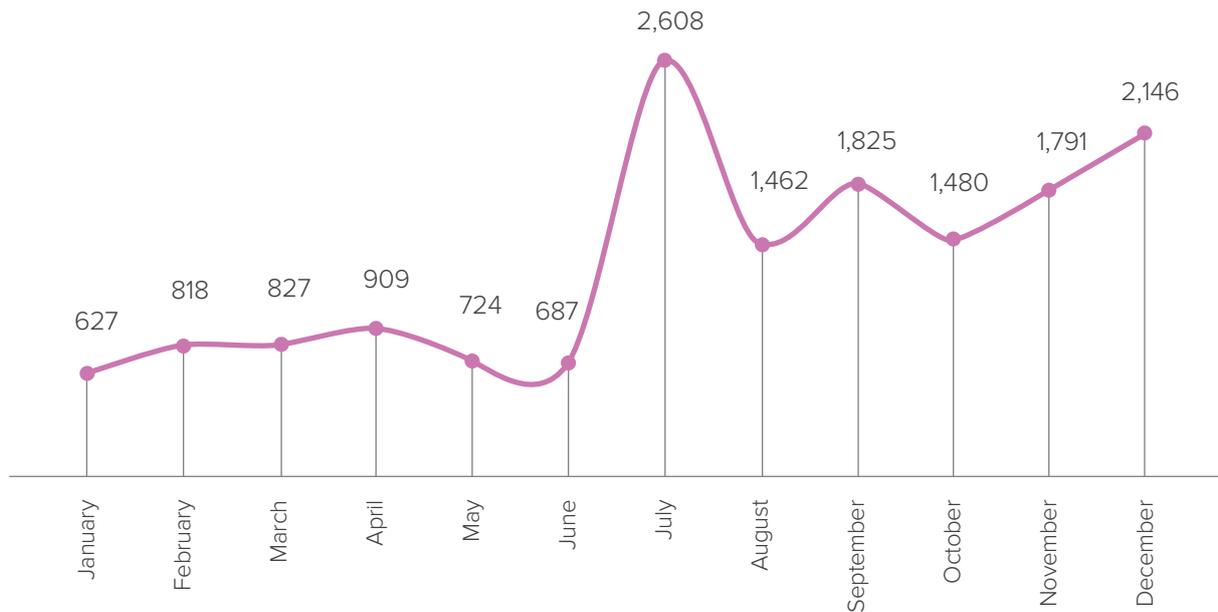
The above regulations require Ukrainian banks to provide consumers with truthful, complete, and understandable information, including complete information about interest earned on deposits and charged on consumer loans. Consumers are also informed about the full interest rate on loans, which includes not only the interest on the loan, but also commissions and other mandatory payments for additional and ancillary services.

The introduction of the requirements for transparency and the protection of the rights of financial services consumers provides Ukrainian consumers with an understanding of the full cost of services and related risks, while also enabling them to compare the services offered by various institutions, and informing their financial decisions. This also reflects growing trust from consumers, and greater involvement of Ukrainians in the financial system.

On 1 July 2020, the National Bank became the regulator of a larger part of the nonbank financial market, in accordance with the Law of Ukraine On Amendments to Certain Laws of Ukraine on Improving Functions of State Regulation of the Financial Services Markets (the “split law”). The Office was empowered to review inquiries and protect the rights of consumers who are receiving or intend to receive services from insurance, leasing, factoring, and microfinance companies, and from pawnshops and credit unions.

In 2020, the Office developed and presented for public discussion a draft of the Rules for Ukrainian Nonbank Financial Institutions for Calculating the Total Cost of Credit for Consumers and Real Annual Interest Rates on Consumer Loan Agreements, which are planned for approval in early 2021. Also in 2020, the Office developed and presented for public discussion the draft resolution of the NBU Board On Approval of the Regulation on Additional Requirements for Financial Services Agreements, which will apply to banks. The adoption of the above resolution is also planned for early 2021.

In 2020, the NBU received and processed more than 15,800 written inquiries from citizens, including 114 requests for access to public information. In some cases, consumers in one written application described violations of their rights by several financial institutions. For example, in more than 500 inquiries, consumers referred to the activities of more than 2,000 financial institutions altogether. This means that the Office actually considered more than 17,000 written inquiries in 2020.



Half of the written inquiries (50.2%) concerned nonbank financial institutions. Bank operations were the subject of 40.2% of written inquiries. Another 9.6% of inquiries concerned liquidated banks and other issues.

The NBU received 6,400 inquiries regarding operating banks, 336 inquiries regarding banks in liquidation, and 1,179 inquiries regarding other issues related to bank activities.

Among nonbank institutions, microfinance companies were the leaders in terms of the number of inquiries: the NBU received 5,808 inquiries regarding their operations. The regulator also received 1,611 inquiries regarding the activities insurance companies, 444 inquiries related to the activities of credit unions, and 126 inquiries concerning the activities of other nonbank financial institutions.

The majority of written inquiries in 2020 came from individuals (15,272). Legal entities submitted 585 inquiries. The NBU also received 47 inquiries from members of parliament in 2020.

The most common issues regarding bank activities in 2020 were: legal relations under loan agreements – 2,690 inquiries, electronic means of payment and settlements – 1,594 inquiries, the quality of service in banks – 946 inquiries, relations under deposit agreements – 391 inquiries. There were 779 inquiries regarding other issues.

The most common issues regarding the activities of nonbank financial institutions were: legal relations under loans issued by microfinance companies – 3,064 inquiries, debt collection – 2,171 inquiries, legal relations under compulsory types of insurance – 1,271 inquiries, legal relations with credit unions – 326 inquiries, legal relations

under voluntary types of insurance – 228 inquiries, handling personal data – 189 inquiries, and 740 inquiries on other issues.

The NBU detected signs of violations in more than 40% of the consumer inquiries. The regulator provided clarifications for most of the inquiries. Issues beyond the NBU's competence accounted for slightly more than 3% of the inquiries.

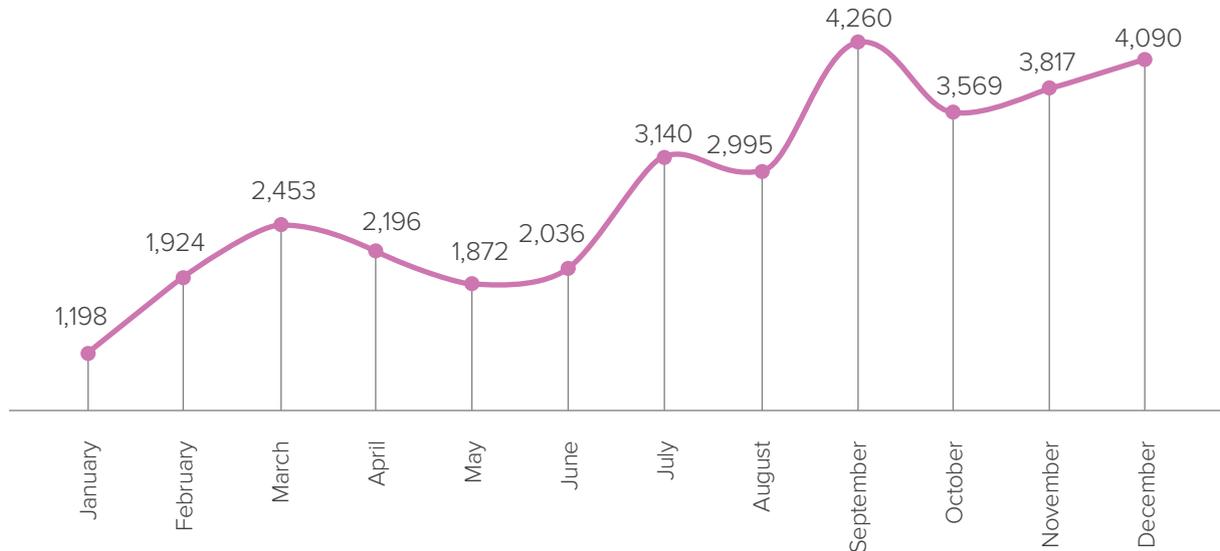
Typical consumer rights violations in 2020 were as follows:

- illegitimately charging interest, commissions, fines, and penalties under loan agreements
- charging interest, fines, and penalties on loans issued to servicepersons, reservists, and persons liable for military service
- violating legislative requirements for notifying consumers about changes in the tariffs for servicing means of electronic payment
- refusing to exchange coins withdrawn from circulation
- violating the rights of consumers who are registered as internally displaced persons
- violating the law regarding the seizure of accounts
- hard-selling financial services
- payment card fraud
- wrongly identifying consumers when issuing online loans
- aggressive behavior and violation of borrowers' rights during debt collection
- violating the rules for processing consumers' personal data and disseminating third party personal data

- issuing contractual conditions that contradict the law
- violating the terms for making a decision on settling insurance claims, etc.

In 2020, the NBU contact center received 33,550 calls. The calls concerned operating banks (8,865 calls), nonbank financial institutions (5,866), banks

in liquidation (2,020), and other issues (16,799). Consumers raised issues related to loans (4,693 calls), the circulation of banknotes and coins (3,054 calls), the status of inquiry reviews (2,985 calls), personal data (2,236 calls), the NBU's work (2,231 calls), and other issues (18,351 calls).



On 24 September 2020, the NBU and the Ukrainian Parliament Commissioner for Human Rights signed a Memorandum of Cooperation (the Memorandum), which is aimed at consolidating the efforts of the Ukrainian Parliament Commissioner for Human Rights and the NBU in order to:

- ensure that those receiving financial services have adequate protection of their right to protection of their personal data when it is processed and disseminated in the course of activities on financial services markets, including the settlement of past due debts and measures to recover the debts of consumers with overdue monetary liabilities
- put an end to the illegal processing and dissemination of consumers' personal data,

prevent violations related to personal data and consumer rights, and hold to account entities that violate the personal data law.

The subjects of the Memorandum include the organization of cooperation, the exchange of information, providing clarifications regarding the protection and processing of personal data, and the coordination of the efforts and joint activities of the NBU and the Ukrainian Parliament Commissioner for Human Rights.

In addition, a dedicated webpage on the protection of financial services consumers was launched on 3 August 2020. It contains useful information and advice for the customers of banks and nonbank financial institutions.

Національний банк України

Монетарна політика | Фінансова стабільність | Нагляд | Платіжні інструменти | Фінансові ринки | Статистика | Гривна | Новини

Національний банк України > Захист прав споживачів

Захист прав споживачів фінпослуг. Що варто знати?

Національний банк України має повноваження на захист прав споживачів фінансових послуг і регулює поведінку банків та небанківських фінансових установ щодо їхніх клієнтів. Спеціальний підрозділ, який цим опікується, – Управління захисту прав споживачів фінансових послуг.

Маємо три основні напрямки роботи у захисті прав споживачів фінансових послуг:

- робота зі зверненнями громадян;
- встановлення вимог до фінансових установ;
- нагляд за дотриманням законодавства про захист прав споживачів фінансових послуг та контроль за дотриманням законодавства про рекламу (в частині реклами у сфері фінансових послуг).

Ваші права порушили: що робити?

- 1 Спочатку звернутися до фінансової установи
- 2 Якщо без результату – звернутися до НБУ
- 3 Якщо – не більше 30 днів

Знай свої права

- Як оформити письмове звернення
- За скільки часу отримаю відповідь
- Як звернутися до контакт-центру
- Як записатися на особистий прийом
- Які звернення НБУ не розглядає
- Як оскаржити дії чи бездіяльність Національного банку
- Як звернутися із запитом на публічну інформацію

Звернутися до Національного банку

0 800 505 240 | nbu@bank.gov.ua

ПОДАТИ ЗВЕРНЕННЯ > ЗАПИСАТИСЯ НА ПРИЙОМ >

Маєте питання?

Споживачам

- Як попередити порушення ваших прав?
- Які є ознаки, що фінансова установа порушує права клієнта?
- Що робити, якщо фінансова установа порушує права?
- Фінансова реклама: "кредит від 0%", але реальна процентна ставка є значно більшою. Чи порушені права?

БІЛЬШЕ >

Корисні матеріали

Для клієнтів банків | Для клієнтів небанківських установ | Діти про роботу зі зверненнями

- Інструкція для споживачів: на що звертати увагу, коли відкриваєте рахунок? [Переглянути](#) [Завантажити](#)
- Інструкція для споживачів: на що звертати увагу, коли берете споживчий кредит? [Переглянути](#) [Завантажити](#)
- Інструкція для споживачів: на що звертати увагу, коли берете кредит на житло? [Переглянути](#) [Завантажити](#)
- Інструкція для споживачів: на що звертати увагу, коли берете кредит на авто? [Переглянути](#) [Завантажити](#)
- Інструкція для споживачів: на що звертати увагу, коли відкриваєте депозит у банку? [Переглянути](#) [Завантажити](#)

The webpage is updated regularly in order to improve the financial literacy of the public. The NBU publishes clarifications about how customers can protect themselves against potential violations by banks or other financial institutions. Quarterly reports on the handling of the customer inquiries processed by the Office are also published on the webpage.

The Useful Materials section contains instructions for consumers that can help them better understand the specifics of financial services.

Consumers can also submit their inquiries online on the webpage on the protection of financial services consumers. This will make it easier for users to submit inquiries and to streamline the process. Both individuals and legal entities can submit inquiries in this way.

Improving Financial Literacy

Improving Financial Literacy

The COVID-19 pandemic challenged the conduction of events aimed at raising financial literacy. The annual global financial communication campaign Global Money Week was cancelled in March 2020 due to quarantine restrictions. Also a number of the NBU projects were cancelled for the same reason, including Financial Inclusion Forum, NBU Informational Days in Regions (Economic Express) and other events.

However, the NBU introduced new formats for remote work and communications. By switching to online mode for events on raising financial literacy of Ukrainians, the efforts of many stakeholders were coordinated and united, the audience of the projects increased, and the activities in different regions of Ukraine enlarged.

Sixth All-Ukrainian Tournament of Young Experts on Financial Literacy

On 28-29 January 2020, the NBU together with the Ministry of Education and Science of Ukraine, SSI Institute of Education Content Modernization, Banking University, USAID Financial Sector Transformation Project, Mastercard, PrivatBank, Deposit Guarantee Fund and other partners held the final of the VI All-Ukrainian Tournament on Financial Literacy among the high school students.

The students competed for the title of the best expert on financial literacy. 26 teams took part in preliminary rounds. 10 teams from 10 regions of Ukraine passed into the tournament final: from Vinnytsia, Volyn, Zakarpattia, Ivano-Frankivsk, Sumy, Ternopil, Kharkiv, Kherson, and Chernivtsy oblasts, and the city of Kyiv.

The participants of the competition demonstrated both financial knowledge and teamwork, as well as debating skills.

The debut team Cherleni Patsiorky (Crimson Necklace) from Nadvirna District Lyceum of the Nadvirna District Council of the Ivano-Frankivsk oblast gained the victory.

Economic Express

The NBU Informational Days in Regions known as the Economic Express in 2020 were held in two cities only (Dnipro and Cherkasy) due to the COVID-19 pandemic.

The partners of the project were the Kyiv School of Economics and USAID Financial Sector Transformation Project.

874 participants took part in the events, including university students and lecturers, schoolchildren and teachers, representatives of media and business community. Besides, it was the first time when within the framework of this event the NBU experts met with the representatives of nonbank financial market.

NBU specialists, including Deputy Governors, in their speeches focused on protection of consumer rights in financial services, financial literacy, central bank functions, monetary policy, and currency liberalization. The NBU in cooperation with the Centre for Excellence in Economic Journalism of the Kyiv School of Economics and Suspilne:UA held master classes for local journalists.

Communication Campaign: Stay at Home – Pay/Buy Online

Since the beginning of quarantine restrictions, the NBU arranged a special communication campaign to help prevent the spreading in the territory of Ukraine of the acute respiratory disease COVID-19.

Within the framework of this communication campaign, eight videos were developed under the slogan Stay at Home - Pay/Buy Online. Their goal was to encourage Ukrainians to stay at home and transfer to a remote banking servicing, using cashless settlements. The NBU informed on establishment of loan repayment holidays and extension of bank card validity terms.

The campaign was successful and covered about 2.5 million Ukrainians. The NBU started to communicate with people in regions due to cooperation with oblast and district state administrations. This communication campaign was also supported by banks, Ministry of Health of Ukraine, opinion leaders. Three videos received a status of a public service announcement from the National Council of Television and Radio Broadcasting of Ukraine and for the first time in the NBU's history were shown on TV.

Communication Campaign #GoodbyeToFraud

In July 2020, the NBU started a large-scale all-Ukrainian campaign on counteracting the payment fraud called #GoodbyeToFraud.

In the period of quarantine and mass transfer to online mode, it was important to secure people from potential fraudulent actions with payment cards. For this, the NBU invited more than 60 partners to join their efforts. Banks, payment systems, law-enforcement bodies, mobile operators, Internet stores, logistics companies, public utility companies joined this communication campaign.

Within the framework of the campaign the Ukrainian Interbank Payment Systems Member Association EMA developed the anti-fraud online game Defeat the Fraudster covering 57 possible scenarios of fraud.

The communication campaign lasted for half a year. The NBU in cooperation with the partners developed a range of educational materials (websites, posters, videos, articles) made available to the population via different communication channels for about 50 million times.

The NBU's educational materials with the rules of payment security for the first time in the central bank's history were placed in entrance halls and trains of the Kyiv Metro, at railway stations, and in interregional trains. The information was also provided on TV, radio, in printed media, social networks, offices of banks and mobile operators, on ATMs and bills for energy, in SMS messages, and on the special microsite of the NBU.

115th Anniversary of the NBU Building

In August 2020, the NBU celebrated the 115th anniversary of its Head Office building. The NBU shot a special video dedicated to this event with the story of the building's construction.

Also, the art train shuttled in Kyiv Metro, adorned with posters with archive and modern photos of the NBU building, inviting to the Instytutska Street walking tour. Aiming at dissemination of information on the history of the Ukrainian central bank, the employees of the NBU Money Museum held excursions attended by 416 persons.

The thematic excursions in the NBU building were organized for the guides from Kyiv and participants of the Child's Inclusive Drawing Competition initiated by the Ukrainian Association of Painters. The aim of the competition was to bring to public notice the problems of inclusive education, promote principles of tolerance and positive attitude to children with special needs. The main topic of the drawings was the historical bank building. The best works of young artists were displayed in September 2020 in the NBU gallery.

Nonbank Financial Institution and Split Law

In June 2020, the NBU started to supervise nonbank financial institutions. Henceforth the active work on public financial literacy covers not only the banks but nonbank institutions too.

The NBU with the assistance of the EU-FinReg Project partner conducted the survey of the public financial literacy regarding nonbank financial institutions (knowledge, conduct, trust to NBFIs). Based on this survey, the NBU placed 45 educational publications regarding insurance, microlending, and other types of financial services at its Facebook page Financial Literacy Ukraine. The main aim of these publications was to inform the public about safe and efficient use of the services provided by nonbank financial institutions.

Series in Collaboration with the Ministry of Digital Transformation of Ukraine

At the beginning of 2020, the NBU started cooperation with the Ministry of Digital Transformation on raising financial and digital literacy of population. Due to this cooperation and with the aid of partners three educational series were presented in 2020 on Diia. Digital Education platform: Digital Money, Friendly Finance, 10 Questions to Financial Coach.

The series are dedicated to bank payment cards, online payments, specific features of loans and deposits, funds accumulation, basic 'financial self-defense', online banking. The series can be also found at platforms Megogo and 1+1 Video

Ukraine Economy Week 2020

On 25-29 May a range of events were held by the NBU, Kyiv School of Economics, and VoxUkraine called Ukraine Economy Week.

They were focused on trends of global labor market and transformation processes in economy triggered by quarantine restrictions and global economic crisis. In the framework of these events public discussions, interviews, lectures, and workshops had place attended by the domestic and international experts in economics.

The NBU also held a three-day lecture course featuring the prominent speakers of the conference Labor Market and Monetary Policy organized by the central banks of Ukraine and Poland. The Ukrainian students had the opportunity to listen to Davide Furceri (IMF), David Berger (Duke University, USA), and Bart Hobijn (Arizona State University, USA). More than 370 attendees of the event represented 76 educational institutions and 18 regions of Ukraine.

The recorded lecture could be found at You Tube channel and at the NBU page in Facebook.

Also during the Ukraine Economy Week the NBU top managers met with the best students of the Ukrainian higher education institutions to discuss the perspectives of career building when facing instability. More than 75 attendees of the event represented 17 educational institutions and 10 regions of Ukraine

NBU University Challenge 2020

In 2020, the NBU organized the second student championship Monetary Policy: NBU University Challenge 2020. The NBU holds this competition to deepen the students' practical understanding

of a monetary policy's role in the development of the Ukrainian economy.

In 2020, the student competition was held online. Over 170 persons from 13 regions of Ukraine and the city of Kyiv took part in the competition.

At the preliminary round 35 teams representing 27 universities prepared their competitive proposals on changes to the key policy rate and improvement of monetary policy design in view of macroeconomic forecasts in Ukraine and globally.

Five teams became the finalists. The team from Vasyl Stefanyk Precarpathian National University won the NBU University Challenge 2020 and the Cup of the NBU Governor.

Money Museum of the National Bank of Ukraine

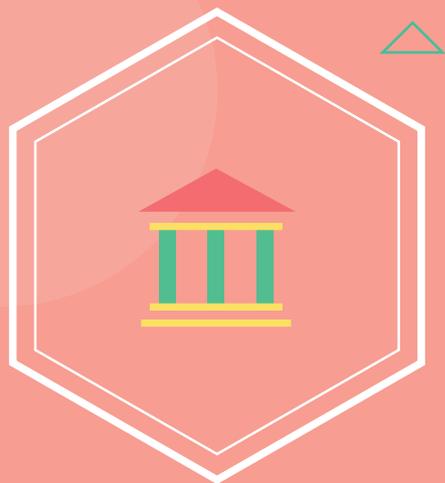
Under the quarantine restrictions, the Money Museum of the National Bank of Ukraine (hereinafter referred to as the Money Museum) held 228 events attended by 2,479 visitors. Most guests of the Money Museum were the young people and schoolchildren, about 61%. Totally, from 2014 almost 35,000 visitors attended the Museum's events.

Due to safety measures, the Money Museum was closed for external visitors from April to December 2020. In summer and autumn the Museum's guides did walking tours in the Institutska street

to celebrate the 115th anniversary of the NBU building.

Nine new guided tours and lectures (including four webinars) were added to the Museum's program in 2020.

In 2020, the Money Museum took part in the Shevchenko in Urban Language exhibition in a partnership with the Taras Shevchenko National Museum. Three exhibits representing the development of banking in Kyiv in the second half of XIX century were presented at the thematic exhibition: calculating machine, abacus, and treasury box.



A Modern, Open, Independent, and Effective Central Bank

Updated Strategic Approach to Drafting the NBU Strategy 2025

Novelty in Project Methodology

Developing Process Management and Process Maturity
at the NBU

Ensuring Cash Circulation

Expert Council for Communication with Innovative Companies
and Projects

Work with Government Authorities and Business Community

Cooperating with International Partners

Communications Management

Managing Human Capital

Improvement of Reporting System. Openness, Transparency,
Data Accessibility

Internal Audit

Research at the NBU

Annual Research Conference on Labor Market
and Monetary Policy



Updated Strategic Approach to Drafting the NBU Strategy until 2025

Back in 2019, the NBU approved the concept of a new strategic approach and decided to do a pilot project in two of its key functions as a central bank.

In line with the updated approach, the NBU in 2020 developed and approved internal legal documents that regulate and implement a new direction of the NBU's strategic development.

This includes:

- the NBU's policy of strategic development and change management (approved by NBU Board Decision No. 106 dated 10 February 2020)
- Regulation On Strategic Analysis at the NBU (approved by NBU Board Decision No. 108 dated 10 February 2020)
- Regulation On Strategic Planning at the NBU (approved by NBU Board Decision No. 107 dated 10 February 2020)
- Regulation On Operational Planning of Strategy Implementation at the NBU (approved by NBU Board Decision No. 270 dated 10 April 2020)
- Regulation On Strategic Monitoring at the NBU (approved by NBU Board Decision No. 231 dated 30 September 2020)

As part of its strategic analysis process, the NBU reviewed:

- global and Ukrainian trends and challenges that serve as the basis for PESTLE analysis
- materials and surveys allowing the central bank to identify and structure the needs of its clients
- Ukrainian financial market sectors subject to the NBU's regulation The NBU drew up strategy documents, including the new NBU Strategy and functional strategies.

Functional strategies itemize the general NBU Strategy through annual strategic plans in specific areas drafted for developing the regulator's products that were identified and detailed in 2020.

In addition, the NBU defined the requirements for the structure and content of strategy documents and approved the format and requirements for strategy documents for use in the work of strategy teams during the development of the new NBU Strategy and functional strategies. Work on the development of these strategic documents will be completed in Q1 2021.

The NBU plans to continue to implement a new strategic approach based on the introduction of customer product logic in the regulator's processes in 2021–2024.

Novelty in Project Methodology

The NBU continued enhancing the effectiveness of project implementation, both for the NBU's internal transformation projects and financial sector development projects. The NBU's Project Office was improving and streamlining its project management methodology and tools.

In 2020, a number of new instruments and approaches were introduced to enhance involvement in projects, arrange promptly monitoring and improve management quality.

In particular, the NBU has launched and tested the automated project management system based on Atlassian products: Jira Software and Confluence Software. The new system allows more accurate project planning and progress control, as well as strengthens resource management and prompt monitoring of project statuses.

Key performance indicators under projects were implemented in the system of the employees' goals and tasks planning and assessment. Each quarter, project managers and officers carefully plan tasks for the next quarter and assess performance for the previous one. This approach has evolved from the resource planning by project phases, which was introduced earlier. It allows

more thoughtful planning and assessment of the project objective and resources.

The central bank established a steering committee in order to manage the program more promptly (Program/project leading team, PLT). Previously, PLT meetings were held to discuss project programs, today they cover the whole projects portfolio. PLT comprises key participants in the projects and is headed by the projects sponsor. The meetings are held monthly. This makes it possible to respond more quickly to challenges and unresolved issues related to the implementation of the projects, while also making it easier for project participants to interact with each other.

The NBU is also constantly involved in efforts to increase the level of knowledge of its project managers. In 2020, Every two or three months trainings are given on the topics of Project Management Body of Knowledge. Three blocks of advanced project management courses were provided. The PM Club involves staff from business units who implement projects at the central bank. Employees who are not PM Club members, but wish to study project management or plan to become project managers can benefit from a distant learning course on basics of project management.

Developing Process Management and Process Maturity at the NBU

The NBU has been working at raising the processes maturity level. All the NBU's employee are actively engaged in this activity.

The process approach ensures high quality of pursuing the mandate and implementing

the strategy by the NBU. The NBU approved areas for the process management development and ensured efficiency control, aiming at continuous improving the process culture and process management maturity.

Ensuring Cash Circulation

Cash was provided through cash circulation units in the regions, Central Vault, authorized banks, and Ukrainian banks. In 2020, cash circulation units of the Cash Circulation Department (hereinafter referred to as cash circulation units) and the Central Vault transferred UAH 195.7 billion in cash to authorized banks to replenish the NBU's cash stock. The amount was UAH 25.3 billion as much as in 2019 (UAH 170.4 billion).

The authorized banks used the cash to replenish cash resources in their cash desks. At the same time, the authorized banks transferred to the NBU cash resources amounting to UAH 8.4 billion from their cash stocks, of which nearly UAH 7.9 billion

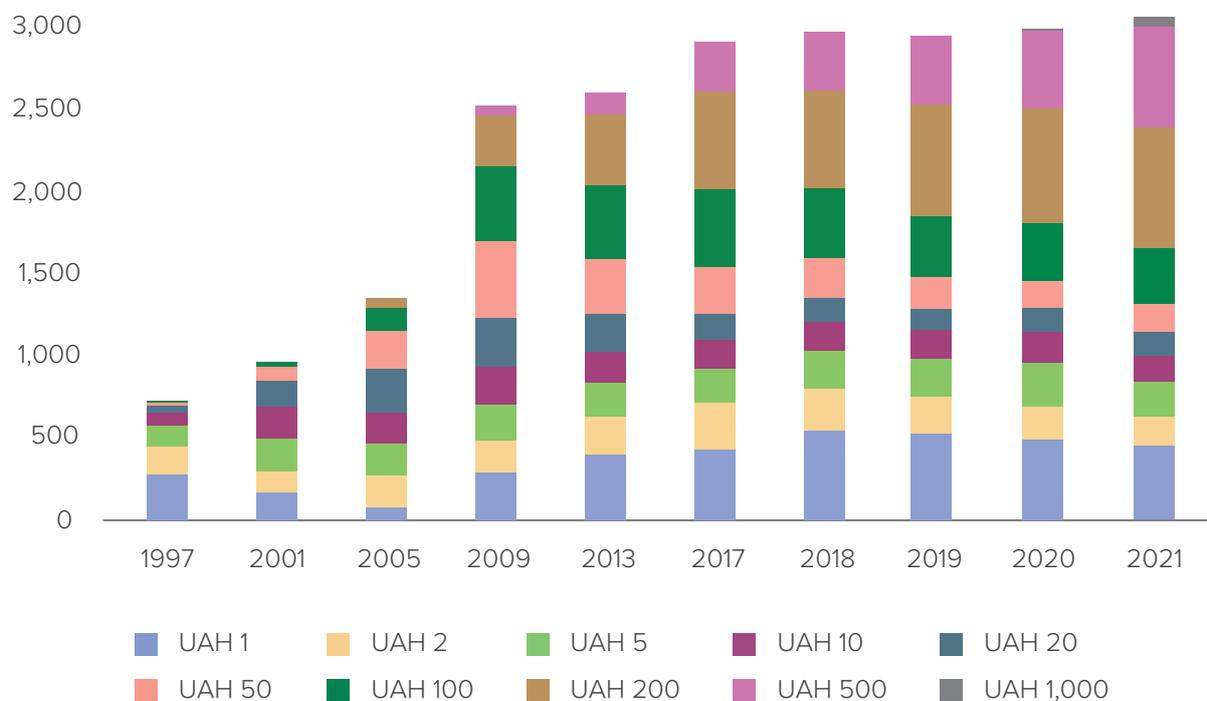
was unfit circulation (in 2019, UAH 18.3 billion and UAH 7.7 billion, respectively).

As of 1 January 2021, Ukraine had UAH 558.5 billion in banknotes and coins in circulation.

In particular, the number of banknotes and coins in circulation was as follows:

- 3.0 billion banknotes worth UAH 555.1 billion
- 13.5 billion small-denomination and circulating coins worth UAH 3.2 billion
- 20.4 million commemorative and bullion worth coins worth UAH 124.1 million.

Number of banknotes in circulation as of the year start, million notes



In 2020, the number of banknotes in circulation increased by 77.2 million (2.6%), while the number of coins increased by 181.9 million (1.4%).

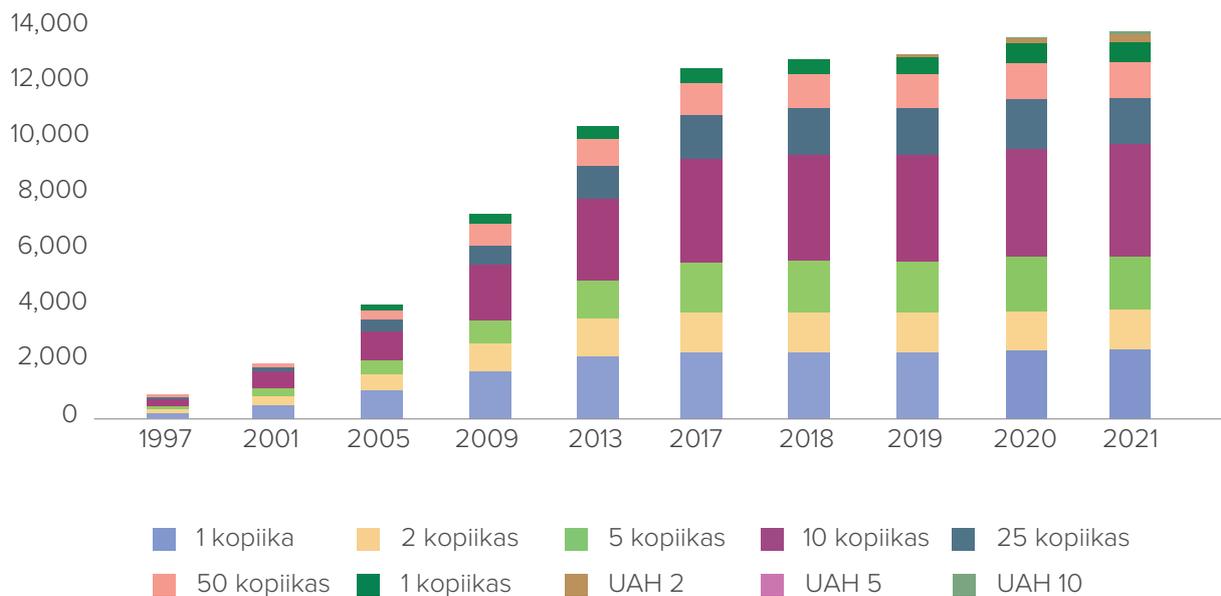
The 200-hryvnia banknote and 10-kopiika coin are the most circulated denominations (24.0% and 29.2%, respectively).

At the same time, by late 2020, 65.3 million banknotes of the highest denomination banknote, the 1,000-hryvnia banknotes, have been in circulation after being launched on 25 October 2020.

As of 1 January 2021, there were 72 banknotes and 149 coins (small denomination and circulating coins that are legal tender) per capita in Ukraine (as of 1 January 2020, 70 banknotes and 182 coins).

Within the structure of currency in circulation, low-denomination coins shall be included through 30 September 2022, while 25-kopiika coins, through 30 September 2023, for so long as the public can exchange them for coins and banknotes of other denominations in circulation.

Number of coins in circulation as of the year start, million coins

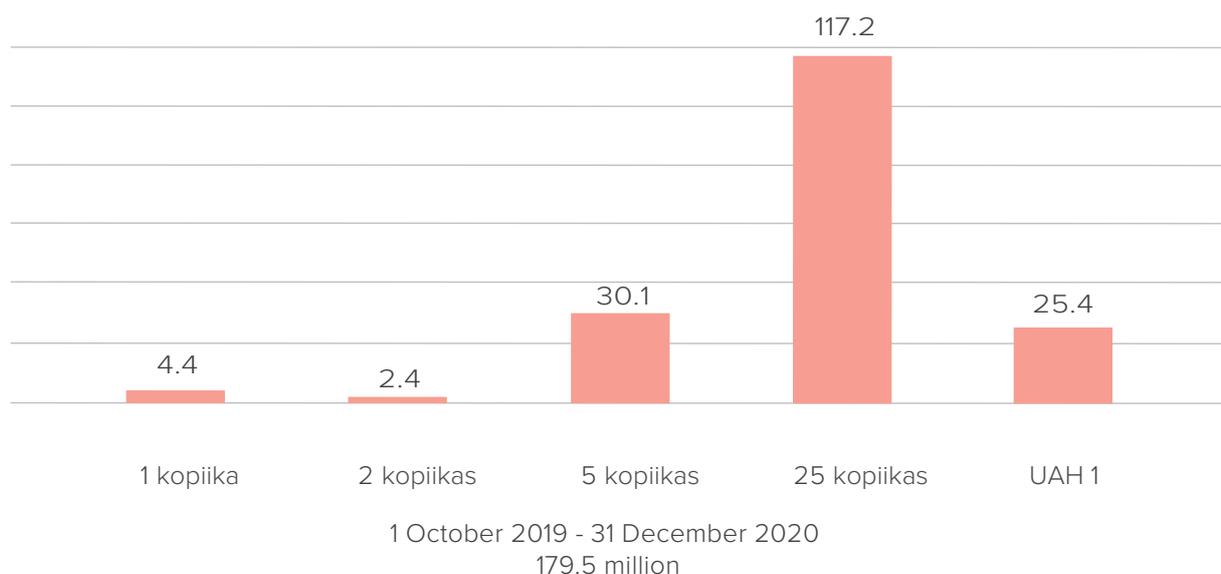


In 2020, the NBU continued withdrawing small-denomination (one-, two-, and five-kopiika) coins, and since October 2020, 25-kopiika coins, from circulation. Since 1 October 2020, acceptance-only transactions were carried out with circulating coins of the one-hryvnia denomination of the 2018 design. Given this fact, by late 2020, the average number of coins, being legal tender, per capita decreased by 18.1%.

Since 1 October 2019 through 31 December 2020, old-design coins of 1-, 2-, 5-, and 25-kopiika

denomination and 1-hryvnia denomination, issued before 2018, were withdrawn from circulation in the total number of 179.5 million coins (1.3% of the total number of coins in circulation), including: 4.4 million coins of 1-kopiika denomination, 2.4 million coins of 2-kopiika denomination, 30.1 million coins of 5-kopiika denomination, 117.2 million coins of 25-kopiika denomination, and 25.4 million coins of 1-hryvnia denomination.

Withdrawal of 1, 2, 5, 25 kopiikas and 1 hryvnia from circulation (less balances in NBU cash handling office)



Doing so in 2020, the NBU completed upgrading the hryvnia banknote and coin series.

This was a complex process making the new generation of hryvnia more reliable and secure, and cash payments more convenient for the public and cost-effective for the state. Having taken decisive steps in large-scale optimization of its series of banknotes and coins in recent years, the NBU was awarded the 2021 Central Banking Award as the year's Currency Manager.

Cash Circulation in Ukraine

In 2020, the amount of cash in circulation increased by UAH 133.4 billion, or by 31.4% (in 2019, by UAH 24.9 billion, or by 6.2%).

As of 1 January 2021, cash balances in banks' cash desks reached UAH 42.4 billion. In 2020, the amount of cash in banks' cash desks increased by UAH 1.7 billion, or by 4.2%.

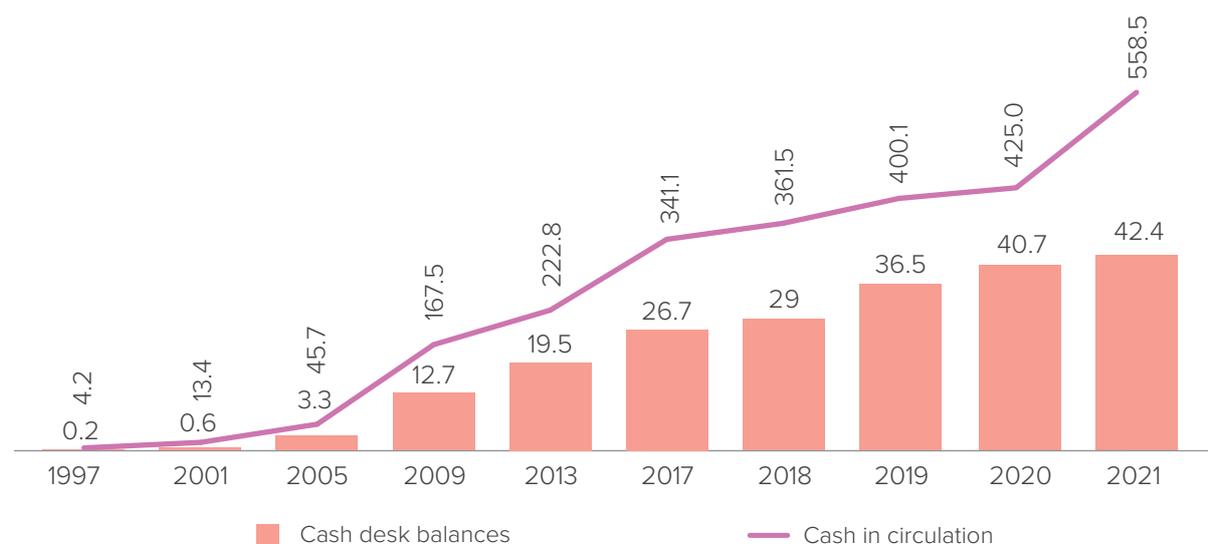
The increase in cash is not extraordinary, as similar trends have been observed in most countries.

This was due to both an increase in the financial savings of Ukrainians and demand for liquid assets on the back of uncertainty about the spread of the coronavirus and the duration of quarantine.

As a result, cash remained in circulation for a longer time. From late March, cash receipts at banks decreased at a faster pace than the reduction of cash disbursements from banks' cash desks. Besides, Ukrainians actively released the benefits of cashless settlements, and during the year, the amounts of cashless transactions with payment cards increased.

From 12 March 2020 (the beginning of introduction of quarantine measures to respond to the pandemic), banknotes in the amount of UAH 141.6 billion were issued in circulation, being 4.4 times larger than in the respective period of 2019 (UAH 32.5 billion).

Cash in Circulation and Cash Desk Balances in Banks



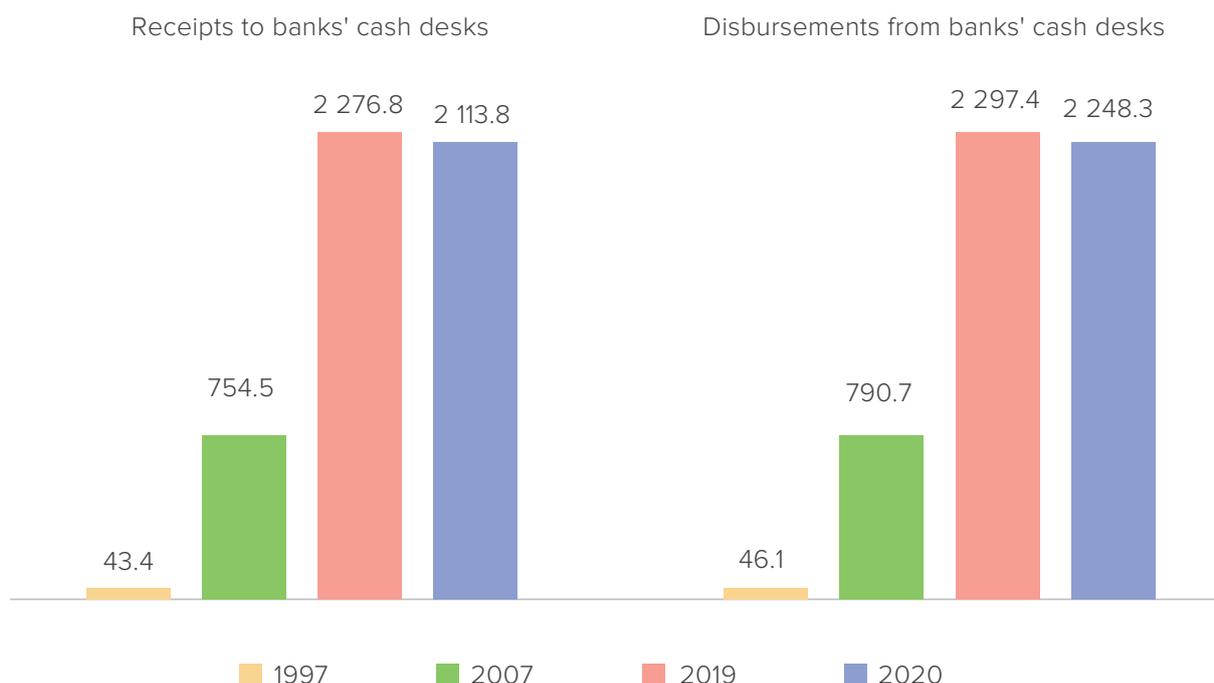
To maintain cash in proper condition and prevent virus spread, the NBU's cash circulation units and the Central Vault received cash from banks and kept it in quarantine for 14 days (in line with the Decision of the NBU Board No. 185 dated 17 March 2020). As of 1 January 2021, the cash kept in quarantine amounted to UAH 1.6 billion. In March–December 2020, the amount of cash that was subject to quarantine and released amounted to UAH 85.5 billion.

In 2020, cash receipts to banks' cash desks decreased by 7.2% to UAH 163.0 billion from the previous year, while disbursements from banks' cash desks fell by 2.1% to UAH 49.2 billion.

In 2020 versus the previous year, the most sizable reduction was observed in the following cash receipts:

- payment card-based receipts decreased by UAH 134.5 billion, or 15.5%, to UAH 733.1 billion
- cash receipts from foreign currency sales decreased by UAH 20.4 billion, or 15.0%, to UAH 115.8 billion
- merchant-based receipts decreased by UAH 12.2 billion, or 1.6%, to UAH 733.6 billion
- cash receipts from postal enterprises decreased by UAH 4.3 billion, or 26.7%, to UAH 11.8 billion
- cash receipts for loan repayment decreased by UAH 2.8 billion, or 8.0%, to UAH 32.4 billion.

Cash desk turnover at Ukrainian banks



In 2020, cash receipts to banks' cash desks grew owing to an increase in receipts from sales of all services by UAH 8.0 billion, or 4.1% (UAH 202.6 billion), and an increase in individuals' deposits by UAH 4.7 billion, or 3.5% (UAH 140.4 billion).

In 2020 versus the previous year, the most sizable decline was observed in the following cash disbursements from banks' cash desks:

- payment card-based disbursements decreased by UAH 53.3 billion, or 3.1%, to UAH 1,688.2 billion
- disbursements for payment of labor costs and scholarships dropped by UAH 6.5 billion, or 10.5%, to UAH 55.4 billion
- disbursements for payment for goods and services plunged by UAH 4.6 billion, or 24.6%, to UAH 14.1 billion
- disbursements of individuals' deposits declined by UAH 2.8 billion, or 2.4%, to UAH 112.2 billion.

At the same time, the following cash disbursements from banks' pay desks increased:

- disbursements for other purposes went up by UAH 8.7 billion, or 10.7%, to UAH 89.9 billion
- disbursements to supply postal enterprises with cash rose by UAH 5.3 billion, or 4.2%, to UAH 132.5 billion

- cash disbursements to purchase foreign currency climbed UAH 3.6 billion, or 2.6%, to UAH 142.0 billion.

The balance of foreign exchange transactions – the excess of cash disbursements to purchase foreign currency over cash receipts from foreign currency sales – amounted to UAH 26.2 billion in 2020 (compared to UAH 2.2 billion in 2019).

Cash Processing

In 2020, automated banknote processing systems BPS 1040/M7 handled 1.22 billion banknotes, including 619.1 million fit banknotes, and 162.1 million worn out banknotes. Besides that, 436.0 million banknotes were shredded, and 11.6 million banknotes were processed via manual reconciliation. The number of the processed banknotes was 0.3 billion banknotes less than in 2019.

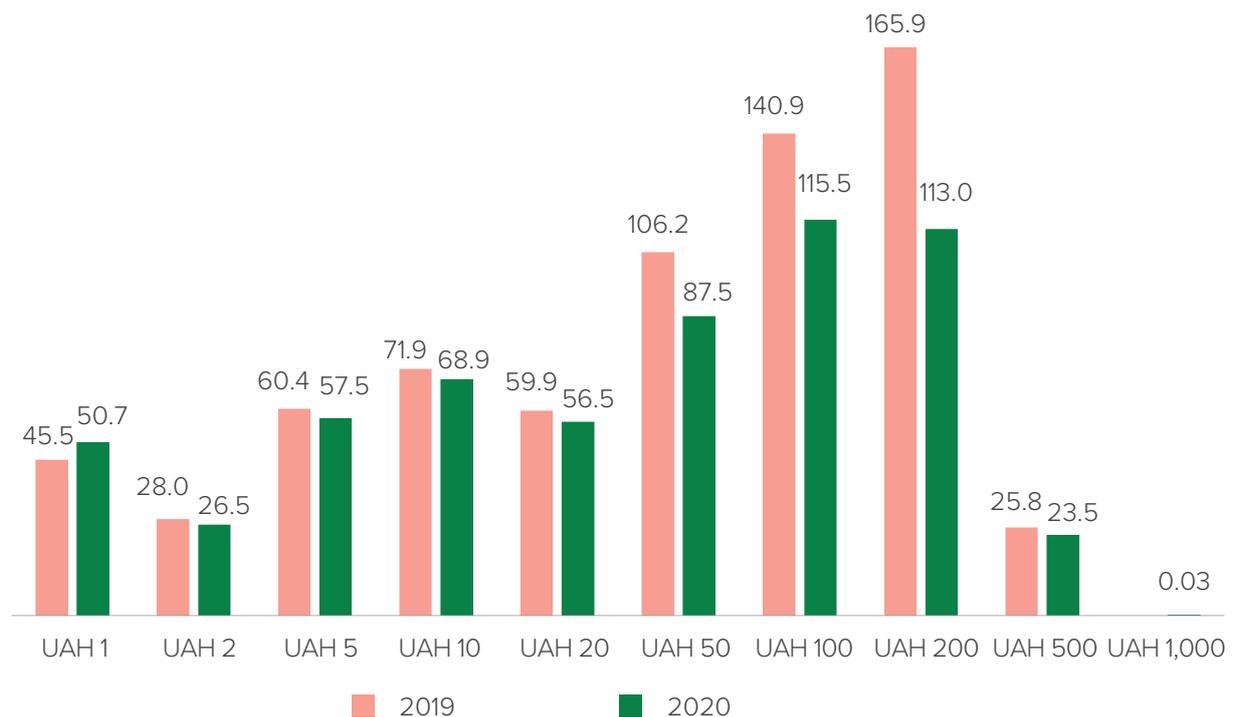
Withdrawal of Worn out Banknotes

In 2020, the NBU and authorized banks withdrew 599.5 million worn out banknotes from circulation in the amount of UAH 52,501.8 million.

The number of the withdrawn banknotes was 104.8 million banknotes, or about 15%, less than in 2019 (704.4 million banknotes in the amount of UAH 67,771.3 million).

The banknotes withdrawn from circulation in 2020 make about 20% of the banknotes being in circulation as of 1 January 2021.

Withdrawal of worn out banknotes by denomination

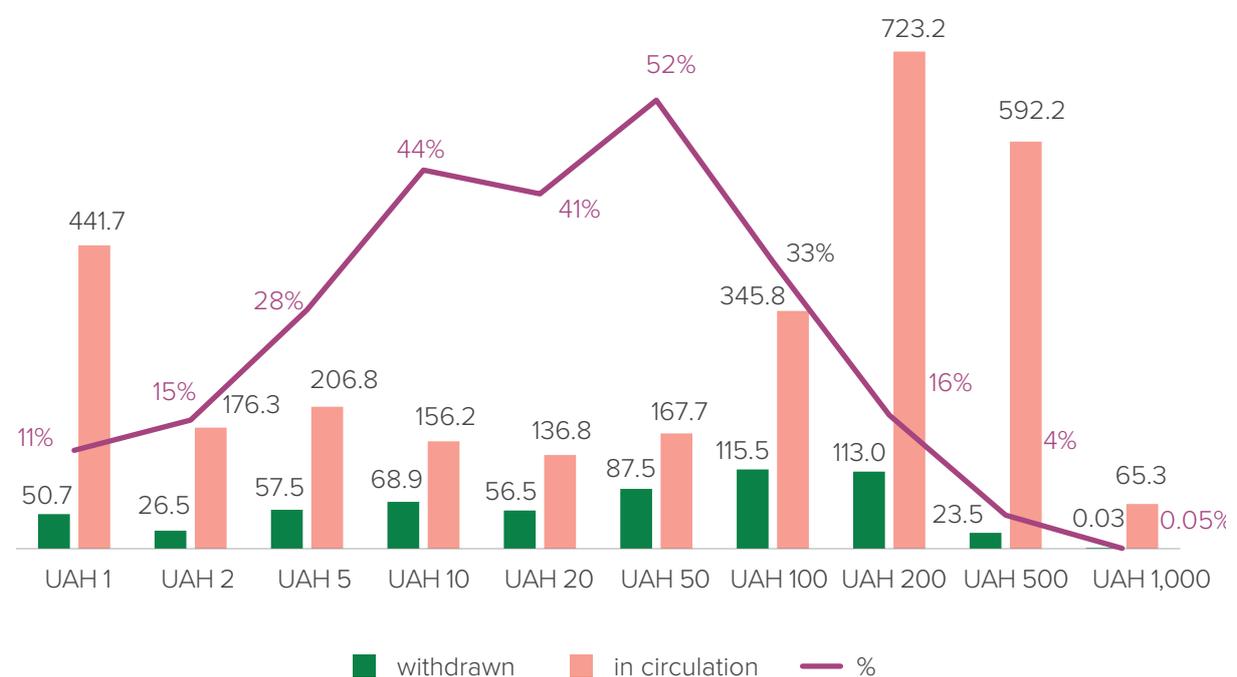


Worn out banknotes of all denominations, except 1-hryvnia banknotes, were subject to withdrawal. This could be explained by a record-breaking level of demand for banknotes in 2020 (the highest level since the 1996 money reform) and quarantine restrictions, the result of which banks streamlined operating procedures for their own units. A reduction in withdrawals of 200-hryvnia worn out banknotes

was the most sizable, being 32% as much as in 2019.

Among the banknotes being in circulation as of 1 January 2021, the worn out banknotes of the following denominations had the largest percentages of withdrawals: 10-hryvnia banknotes – 44%, 20-hryvnia banknotes – 41%, 50-hryvnia banknotes – 52%, and 100-hryvnia banknotes – 33%.

Withdrawals of worn out banknotes from circulation in 2020 compared to banknotes in circulation as of 1 January 2021, million banknotes



Inspections in Authorized Banks

In 2020, the NBU carried out 25 inspections of the NBU's cash stock in custody and conditions for its safekeeping by standalone units of the authorized banks located in 15 cities of Ukraine (12 oblasts of Ukraine were covered). This represented 34.2% of the total number of structural units of authorized banks, in particular:

- CB PrivatBank JSC – 11 inspections
- Oschadbank JSC – 6 inspections
- Raiffeisen Bank Aval JSC – 7 inspections
- FUIB JSC – 1 inspection.

Carrying out said inspections contributed to exercising qualitative control over the following:

- the NBU's cash stock in custody
- conditions for safekeeping and compliance with the procedure for safekeeping the NBU's stock in custody
- quality of cash issued in circulation by the authorized banks and stored in the vaults of their structural units.

NBU Revenues From Cash Services Provided to Banks and Cash Collection Companies

In 2020, the NBU's revenues from the provision of cash services amounted to UAH 13.1 million (in 2019, UAH 13.08 million), in particular:

- Cash circulation units received UAH 7.5 million in revenue for cash services provided to banks.
- The Central Vault received revenue amounting to UAH 5.6 million for cash services provided to banks and collection companies.

To minimize a potential adverse impact on the economy due to the introduction of restrictions aimed at prevention of the spread of COVID-19 in Ukraine, a number of changes have been made to the NBU's tariffs. In particular, the fee for all cash services provided to banks was waived from 19 March 2020 through 30 June 2020. This was done to fully meet banks' cash needs during this period.

Since 1 September 2020, the tariffs for cash services provided to banks and collection companies have been updated.

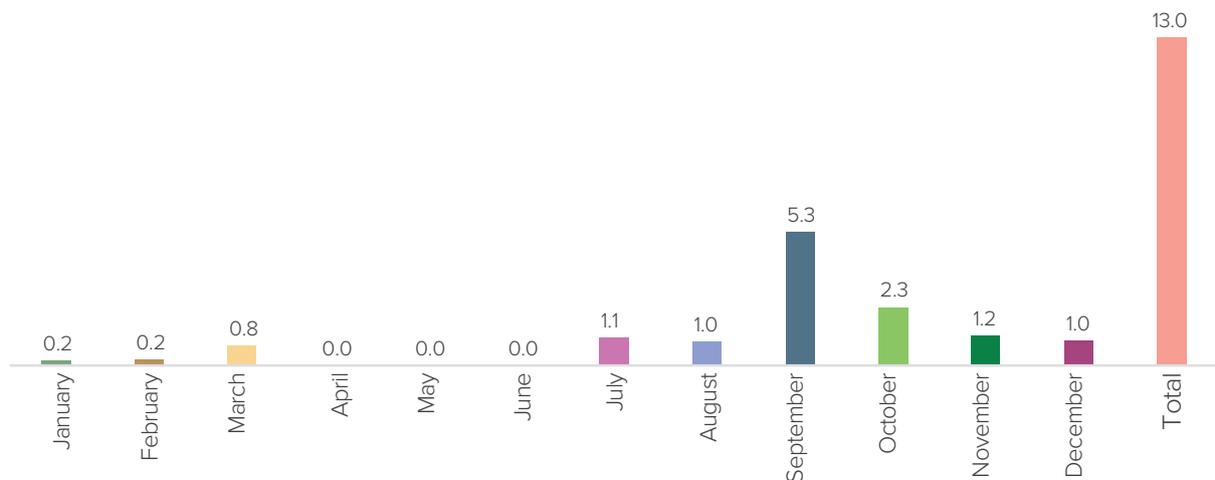
This will contribute to the further development of a delegation model of organization of cash circulation and the revival of the interbank market of cash domestic currency.

The change in tariffs will stimulate Ukrainian banks to independently redistribute cash in their own network between banks and authorized banks, avoid counter cash transportation, and facilitate the expansion of noncash forms of settlements.

Total amount of cash services and revenues received from cash services in 2020, UAH million



Revenues received from cash services provided to banks, by month UAH million



Withdrawal of Counterfeit Money from Circulation

The NBU continually monitors the withdrawal of counterfeit money from circulation and has confirmed a relatively low amount of counterfeit hryvnia banknotes.

In 2020, the number of counterfeit banknotes withdrawn from circulation accounted for 0.00055% of total banknotes in circulation in Ukraine's banking system. This means there was approximately 5.5 counterfeit banknotes per 1 million authentic hryvnia banknotes.

For comparison, in 2020, this indicator in the EU was approximately 17 counterfeit euro banknotes, according to the official website of the European Central Bank.

In 2020, the counterfeit hryvnia banknotes of new design made 4% only of the total quantity

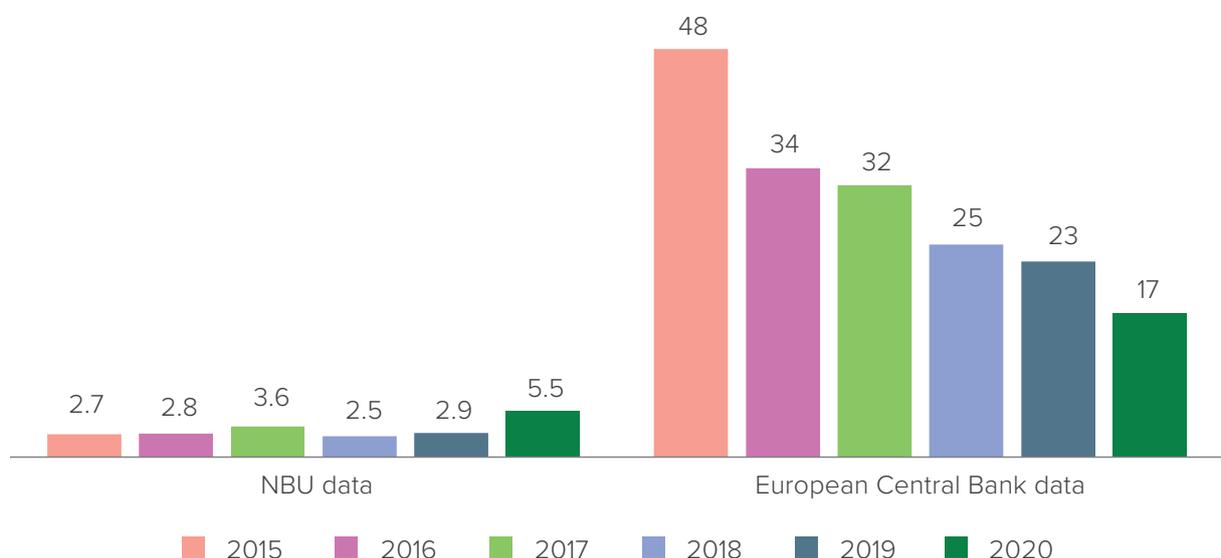
of the counterfeits withdrawn from circulation in the banking system of Ukraine. Respectively, in the reporting year, the number of counterfeit hryvnia banknotes of new design per 1 million authentic banknotes was 0.2 units.

Throughout 2020, the NBU removed from circulation almost 7,400 counterfeit hryvnia banknotes worth UAH 6.3 million (in 2019, about 8,800 counterfeit hryvnia banknotes worth UAH 3.3 million).

The increase in the number and amount of counterfeit banknotes withdrawn from circulation was due to an increase in the volume of withdrawals of counterfeits of the old design of the following denominations:

- 500-hryvnia banknotes designed in 2006 (60% of the total number of the withdrawn counterfeit banknotes)
- 200-hryvnia banknotes designed in 2007 (29%).

Number of counterfeit banknotes per million authentic banknotes



At the same time, in 2020, the number of counterfeit banknotes decreased for the following denominations:

- UAH 100 by 40%
- UAH 50 by 32%
- UAH 20 by 4.5%
- UAH 10 and UAH 5 by 36%.

The vast majority (98.7%) of counterfeit banknotes withdrawn from circulation were among four denominations:

- UAH 500 (61.3% of the total number of withdrawn counterfeit notes and 80.5% of their total value)

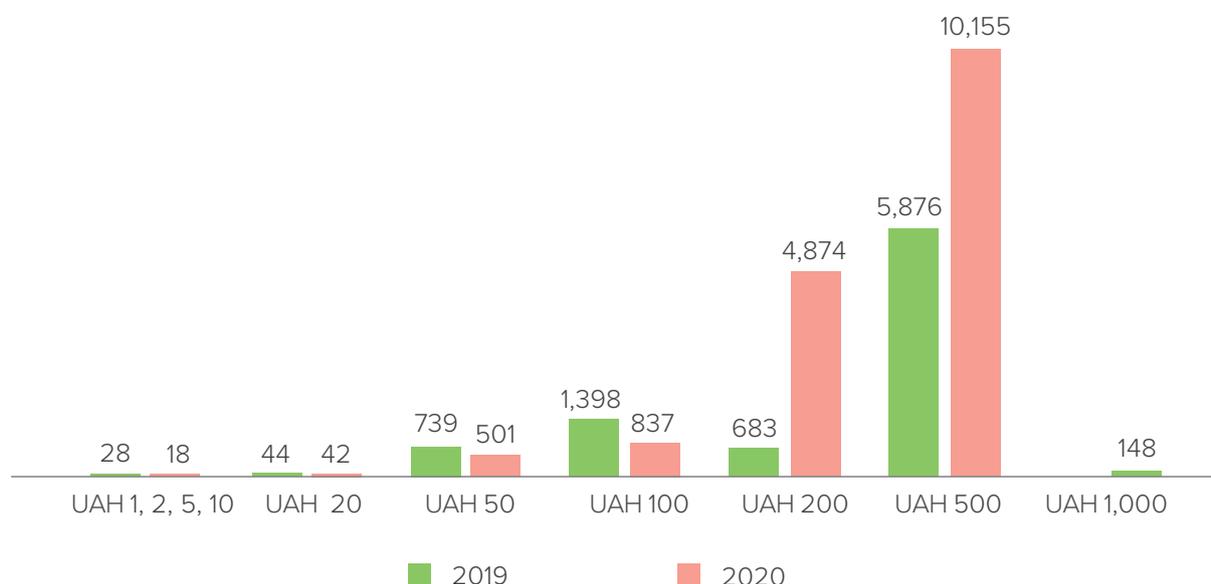
- UAH 200 (29.4% and 15.4%, respectively)
- UAH 100 (5% and 1.3%, respectively)
- UAH 50 (3% and 0.4%, respectively).

Counterfeit UAH 5, UAH 10, UAH 20, and UAH 1000 banknotes withdrawn from circulation accounted for merely 1.3% of all withdrawn banknotes.

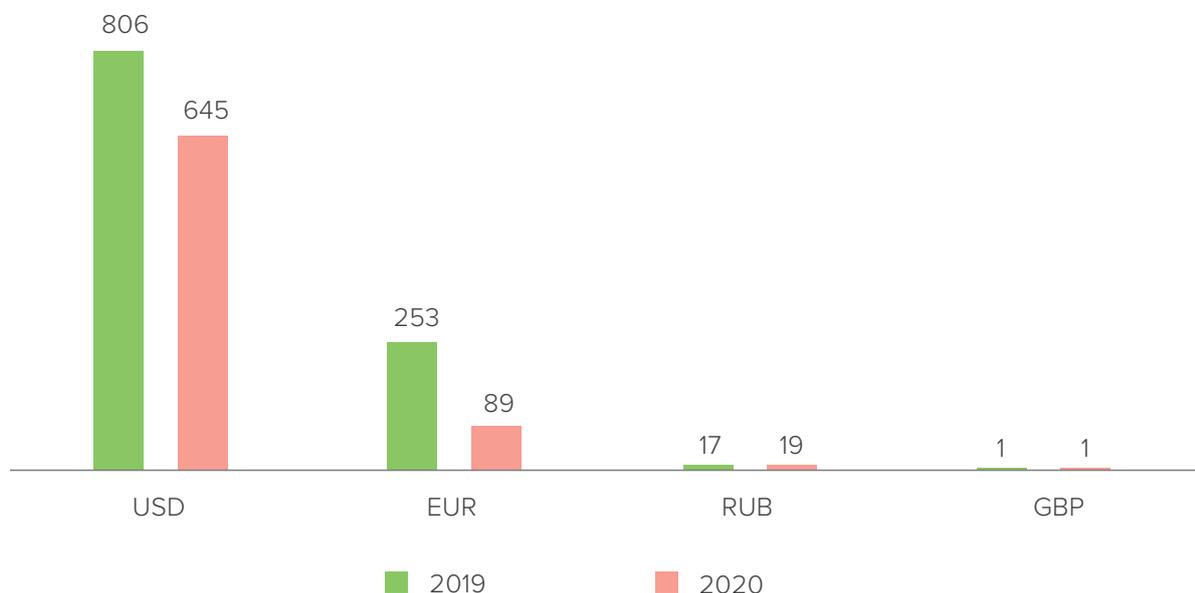
In 2020, the following counterfeit foreign currency banknotes were withdrawn from circulation:

- U.S. dollars (86% of all counterfeit foreign currency banknotes withdrawn from circulation)
- euros (12%)
- Russian rubles and pounds sterling (2%).

Number of withdrawn counterfeit hryvnia banknotes, by denomination



Number of withdrawn counterfeit foreign currency banknotes



Counterfeit USD 100 notes accounted for 95% of all seized counterfeit U.S. dollars; counterfeit EUR 50 and EUR 500 notes accounted for 30% and 29%, respectively, of all seized counterfeit euros; counterfeit RUB 5,000 and RUB 1,000 notes accounted for 74% and 26%, respectively, of all seized counterfeit Russian rubles.

In order to combat the spread of counterfeit banknotes, the NBU constantly cooperates with the National Police of Ukraine, the State Scientific Research Forensic Centre of the Ministry of Internal Affairs of Ukraine, and the Security Service of Ukraine.

In December 2020, due to fruitful cooperation and information support provided by the NBU's specialists, the Security Service of Ukraine exposed an organized crime group that distributed high-quality counterfeit hryvnia and foreign currency banknotes. This helped prevent the state from incurring losses in the amount of about UAH 20 million.

In 2020, the NBU conducted training courses on determining the authenticity of currency units and their fitness for commerce for bank tellers, employees of government institutions, and retailers. A total of 38 events were held, namely 2 seminars and 36 webinars for about 6,000 participants.

Training presentations and information materials for bank tellers on determining the authenticity of Ukrainian currency units, their fitness for commerce, and the signs and methods of determining the most common counterfeits have been posted on the NBU's official website.

Issue and Sale of Commemorative and Bullion Coins

In 2020, the NBU issued 40 commemorative coins (27 titles) with a total mintage of 3,763,800 units into circulation, of which: 17 were silver coins, 20 nickel silver coins, and three zinc-based alloy coins.

The central bank also issued:

- its first silver souvenir banknote with a vertical design, called “Leonid Kadeniuk – the First Astronaut of Independent Ukraine.” The banknote, which has an issue number of 50,000 units, celebrates Leonid Kadeniuk, a Hero of Ukraine and the first astronaut of independent Ukraine.



- a UAH 1,000 silver souvenir banknote designed in 2019 and with an issue number of 300 units
- a 2020 Ukrainian coin set that celebrates changes in the range of denominations of Ukrainian coins and the 115th anniversary of the construction of the NBU building – an outstanding architectural monument in Kyiv. The set has an issue number of 30,000 units.



The central bank also produced a technical innovation – a silver nine-coin set that celebrates the Eneida, a spiritual and cultural landmark of the Ukrainian people, written by the renowned Ukrainian writer Ivan Kotliarevsky. When making the set, the NBU used gilding and pad printing techniques.

Illustrations of the Eneida by the Ukrainian artist Anatolii Basylevych form the basis of the set's composition. What also makes the set interesting is that the reverses of some of its coins contain fragments (puzzles) that make up the figure of Cossack Enei.

In 2020, the NBU implemented a project it conducted jointly with the National Bank of Belarus – on 15 December both central banks issued into circulation coins that celebrate irmologions – the cultural heritage shared by both countries. The coin, entitled “Irmologion as the Spiritual Heritage of Ukraine and Belarus” is covered with patina, and gold-plated.



The NBU also expanded the Ukraine's Armed Forces Series by issuing the following commemorative coins: The Air Force of Ukraine's Armed Forces, Fallen Defenders' Day, and Ukraine's State Border Guard Service.

Apart from that, the NBU issued commemorative coins that celebrate:

the rule of Princess Olha (945–964), who initiated a new stage in the development of the Old Rus state

The birth anniversaries of the following outstanding personalities: Samiilo Velychko, Volodymyr Perets, Amet-khan Sultan, Andrii Romodanov, and Volodymyr Koretskyi

the anniversaries of the founding of the following ancient towns of Ukraine: Dubno, Lokhvytsia, Zaporizhzhia and Sloviansk

the heroic deeds performed every day by medical workers, soldiers and other professions (the Frontline commemorative coin)

perpetuating the memory of, and victory in, the World War II

Zolochiv Castle – a witness of historical events in the Halych lands

St. Michael's Vydubychi Monastery – a national architectural monument

the centenaries of the legendary Ivan Franko National Academic Drama Theater and the Mykola Sumtsov Kharkiv Historical Museum – one of the largest museums in Ukraine and a cultural center in Slobozhanshchina (a historical region, now located in Northeastern Ukraine and Southwestern Russia), and in eastern Ukraine.

Through issuing coins that celebrate the XXXII Olympic Summer Games, which are to be held in Tokyo, the NBU participated in an international numismatic program dedicated to this event.

The NBU also engaged in efforts to expand the Ukrainian Flora and Fauna and Oriental Calendar series.

In 2020, the NBU changed the obverse design of its bullion coins and issued into circulation updated gold (two hryvnia) and silver (one hryvnia) Archangel Michel bullion coins.



In 2020, the NBU resumed publishing its Banknotes and Coins of Ukraine catalogue, the release of which was awaited by numismatists, collectors and all those interested in the history and current state of money circulation in Ukraine. The 20th issue of the catalogue for 2015 – 2019, which was transformed into an electronic publication, meets modern requirements – it can be accessed from any electronic device and printed out, if required.

The catalogue is available in two languages – Ukrainian and English.

In 2020, the NBU sold on the domestic market 3.32 million Ukrainian commemorative and bullion coins and souvenir and related products worth a total of UAH 281.12 million, including

- 3.12 million commemorative coins worth a total of UAH 128.3 million (of which 960 were gold coins, 47,340 silver coins, 725,560 nonprecious metal coins, and 2,348,170 zinc-based alloy coins)
- 14,017,000 bullion coins worth a total of UAH 133.89 million (of which 4,632,000 were gold coins and 9,385,000 silver coins).

In 2020, the NBU purchased 262 Ukrainian bullion coins from the population (including 243 gold coins and 19 silver coins), which shows that these coins are indeed used for investment.

In 2020, the NBU held 15 auctions to sell Ukrainian commemorative coins and souvenir products. The central bank was also able to sell over 10,000 units of numismatic products worth a total of over UAH 1.77 million.

In 2020, the NBU sold 35 titles of commemorative coins, souvenir products and new issue sets through its automated online pre-ordering system for individuals on the central bank's official website. Through this system, the NBU received orders for nearly 236,000 products, of which about 230,000 coins, souvenir products and sets were sold (or 97% of all ordered products). This demonstrates the effectiveness of the online-preordering system in selling Ukrainian commemorative coins and souvenir products.

Overall, in 2020 the NBU generated revenue of about UAH 234 million from domestic sales of Ukrainian commemorative and bullion coins

and souvenir and related products (UAH 6.18 million more than in 2019). The central bank paid about UAH 20 million in taxes to the budget.

The NBU also continued its efforts to promote Ukrainian numismatic products on the international market. In 2020, the NBU started working with German online publications – CoinsWeekly and Cosmos of Collectables, which published information about Ukrainian commemorative and bullion coins and souvenir products.

Under agreements entered into by the NBU and nonresident firms, in 2020 the central bank sold 9,800 Ukrainian commemorative and bullion coins worth a total of USD 325,000, to Germany, the United States and Hong Kong.

In 2020, the NBU engaged in efforts to launch a new channel for selling its numismatic products. From now on, the central bank's numismatic products can be purchased around the clock through its online store at the following link: <https://coins.bank.gov.ua>.

Ukrainian commemorative coins and souvenir products that are available for sale will be sold at their retail price in the online store.

To make a purchase, you will have to register by providing your last and first name, as well as contact details. After that, you will be able to pay for the order with a payment card (PROSTIR, Visa or MasterCard) issued by any bank, and arrange delivery.

Orders across Ukraine will be delivered by the logistical (post) companies Nova Poshta and Ukrposhta.

In future, the NBU plans to make it possible for foreign clients to place orders at the online store and have numismatic products delivered abroad.

Expert Council for Communication with Innovative Companies and Projects

In 2020, Expert Council continued communicating with innovative companies and project participants. This communication platform maintains the dialog between financial market participants and helps to address issues related to the introduction of innovative financial services, payment instruments, settlement schemes, technology platforms, etc.

The Expert Council should function until the establishment of a regulatory sandbox on the NBU basis. This is one of the strategic tasks of reforming Ukraine's financial sector in the long run. To create an appropriate legal framework

for the performance of this task the right to create the regulatory «sandbox» is foreseen in the draft law On Payment Services registered in the Ukrainian parliament in November 2020.

In 2020, the Expert Council considered 12 applications for innovative companies.

Most of them concerned the field of payment decisions; they were aimed at improving the customer experience, speeding up settlements, and reducing costs of payments. During the meetings of the Expert Council, the applicants received constructive feedback from the NBU's specialists.

Work with Government Authorities and Business Community

In 2020, the NBU continued developing cooperation with government authorities and representatives of the business community.

Thus, closer relations with the Verkhovna Rada of Ukraine, Cabinet of Ministers of Ukraine and relevant ministries, and other government agencies were built both through strengthening and activating the existing forms of cooperation and through establishing new formats of effective interaction.

Our active cooperation with the Verkhovna Rada of Ukraine in 2020 resulted in adoption of the laws that were important for reforming the financial sector, namely:

1. *On Amendments to the Tax Code of Ukraine Concerning the Improvement of Tax Administration, Elimination of Technical and Logical Mismatches in Tax Legislation* No. 466-IX dated 16 January 2020
2. *On Amendments to Certain Laws of Ukraine Concerning the Improvement of Banking Regulation Mechanisms* No. 590-IX dated 13 May 2020
3. *On Amendments to Certain Laws of Ukraine on Streamlining Investment and Implementing New Financial Instruments* No. 738-IX dated 19 June 2020)
4. *On Amendments to Certain Laws of Ukraine on Consumer Lending and Formation and Circulation of Credit Histories* No. 891-IX dated 15 September 2020.

To maintain its proactive approach to improve the Ukrainian legislation, the NBU did the following:

- interacted with the Ukrainian parliament and its committees, MPs and their assistants on the issues falling within the central bank's mandate
- provided comments and suggestions for draft laws of Ukraine
- presented the NBU's viewpoint to parliamentary committees during the process of finalizing draft laws.

In May 2020, at the plenary session of the Verkhovna Rada of Ukraine, NBU Governor Yakiv Smolii made an anti-crisis report on assistance to the Ukrainian economy in order to minimize the consequences of the coronavirus epidemic. He draw attention to a stable situation with loans and deposits and smooth operation

of the banking system and currency market. In this way, the requirements of Ukrainian laws were met, and the central bank demonstrated its and accountability to the society.

In early July 2020, the Verkhovna Rada of Ukraine supported the resolution submitted by the President on the dismissal of NBU Governor Yakiv Smolii.

On 16 July 2020, the parliament appointed Kyrylo Shevchenko Governor of the National Bank of Ukraine.

Overall, in 2020, members of the NBU Board, department directors, and other experts attended 15 meetings of the Verkhovna Rada Committee on Financial Issues, Taxation, and Customs Policy. The committee held two meetings with the participation of the NBU Governor, two with deputy governors, and seven with relevant department directors.

In addition, NBU deputy governors, department directors, and relevant specialists attended the meetings of other committees of the Verkhovna Rada of Ukraine:

- Committee on Economic Development – 2 times
- Committee on EU integration of Ukraine – 1 time
- Committee on Organization of Public Authorities, Local Government Bodies, Regional and Urban Development – 1 time
- Committee on Social Policy and Protection of Veterans' Rights – 7 times
- Committee on Anti-Corruption Policy – 2 times
- Committee on Agricultural and Land Policy – 1 time
- Committee on Digital Transformation – 1 time
- Committee on Legal Policy – 1 time
- Committee on Foreign Affairs and Interparliamentary Cooperation – 1 time.

In addition to its law-making activities, we continuously exchange information with the Verkhovna Rada of Ukraine. On a weekly basis, we send information on adopted regulations and duly certified copies of NBU Board resolutions. They may be found in the Legislation of Ukraine section of the Ukrainian parliament's website.

NBU resolutions are also included in the Single Registry of Regulations and published in the official newsletter of the Ministry of Justice, *Ofitsiyniy Visnyk Ukrainy*.

The NBU duly accounts for its work to the Verkhovna Rada and the President of Ukraine. Thus, on the annual basis, the NBU submits to the President of Ukraine, the Verkhovna Rada of Ukraine, and the Cabinet of Ministers of Ukraine the following information:

- by 1 March of the current year, preliminary information on the calculation of the part of projected distributable profit to be transferred to the state budget for the following three years
- by 15 March of the current year, monetary indicators and exchange rate policy indicators (including the hryvnia exchange rate, average for the year and as at the end of the year) estimated for the next three years
- by 15 April of the current year, finalized information on the calculation of the part of projected distributable profit to be transferred to the state budget, for the following three years.

We also regulated cooperation and coordination of actions with the Cabinet of Ministers of Ukraine for the purposes of attaining a sustainable economic growth and price stability by signing a Memorandum of Cooperation in 2019.

At the same time, we cooperated with the Ministry of Finance and financial regulators in the scope of the Financial Stability Council activities. During 2020, five meetings of the Council were held, the focus of which was to maintain financial stability in Ukraine, considering the challenges posed by the coronavirus crisis.

In the reporting year, we continued cooperation with other government agencies on the issues related to economic development. Thus, during 2020, 13 meetings of the National Security and Defense Council of Ukraine (NSDC) took place. NBU Governor Yakiv Smolii took part in five meetings of the NSDC, and NBU Governor Kyrylo Shevchenko participated in eight meetings of the NSDC. Besides, two meetings of the National Coordination Center for Cybersecurity under the NSDC were held last year, in which NBU Deputy Governor Sergii Kholod took part.

The NBU also actively cooperated with the Ministry of Digital Transformation. A Memorandum of Cooperation in the areas of digitalization, digital development, digital economy, digital innovations, development

of information society, and citizens' digital skills and rights was signed.

Besides, the NBU signed a Memorandum of Cooperation with the Ukrainian Parliament Commissioner for Human in the area of personal data protection to ensure a proper protection of the citizens' personal data when obtaining financial services. The NBU together with the Ministry of Economic Development, Trade, and Agriculture (hereinafter referred to as the Ministry of Economic Development) took part in updating approaches to stimulating agricultural insurance.

In 2020, our interaction with the business community was active and systematic. Last year, the NBU organized about 170 events with participation of stakeholders, most of them being held online taking into account the restricted conditions for conducting onsite meetings due to the COVID-19 pandemic.

In addition to traditional cooperation formats (speaking engagements at business associations meetings and work in their committees, bilateral meetings, and business lunches), the NBU has conducted targeted campaigns to attract stakeholders. In particular, we expanded our cooperation with a group of the nonbank financial sector after the adoption of the law on split. In the context of developing the updated regulation more than 70 meetings with relevant stakeholders were held. A new format of relations with investors has been launched in partnership with the Office of the National Investment Council to improve the cooperation with representatives of the investment community and present the NBU's information products to investors.

More than 40 meetings were held with representatives of the financial market and business community on the issues related to the entry into force of new laws on financial monitoring. The meetings were aimed at explaining in detail specifics of financial monitoring to both bank representatives and their business clients.

Another example of a targeted campaign was a series of events for exporting companies, the Export Credit Agency, and the Ministry of Economic Development. It resulted in changes to the regulatory framework for credit risks assessment that simplified an access to lending.

One of the key events within the interaction with various groups of stakeholders was the NBU's Fourth Annual Meeting with customers and partners, which was held on 16 January 2020 in the Kyiv International Convention Center.

The annual meeting with stakeholders is our flagship event, with which we opened the business season to form business expectations in line with our real plans. A total of 540 guests representing the following groups of stakeholders attended the event:

- international financial institutions and donors
- diplomatic corps
- media groups
- experts
- academia
- public authorities
- banks
- financial entities
- companies with the NBU's participation
- investors

- business community
- nongovernmental organizations and associations
- labor union representatives and the NBU's employees
- The NBU Council.

The Strategy of Ukrainian Financial Sector Development until 2025, Report on Fulfilment of the Comprehensive Program for the Development of Ukraine's Financial Sector until 2020, and the NBU Action Plan for 2020 were presented at the Annual Meeting. The event provided for the active engagement of the audience in a format of Q&A session and surveying. In this way an open feedback from stakeholders and accountability to them for the NBU performance in 2020 were secured.

Cooperating with International Partners

In 2020, rising to the challenges posed by the COVID-19 pandemic, the National Bank of Ukraine effectively managed its international activities that contributed to strategic goals and interests of Ukraine in the global geoeconomic environment. The format of interaction with the international partners changed due to the quarantine restrictions, but the number of engagements increased during the last year. Our more active participation in the global trends of financial markets development and the expansion of the NBU's mandate due to the Split Law were the main drivers of increased intensity of international cooperation.

In 2020, we continued to closely cooperate with our long-standing partners: Narodowy Bank Polski, Bank of Lithuania, Sveriges Riksbank, National Bank of Georgia, De Nederlandsche Bank, Bank of Canada, Bank of England, Oesterreichische Nationalbank, National Bank of Belgium, and Deutsche Bundesbank.

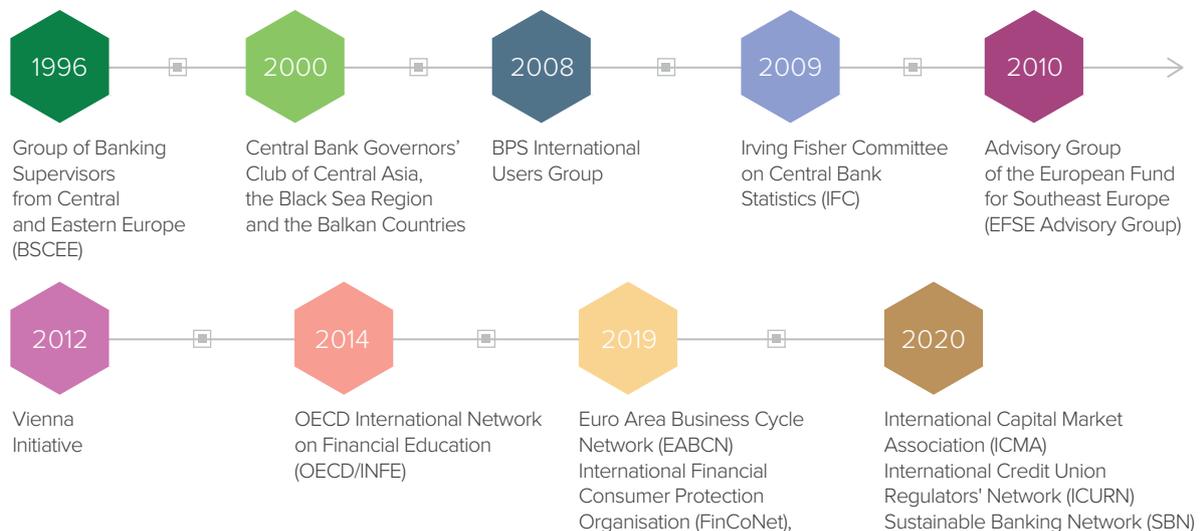
In addition, due to the Split reform, the National Bank of Ukraine activated the interaction with the Central Bank of Armenia, Komisja Nadzoru Finansowego (KNF), the Financial and Capital Market Commission (FCMC), UAE Insurance Authority, Ministry of Finance of Belarus, Agency of the Republic of Kazakhstan for Regulation and Development of Financial Market, Austrian Financial Market Authority (FMA), Federal Financial Supervisory Authority of Germany (BaFin), Insurance Supervisory Agency of Slovenia (AZN). New cooperation agreements with the international partners are underway. Our goal in the area of NBFi regulation

is to preserve the cooperation achievements of the previous regulator and to create a foundation for further effective regulatory activities.

The number of our international partners grew in 2020. At the beginning of the year, the NBU joined the International Capital Market Association (ICMA). This organization promotes resilient operation of the international and globally coherent cross-border securities markets, which are essential to fund sustainable economic growth and development.

Also this year the financial assistance of the USAID's Credit for Agricultural Producers project allowed us to become a member of the International Credit Union Regulators' Network (ICURN). ICURN will serve as a platform to share experience and best practices and to develop joint solutions to improve regulatory practices.

Global crisis caused by the COVID-19 pandemic showed that we must pay close attention to our own contribution to the global problems resolution. Thus, greening of the financial system and supporting sustainable financing became the vectors of our development in 2020. In November we joined the Sustainable Banking Network (SBN). This network of regulatory agencies from emerging markets is intended for exchange of experience and expansion of research into making the financial system more environmentally friendly (i.e. greening it) and for encouraging the network members to create drivers of sustainable and green financial system.



Transition to the virtual platforms made possible our active participation in the international events of our partners. In particular, we were able to join the meetings of the Financial Stability Board Regional Consultative Group for Europe (FSB RCG for Europe), Basel Consultative Group (BCG), Group of Banking Supervisors from Central and Eastern Europe (BSCEE), Full Forum of the European Bank Coordination “Vienna 2.0” Initiative, Central Bank Governors’ Club of Central Asia, the Black Sea Region and the Balkan Countries, ICURN Annual Conference (23-24 June 2020), FinCoNet Annual General Meeting (11 November 2020).

Our international partners have offered considerable support for the financial sector reforms implemented in Ukraine. Despite the global pandemic, the IT technologies and flexibility of all the parties boosted the international technical assistance. The number of events grew almost by 60% and the number of attendees was almost 1.5 times higher.

The NBU experts studied the global best practices and knowledge in the area of monetary policy, financial stability, banking supervision, and regulation, statistics and reporting, operation of payment systems, protection of consumer rights in financial services, efficient communications, etc. In 2020, we put a special focus on researching the international practices in the field of nonbank financial institutions regulation.

In 2020, our key development partners remained unchanged: the International Monetary Fund, the World Bank Group, the European Union, and other central banks and financial market regulators. We also continue to cooperate with the U.S. Agency For International Development (USAID) on Financial Sector Transformation and Credit for Agricultural Producers projects. Among the projects implemented jointly with the European Bank for Reconstruction and Development were: Financial Sector Reform in Ukraine, Program for the Implementation of the Administrative Base of Law on Financial Restructuring, Model-Aided Framework for Banking and Capital Market Stability Assessment. The NBU also cooperated with the International Finance Corporation on the Financial Inclusion for Growth Project (implemented in partnership with the Swiss Confederation and the UK Government’s Good Governance Fund) and with the Swiss State Secretariat for Economic Affairs (SECO) on Bilateral Assistance and Capacity Development for Central Banks (BCC) Program.

In 2020, we achieved a new milestone in the field of technical cooperation, becoming an active provider of technical assistance, sharing our expertise with the international partners and becoming a platform for multilateral international conferences, meetings, round tables and bilateral expert meetings and meetings with other central banks. We held 24 bilateral and multilateral events exchanging knowledge and expertise with our peers in 2020. Our experts shared their insights with the colleagues from 30 other central banks. The main partners that participated in the exchange of best practices with the NBU were the central banks of Georgia, Kazakhstan, Tunisia, Armenia and France.

Contribution to International Relations of Ukraine

In 2020, the NBU actively contributed to development of the international relations of Ukraine. Full membership initiated by the NBU will allow for more Ukraine’s engagement in the Vienna Initiative, increased cooperation and knowledge sharing with the regional partners.

The NBU Governor and other representatives customarily participated in the virtual Spring and Annual Meetings of the International Monetary Fund and World Bank Group (9–11 April 2020 and 12–18 October 2020 respectively), the Annual Meetings of the European Bank for Reconstruction and Development (7–8 October 2020) and the Black Sea Trade and Development Bank (18 June 2020).

As a member of the presidential delegation, the NBU Governor Kyrylo Shevchenko participated in the official visit to the United Kingdom (7-8 October 2020). The visit resulted in signing of the Political, Free Trade and Strategic Partnership Agreement between Ukraine and the United Kingdom of Great Britain and Northern Ireland.

During the year we also actively supported actions aimed at maintenance of the favorable investment environment of the country, providing our international partners with reliable and up-to-date information about the economy, expectations of the central bank and forecasts. A series of virtual meetings with the international rating agencies (Fitch Ratings, Standard&Poors, Rating&Investment Information, Global Ratings) and international investment funds was held to this end.

In H1 2020, the NBU together with other Ukrainian authorities actively negotiated with the IMF to renew the cooperation under the existing program and start a new stand-by arrangement. As a result, in June 2020, the Executive Board of the International Monetary Fund approved an 18-month Stand-by Arrangement for Ukraine, with access equivalent to about USD 5 billion, that aimed to help Ukraine to cope with COVID-19 pandemic challenges by providing budget support. In 2020, Ukraine received the first tranche of USD 2.1 billion. Meeting our commitments under the program was our priority during the year.

The NBU also took active part in preparation of the joint project with the World Bank - Economic Recovery Development Policy Loan - ER DPL for the total amount of USD 350 million. ER DPL project was approved by the World Bank's Board of Executive Directors on 26 June 2020. After the signing of the loan agreement and taking all the steps on the Ukrainian side to put the agreement into force, the first ER DPL tranche will be received and used to finance the general fund of the state budget of Ukraine.

In May 2020, the NBU and the EBRD entered into the Currency UAH/USD Swap Agreement totaling up to USD 500 million. The swap agreement aims to increase the macrofinancial stability in Ukraine during the crisis. Swap transactions with the NBU open access for the EBRD to hryvnia financing that may be used for crediting Ukrainian businesses hit by pandemic and quarantine restrictions.

European Integration

Achieving our goals in the field of European integration was one of our priorities in 2020. We stepped up our efforts in implementing the Association Agreement between the EU and Ukraine and the EU acquis, both in the banking sector and in nonbank financial services.

The NBU paid special attention to the amendment and improvement of laws and regulations in banking regulation and supervision, payment systems, insurance, credit unions, financial reporting, AML, and the digital market.

Within this scope we took the following steps:

- developed a comprehensive draft law to improve corporate governance in the banks and other aspects of banking system operation
- prepared a package of legal initiatives for regulation of nonbank financial services, in particular insurance services, operation of credit unions and financial companies

- approved regulations improving the banking supervision toolkit and concerning activities of banks and banking groups, financial monitoring by the banks, off-site supervision over the participants of nonbank financial market, e-money, liberalization of capital flows, procedures for compilation and disclosure of financial statements by the Ukrainian banks and protection of rights of financial service consumers.

With a view to the NBU's new mandate, we approved an updated Action Plan on Implementation of the EU-Ukraine Association Agreement. In 2020, we continued the dialogue with the EU regarding the update of implementation commitments of the EU acquis in financial sector and joined the review process for the EU-Ukraine Association Agreement and the Roadmap on Ukraine's integration into the EU Digital Single Market.

The NBU also took part in negotiating the next EU macrofinancial assistance for Ukraine in the amount of EUR 1.2 billion for mitigation of crisis outcomes.

The NBU closely cooperates with the EU to implement the EU Association Agreement with Ukraine. Last year was productive of cooperation in institutional capacity building and intensified activities under the technical assistance projects with the EU on regulation and supervision over financial institutions in line with the European practices and standards.

In particular, on 1 October 2020, we launched the Twinning project on Strengthening the Institutional and Regulatory Capacity of the National Bank of Ukraine to Implement the EU-Ukraine Association Agreement. We collaborate on this project with the consortium of Narodowy Bank Polski and Bank of Lithuania. The project is funded by the EU.

The central banks of Poland and Lithuania will provide support to the NBU in a number of areas:

- banking supervision, namely the transposition of Basel Core Principles for Effective Banking Supervision
- developing instant payment system
- developing a system of strategic planning, execution and monitoring, process-based model of planning and management
- strengthening the NBU's function of international cooperation and institutional capacity in the field of European integration of Ukraine.

In addition, the EU project on Implementation of EU Practices for Accounting, Financial Reporting, and Audit in Ukraine (EU-FAAR) was launched in 2020, where the NBU is a recipient under Component 3 Financial Reporting in Single Electronic Format. Cooperation under the EU technical assistance project on Strengthening Regulation and Supervision of the Nonbank Financial Market (EU-FINREG) intensified especially regarding developing a new regulation model for insurance companies and other nonbank financial institutions and raising financial literacy of the public.

Last year we also took part in the meetings of bilateral bodies of the Association Agreement

between Ukraine and the EU, in particular the NBU was represented at the Fifth Ukraine-EU Association Committee in Trade Configuration that was held on 8-9 December 2020 in virtual format.

During the Association Committee meeting, the NBU informed European colleagues about its efforts in the field of capital flow liberalization and progress in implementation of the EU acquis on financial services.

We also joined the preparation process for the meetings of the EU-Ukraine Parliamentary Association Committee and the EU-Ukraine Association Council.

Communications Management

In 2020, the NBU handled its communications in line with the Communications Strategy approved by the NBU Board at the end of 2018.

All NBU's communications are aimed at achieving three goals: reinforcing the regulator's credibility, maximizing the influence of the NBU's policy on the behavior of target audiences, and reducing economic uncertainty by providing information required to make informed decisions.

NBU against Coronavirus

In 2020, our communication channels adapted to the new circumstances created by the COVID-19 pandemic. To prevent the adverse effects of the COVID-19 spread on economy and financial system of Ukraine, the NBU introduced a system of anti-crisis measures for the period of quarantine in the country and regularly informed the public on the developments in the economy on its website, social network pages, as well as the media. A launch of a dedicated NBU-against-coronavirus web page became an important anti-crisis initiative. It answers the key questions regarding the operation of the banking system under the new circumstances.

We have also instantly switched to the remote communication with the media, increasing the number of online events and video streams. During this period, our representatives communicated with the media at about 50 NBU events organized specially for the media. Our speakers also took active part in professional discussions and expert communications explaining the NBU's policy to financial market players, businesses, experts and other stakeholders. In 2020, we held a total of 72 online broadcasts and shared 174 videos.

Focus on Financial Literacy of Ukrainians

Starting from January 2020, the NBU's authority in financial literacy was legally established. We see financial literacy primarily as a stepping stone to establishing financial capability and behavioral change. This requires long-term efforts in line with a specific approach, as well as transparency, accountability for the use of resources and monitoring of the results. Also, it allows to engage more partners, including through the coordination programs and international assistance projects.

In July 2020, we launched a large-scale all-Ukraine campaign on counteracting the payment fraud called GoodbyeToFraud supported by more than 60 partners. Banks, payment systems, law-enforcement agencies, mobile operators, Internet

stores, logistics companies and public utility companies joined this communication campaign.

The communication campaign lasted for six months. Together with the partners, we developed a range of educational materials (websites, posters, videos, articles) made available to the population via different communication channels.

Focus on Nonbank Financial Institutions and Consumer Rights Protection

In 2020, the NBU became the market regulator for nonbank financial institutions (NBFIs). Protection of consumer rights in financial services now also falls within the NBU's mandate. That is why the areas of responsibility mentioned above became an important focus of our communications.

To make the information on supervision, licensing and regulation of nonbank financial institution to the financial service consumers and market participants we created respective sections at our website. The NBU's official website also publishes the registers and the list of NBFIs and other participants of the financial service market subject to the NBU's licensing, registration and authorization.

Other important information product regarding the NBFIs operation are White Books, Nonbank Financial Sector Review, News on Licensing and Registration of Financial Institutions, and a monthly news digest Split Times.

Overall, during the year we published more than 100 news about the NBFIs. The content on nonbank segment was in high demand at the NBU's website and was among the top three most visited segments of the site (13% of all users).

The financial literacy campaign included the launch of the page dedicated to the financial consumer protection. The page contains all the useful information and tips for the clients of the banks and nonbank financial institutions. The page features Question of the Day, a new segment where our experts answer the most pressing questions from the financial service consumers: can a bank change the fees on their services without prior notice, what are the catches in credit agreements for the clients of banks and nonbank financial institutions, etc.

Our unit on financial consumer protection is also very popular among the users of the NBU's website. Overall, the NBU published almost 40 news items and press releases on this topic in 2020.

NBU's Website Gains Momentum

Our new website is user-friendly, visually pleasing and easy to navigate. All that gains it more and more popularity among the users. In 2020, approximately 3.6 million users visited our website (in 2019, the figure was 1 million). The number of users first peaked at the beginning of coronacrisis in March 2020 and later in December due to the seasonal interest in the exchange rate dynamics, growing demand for the numismatic products, and a spike in BankID visitors due to the government announcement about compensation for the businesses.

The old NBU website is visited less and less. In 2020, it had 0.75 million visits (in 2019, the figure was 2.5 million). The number of users visiting the old website dropped significantly after the migration of the popular section on commemorative coins to the new website at the end of 2020.

Financial Markets remains the most viewed section of our website, with 44.5% of viewed pages, including more than 35.8% of them

are views of the official exchange rate of hryvnia.

In 2020, we also made some progress in the number of published information materials and their views. We published 9.5% more press releases and official statements over the year (a total of 645). Compared with the previous year, we saw 3.3 times jump in the news views (up to 2.31 million). The most viewed are the news about payments and settlements (19% of all views) and about domestic currency (16%).

Expert Platform: Advancing Our Expertise

Over the year, the NBU structural units and the interns actively contributed to publication of 56 articles at the platform. The expert platform also was supported by 22 ambassadors that authored some of the published expert opinions. The platform used the round-table format as a new instrument to share expertise. We held two expert discussions about COVID-19 impact on monetary policy and banks' practices of cash handling.

Managing Human Capital

During the year, the NBU continued to implement projects and attain the goals of HR Strategy 2018-2020. In particular, the work on the introduction and implementation of the Total Rewards system continued.

Also, a large-scale work within the implementation of the Split program was performed: additional hiring and adaptation of new staff for implementing the NBU's function on regulation of nonbank financial sector.

Last year, new formats of interaction and communication both inside the central bank and with external audiences were launched (from mid-March 2020, almost all communications were conducted in online format). Webinars for students were held, proposing various study courses for talented youth. In spite of the online format, the NBU was able to maintain high quality and effectiveness of the mentioned communications and develop flexibility in making decisions on personnel management.

Implementation of Split: Renewed NBU Structure and Completed Staffing

Since 1 July 2020, the NBU is the regulator of nonbank financial institutions. For the complete fulfillment of this function, the NBU needed to renew the central bank structure and hire additional qualified personnel. The preparation for the implementation of these tasks started in advance.

Thus, at the beginning of the year, the NBU's experts studied thoroughly the new functions and powers it gained since July 2020. Based on this analysis, the structure was changed, including the establishment of new functional units: the Nonbank Financial Institutions Regulation Methodology Department and the Nonbank Financial Institutions Supervision Department. The structure of some existing units was updated. Such a systemic approach to organizational changes laid the foundations for a qualitative start to fulfilling new functions. At the same time, the work of completing the staffing plan took place: the HR Department held meetings and interviews with NFSC personnel (potential NBU employers), hired employees to new departments and personnel was added to the existing units to fulfill the regulator's new new functions.

The adaptation program required for each new member of the NBU's team helped the new employees to flow into the central

bank's work rhythm. A plan of training and improving the expertise of the personnel of new units was introduced. Thus, in 2020, 12 educational programs for technical assistance of international financial institutions were held.

Remote Work: Rapid and Successful Transfer to New Format of Work

At the beginning of 2020, the NBU introduced its Total Rewards system focused on developing programs to support a work-life balance at the bank. One of these programs was a pilot project on remote work implemented in March during quarantine restrictions due to the spread of the COVID-19 pandemic.

Solid preparatory work, experience, and practices developed during the pilot project implementation allowed for quickly transferring a significant number of employees to remote work quickly and without loss of productivity, and prepare and provide the managers and employees with the instruments to adapt to a new work format. In particular, this includes specialized trainings, communicative support, automated accounting of days of remote work, a psychological support program, and many other measures.

To ensure support to employees working remotely, the NBU automated the processes on remote work approval. In 2020, 2,554 employees worked remotely.

The NBU gradually transferred almost all its work meetings onto online format, mastering new instruments of virtual interaction. The employees working onsite complied with all rules and recommendations on safe conduct. Direct communications inside the central bank were limited.

For the convenience of our NBU employees, a Hot Line project (further - Public Helpline) was implemented for real-time consultations and answers to their matters of concern. Each employee working remotely or onsite could obtain a consultation from the necessary specialist of the Information Technology Department, Security Department, Personnel Department, etc. The questions of employees included the access to resources, HR administration, remote work approval, financial assistance, remote learning, etc.

The timely informing of colleagues was launched on changes in remote work approval, new

quarantine restrictions, rules of conduct and work during quarantine, governmental decisions, adoption of laws, etc. The information was placed on special pages of the NBU internal web portal, “Keep Healthy” and “Remote Work.”

Recruitment, HR Administration, and Internship in a Turbulent Year

During quarantine, the NBU conducted a selection of personnel in online format only for candidates for both managerial and non-managerial positions. All testing and home tasks of candidates were also transferred into online mode.

A matrix of assessing candidates for managerial positions was introduced. This assessment form is an addendum to the CV providing additional information for reaching a final decision and reflects the assessment of the candidate’s conformity to the profile of an NBU leader and their professional skills, motivation, and ability to become a part of the institution’s culture.

In 2020, 318 new employees were hired to the NBU, 252 persons - dismissed, 997 persons - transferred to another position or job.

We continued to develop the employer’s brand by inviting students and talented youth for internships, took part in online job fairs, and held master classes and online lectures for youth. Totally in 2020, the NBU brought on 43 trainees and 12 interns from top universities in total. Seven of them were given jobs at the National Bank of Ukraine after successful completion of their internship.

Also in 2020, the NBU organized area-specific online competitions for students. In July, the final of Coronacrisis: NBU Strikes Back case took place (jointly with the Financial Stability Department and Monetary Policy and Economic Analysis Department). In August, the final was held of the NBU IT Challenge for IT students (jointly with the Information Technology Department).

Transfer of Personnel Development and Training Programs into Remote Format

Concerned about employee health, the NBU quickly and flexibly adjusted to remote training format as the mixed format – online and onsite – had been already proposed to colleagues in 2019. The experience gained last year helped in transferring promptly to a total online format and to propose a series of newly demanded webinars.

In 2020, the NBU conducted 549 educational events. The transfer to online mode made it possible to extend by 70% the number of employees who received training, compared with the previous year. About 320 of the events were related to improving professional skills, while 229 were aimed at developing competencies and soft skills. About 255 persons received training from international partners in the framework of international technical assistance.

A Remote Training System continued to be actively developed, having offered 36 e-learning courses based on profession and 23 courses on interpersonal communication skills.

Master classes on 12 corporate competencies were conducted in a form of webinar involving internal trainers. These are the NBU’s employees who learned this course in the School of Internal Trainers and received the right to conduct these educational events.

In order to help employees to adapt quickly to the changing circumstances and provide efficient techniques to manage emotions and reduce stress, the NBU held thematic webinars on the peculiarities of remote work, engaging both internal experts and invited speakers.

The programs of Leadership Development and Personnel Reserves, and training within the program of Mentorship and School of Internal Trainers, were also adjusted to online formats.

Charity Initiatives of Employees on Hospital Assistance

In order to support Ukraine in combatting the spread of the coronavirus, the NBU team in April 2020 launched a charity project to help Ukrainian medical institutions fight COVID-19. A working group from representatives of different departments analyzed the primary needs of hospitals and decided on providing financial aid or purchasing necessary equipment. The funds for this charity initiative were raised exclusively from employee donations. Thanks to this charity initiative, in 2020 the NBU provided assistance to eight medical institutions in total amount of UAH 617,000.

Awards

The NBU was awarded HR Brand Award by grc.ua in nomination Government as Employer. This victory became an important element in building the NBU’s brand as an attractive employer.

The winning project, Choosing Your Own Space. Flexible Approaches to Remote Work at the Central Bank, describes the introduction of modern, individual-oriented instruments of HR management based on the employee needs, according to the NBU's HR Strategy 2018-2020.

HR analytics

2020:

- average employee age – 44 years

- average employee tenure - 12 years
- females/males throughout the bank - 53.8%/46.2%
- females/males in managerial positions - 42.6%/57.4%
- females/males on nonmanagerial positions - 54.8%/45.2%
- FTEs as of 31 December 2020 - 3,406.5
- employee turnover - 3%.

Improvement of Reporting System. Openness, Transparency, Data Accessibility

In 2020, the NBU continued the improvement of reporting submitted to the NBU by market participants, which had been started in previous years. The respective changes in reports were aimed mostly at attaining an optimal balance between NBU needs in obtaining complete, timely, and accurate information for effective regulation and supervision, and an acceptable reporting load for respondents.

With the NBU gaining authority on the regulation and supervision of the participants of the nonbank financial services market (the Split project), it harmonized the format and procedure for their report submissions with NBU standards and requirements. The structured register of reporting indicators in over 50 files contains the set of data that were submitted earlier to the NCFS.

The NBU informed in advance the participants of the nonbank financial services market on reporting requirements and published all the necessary information on the NBU official website (in the Organizing Statistical Reporting section).

For better adaptation of market participants to new requirements, a series of online conferences were held to provide all necessary consultations and explanations. It allowed for solving promptly most issues related to the submission of reports of proper quality.

In order to disclose the ownership structure of financial services providers, reporting has been developed with data on the ultimate key participants and owners, which should be submitted already in 2021.

Due to the adoption of a new version of the Law of Ukraine On Prevention and Counteraction to Legalizing (Laundering) the Proceeds from Crime, Terrorism Financing, and Financing the Proliferation of Weapons of Mass Destruction, additional amendments were added to the reports of banks and participants of the financial services market on financial monitoring issues.

The compiling of financial sector statistics was ensured in accordance with modern requirements of methodology of monetary and financial statistics, and statistics of financial resilience indicators based on bank and NBU data, taking into account changes in accounting

and new reporting of insurance companies, credit unions, financial institutions, pawnshops, leasing companies, and other participants of the nonbank financial services market.

In a new subsection Indicators of Performance of Participants of Nonbank Financial Services Market on the Statistics page of the NBU official website, the publication of performance indicators of insurance companies, credit unions, financial institutions, pawnshops, leasing companies has been launched.

Taking into account the needs of the expert community, the NBU expanded the list of indicators and published the statistical data on loans to large, medium, small, and microenterprises being legal entities (SMEs) in the new sections – Loans to SMEs and Interest Rates under New Loans to SMEs – of the NBU official website.

The NBU complies with the Special Data Dissemination Standard (SDDS) for financial and external sector statistics in full. To ensure a gradual transfer of Ukraine to the expanded SDDS Plus standard, the NBU started – in accordance with the State Statistics Development Program through 2023 – the dissemination of certain indicators of financial resilience of nonbank financial institutions, and statistical indicators of securities based on the economic sectors of issuers.

The NBU ensured the further development of external sector statistics according to the requirements of international and European standards. According to the Joint Action Plan with the State Statistics Service of Ukraine, the authority on the publication of statistics on foreign direct investment (FDI) was transferred to the NBU in order to form a single data source. At the same time, FDI accounting was improved to include the reinvested income of nonfinancial corporations, and the publication of data on FDI flows by types of economic activity, country and region was launched to improve the comparison of the statistical data from Ukraine with other countries.

For further conforming external sector statistics with the System of National Accounts (SNA), the calculation of export-import volumes of financial intermediation services indirectly measured (FISIM) was introduced

and a retrospective revision of balance of payments data was performed.

The Rules for Generating Bank Common Supervisory Reporting under the COREP XBRL standard were approved according to the world practice of information disclosure. In addition to the reports on calculation of liquidity coverage ratio (LCR), banks started to submit reporting on calculating the net stable funding ratio (NSFR) and data on minimal operational risk.

The work on generating the bank financial reporting data in the FINREP standard was also carried out. The amendments to the Rules for Generating and Releasing Consolidated Financial Reporting of Banks in line with FINREP XBRL Taxonomy, Techniques of Indicators Generating, Rules for Validation of Table Templates under Basic FINREP Model, and Methodological Recommendations of Data Complete Model were approved. A draft of a new reporting file on the distribution of financial liabilities was proposed for the consideration of the banking community.

Projects of new statistical reporting were prepared on operational risk events, interest rate risk in the banking book, and on a new capital structure in accordance with the COREP taxonomy, as well as projects of new statistical reporting on problem asset management according to the FIREP and COREP taxonomies.

To obtain data under the FINREP/COREP taxonomies, the Rules for Statistical Reporting

to Be Submitted to the National Bank of Ukraine were amended.

The NBU continued to implement the latest technologies for surveys of current business. In autumn, the mobile application Monthly Business Outlook Surveys became available for downloading at Play Market and App Store. This application is the most convenient way for surveying respondents in the central banks of the world.

The application has a simple registration and offers a convenient interface in Ukrainian or English, personal settings of reminders, receipt of push messages on participation in surveys and other important events (meetings with business persons, releases of publications, etc.), and expanded service functionality. At present, over 10% of respondents fill in questionnaires through this mobile app.

The NBU continued to hold regular meetings with the heads of enterprises in order to anchor inflation expectations, maintain bilateral communication with the business community, inform on its activities and discuss topical issues,. During the October online conference with the representatives of over 80 companies of all types of economic activities and regions, the central bank discussed the issues of the banking sector overcoming the crisis, the development of lending, the latest trends on the Forex market, financial monitoring, and infrastructure development.

Internal Audit

In 2020, the Internal Audit Department assessed the NBU's corporate governance processes and helped improve them, as well as audited risk management and internal control processes.

During 2020, the Department conducted 23 audits to assess the effectiveness of risk management and internal controls over the core activities of the NBU's operating units. These included audits of the implementation of IMF recommendations based on the results of an assessment of safeguards and pursuant to the Memorandum of Economic and Financial Policies with the IMF.

The audits were conducted in accordance with the Plan for Internal Auditing of the NBU's operating units, which was approved by the NBU Council.

Those planned audits covered all areas of the NBU's operation and used process- and risk-based approaches to the auditees.

In 2020, the Internal Audit Department regularly communicated the audit results and the identified risks to the NBU Council, the Council's Audit Committee, and the NBU Board. The findings of the audits were used frequently during meetings of the Council and its Audit Committee

to assess the performance of the internal control function.

The NBU also implemented a comprehensive program for quality assurance and internal audit improvement in 2020. It includes a program for the ongoing professional development of auditors at the internal Audit School established for NBU employees.

Please be informed that the high quality of the NBU's internal audit was previously confirmed by independent external experts. Pursuant to the Law of Ukraine *On the National Bank of Ukraine*, the conformity of the NBU's internal audit to the International Standards for the Professional Practice of Internal Auditing was affirmed by the report and conclusions of independent experts from De Nederlandsche Bank. The independent external assessment acknowledged the maturity, considerable progress and substantial improvement of the internal audit function at the NBU. The NBU received the highest possible score for the quality of its internal audit – “Level 5: Optimizing” – in the scale of assessment for public sector organizations (including central banks) that sets the highest standards, principles, and requirements for effective internal audit.

Research at the NBU

In 2020, the NBU's research team was strengthened by doctorate graduates from the University of Cambridge, University Carlos III of Madrid, and George Mason University and expanded the range of research.

With the aim of sharing ideas and experience, the NBU conducted a number of events in 2020. Particularly, the Labor Market and Monetary Policy annual research conference (28–29 May 2020), the Banking Sector and Monetary Policy: Development Prospects conference for students and young researchers (15 May 2020), 11 open research seminars and a workshop on monetary policy (25 lectures). The research division also participated in the organization of the international conference, Central Bank Digital Currencies: New Opportunities for Payments.

Traditionally, the major research event was certainly the Labor Market and Monetary Policy annual research conference, which was jointly organized by the NBU with the National Bank of Poland (for details, please see the Annual Research Conference on Labor Market and Monetary Policy Section, which covers the event).

Also, the NBU together with the Kyiv School of Economics organized the fourth conference for students and young researchers, which attracted the attention of foreign participants as well. The submitted working papers were peer-reviewed and the best of them were published in the NBU's journal [Visnyk of the National Bank of Ukraine](#).

Researchers from the European Central Bank, the Bank of Lithuania, University Carlos III of Madrid, Bocconi University, the University of Manchester, the Paris School of Economics, and other renowned academic centers presented their research results during the 11 open seminars. Discussions about ideas and research results contributed to establishing contacts and launching new projects.

In 2020, the NBU continued its cooperation within the Canada-IMF technical assistance project, NBU Institutional Capacity Building. With this program's support, experts from the NBU and IMF were jointly involved in the following:

- studying the specifics of Taylor's rule application based on real time data
- determining a correlation between foreign cash and distribution of business cycles
- modeling a structure of sovereign debt to look for ways of its better management
- analyzing interconnections between wages and the unemployment rate in Ukraine based on the information about online job vacancies from the OLX.ua platform.

The results of the research work was used in an article published in the international peer-reviewed journal (2020). Shock contagion, asset quality and lending behaviour: The case of war in Eastern Ukraine. *Kyklos*) and in a series of working papers, including:

- Faryna O., Pham T., Talavera O., Tsapin A. (2020) Wage Setting and Unemployment: Evidence from Online Job Vacancy Data. Global Labor Organization Discussion Paper;
- Arias J., Talavera O., Tsapin A. (2020) Bank Liquidity and Exposure to Industry Shocks;
- Kiiashko S. (2020). Optimal Time Consistent Government Debt Maturity, Fiscal Policy and Default. NBU Working Papers.

In 2020, the NBU's researchers continued to improve their qualifications. This created new opportunities for research with results that can be read in the following materials:

- (2020). Uncovered interest parity with foreign exchange interventions under exchange rate peg and inflation targeting: The case of Ukraine. IHEID Working Papers
- (2020). A New Financial Stress Index for Ukraine. IHEID Working Papers, 15-2020. Geneva: Graduate Institute of International and Development Studies.

Being aware of the need to develop education and having a positive experience in organizing educational events from the previous year, the NBU organized the competition, [Monetary Policy: the NBU University Challenge](#) for the second consecutive year. The winner received the Cup of the NBU Governor. The geography of the 2020 event was significantly broadened – four new regions and 13 new teams joined the event. The winners and finalists of the competition were invited to join the internship programs at the NBU. It is worth noting that Elisabeth Curtis, PhD (Dartmouth College), the competition's mastermind and honorary judge, this year mentored a prize-winning team at a similar competition administered by the U.S. Federal Reserve System.

In May-June, the NBU also launched a new student case-championship entitled, *Coronacrisis: the NBU Strikes Back*. Participants of the championship had to develop creative recommendations – and those relevant to the NBU's mandate – for the economy to emerge from the crisis caused by the coronavirus pandemic. During the championship, the NBU experts conducted a series of useful webinars for the participants.

Annual Research Conference on Labor Market and Monetary Policy

This year the Annual Research Conference (ARC), organized jointly with Narodowy Bank Polski and supported by Kyiv School of Economics and the Government of Canada, reviewed the relationship between monetary policy and the labor market. Due to the global pandemic, the conference has gone virtual. Although the new format imposed some limitations, it also provided a range of benefits. In particular, the online event allowed to reach a wider audience, attracting the attendees from more than 32 countries.

Professor Robert E. Hall (Stanford University) delivered his key lecture on How the Reemployment Process Governs US Business-Cycle Recoveries and the Governor of Sveriges Riksbank Stefan Ingves shared his insights on the central bank challenges. Jordi Gali (University Pompeu Fabra), Yuriy Gorodnichenko (University of California, Berkeley), Federico Ravenna (Danmarks Nationalbank), Fatih Guvenen (University of Minnesota) and other well-known experts and prominent researchers participated in the conference as speakers and discussants.

The presentation by Sergii Kiiashko, Monetary Policy and Economic Analysis Department

of the NBU, warrants special attention as it covered the joint research project with Paweł Kopiec from Narodowy Bank Polski on Migrations, Long-run Fiscal Sustainability and Economic Unions.

The ARC 2020 was a headline event of Ukraine Economy Week that featured multiple open discussions, interviews, workshops and a three-day lecture series by the ARC speakers David Berger (Duke University), Davide Furceri (International Monetary Fund) and Bart Hobijn (Arizona State University) attended by the students from 76 educational institutions from 18 regions of Ukraine. The best students from different regions of Ukraine were also invited to join a networking session with the speakers (Inspirational Breakfast).

The papers presented at the ARC on Labor Market and Monetary Policy were accepted for publication in a special edition of [the Journal of Money, Credit and Banking \(JMCB\)](#).

It is an important achievement as the JMCB is one of the leading academic publications in the field of monetary and macroprudential policies and banking.