the country’s
largest
universal bank

ZVISNO,
OSCHAD
Manifesto
2014

Year of 2014
The country is changing, the bank is changing, and we are changing. Oschadbank’s manifesto is a system of values defined by employees for employees and customers.
This is an internal philosophy and our working principles. The program of actions and deeds.
Our public commitment to millions of Ukrainians.
It starts with the following words: “My country is changing, and I do care because I want to live here”.
This is the basis of our aspiration to change and initiate change.
It is expressed only with those words and statements which are close and easily understood by us, because in 2014 we committed to be fully responsible for fulfillment of these obligations.

Year of 2018
And today – four years later upon introduction of the Manifesto – we are ready to present true facts of changes as per each of its lines, as per each of the obligations undertaken.
The year of 2018 became the year of the new strategy implementation – the Leadership Strategy for the years of 2018-2022.
This is a crucial point of our life as the bar has been set.
JSC «Oschadbank»
Consolidated Management Report

To JSC «Oschadbank» consolidated financial statements for the year ended December 31, 2018
<table>
<thead>
<tr>
<th>Section Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address of the Chairman of the Supervisory Board</td>
<td>7</td>
</tr>
<tr>
<td>Address of the Chairman of the Management Board</td>
<td>8</td>
</tr>
<tr>
<td>Section 1. Nature of business</td>
<td>15</td>
</tr>
<tr>
<td>Macroeconomic environment and competitive position of the Bank</td>
<td>16</td>
</tr>
<tr>
<td>Brief description of the current business model</td>
<td>17</td>
</tr>
<tr>
<td>Main products and services</td>
<td>19</td>
</tr>
<tr>
<td>Section 2. Management objectives and strategy of their achievement</td>
<td>21</td>
</tr>
<tr>
<td>Mission, goal and corporate values</td>
<td>22</td>
</tr>
<tr>
<td>The Modernization Strategy for the years of 2015-2017</td>
<td>22</td>
</tr>
<tr>
<td>The Development Strategy for the years of 2018–2022</td>
<td>26</td>
</tr>
<tr>
<td>Section 3. Performance results and further growth</td>
<td>29</td>
</tr>
<tr>
<td>Major events of the year 2018</td>
<td>30</td>
</tr>
<tr>
<td>Results of the year 2018</td>
<td>30</td>
</tr>
<tr>
<td>Prospects for further growth</td>
<td>32</td>
</tr>
<tr>
<td>Section 4. Key resources of the bank</td>
<td>35</td>
</tr>
<tr>
<td>Human capital</td>
<td>36</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>36</td>
</tr>
<tr>
<td>Capital, liquidity and cash flows</td>
<td>39</td>
</tr>
<tr>
<td>Section 5. Risk management</td>
<td>43</td>
</tr>
<tr>
<td>Risk management strategy, system and policy</td>
<td>44</td>
</tr>
<tr>
<td>Compliance</td>
<td>48</td>
</tr>
<tr>
<td>Basic principles of internal control system organization</td>
<td>48</td>
</tr>
<tr>
<td>Impact of requirements set forth in the NBU Resolution No. 64</td>
<td>49</td>
</tr>
<tr>
<td>Significant types of risks and plans as to their mitigation</td>
<td>49</td>
</tr>
<tr>
<td>Section 6. Relations with the shareholder, related parties and strategic partners</td>
<td>51</td>
</tr>
<tr>
<td>Relations with the shareholder</td>
<td>52</td>
</tr>
<tr>
<td>Relations with related parties</td>
<td>52</td>
</tr>
<tr>
<td>Cooperation with the EBRD</td>
<td>53</td>
</tr>
<tr>
<td>Section 7. Corporate governance</td>
<td>55</td>
</tr>
<tr>
<td>Updated corporate governance model</td>
<td>56</td>
</tr>
<tr>
<td>Current status of implementation of changes</td>
<td>56</td>
</tr>
<tr>
<td>Section 8. Organizational development</td>
<td>59</td>
</tr>
<tr>
<td>Organizational structure</td>
<td>60</td>
</tr>
<tr>
<td>Information on managers and officials</td>
<td>61</td>
</tr>
<tr>
<td>Principles of the Bank’s corporate standards</td>
<td>62</td>
</tr>
<tr>
<td>Section 9. Environmental and social aspects of activity</td>
<td>63</td>
</tr>
<tr>
<td>Environmental aspects</td>
<td>64</td>
</tr>
<tr>
<td>Social responsibility</td>
<td>64</td>
</tr>
<tr>
<td>Section 10. Awards and recognition of the bank in the reporting period</td>
<td>67</td>
</tr>
</tbody>
</table>
Within the five years Oschadbank has done incredible things

Within the five years Oschadbank has done incredible things – transferred from technologically lagged rudiment of the Soviet period to the largest country’s modern universal bank.

This can be clearly depicted by trends in market standing change, leading positions in various national and international ratings of banks and companies, expert evaluations, feedback from customers in social networks.

Well, yes, there is room for improvement and growth, but even now we can proudly say – at this historic moment, the top management led by Andriy Pyshnyy has successfully managed to fulfill their task and ensure modernization of the oldest bank in the country with the largest network and a large portfolio of old problems. The team deserves to pursue further course of Oschadbank’s development and leadership, set forth in its strategy for the years of 2018–2022, which was approved by the Government and adopted by our international partners, in particular, the European Bank for Reconstruction and Development.

I am convinced that in a mid-term perspective Oschadbank has true opportunities to become an absolute leader of the Ukrainian banking system, and therefore, prove the fact that public companies can change and become modern, technologically advanced and able to compete on equal terms with the rest of market participants. The Management Board is ready for changes of corporate governance according to the best world practice in order to boost Oschadbank’s growth and maximize its shareholder value on the threshold of its partial privatization. I am grateful for the honor to work in one team and would like to resort to my followers, to members of the new Supervisory Board.

Dear colleagues, you will work together with one of the best teams in the Ukrainian banking sector, which in the most difficult times managed to safeguard the bank, ensured prospects for its further development and took it to the leading positions in those market segments where it has never been present before – in online banking, e-commerce, retail, small and medium-sized enterprises segments. This is the team of winners, and I am sure, together you will gain more than one great win. And then you will be able to express similar sincere thanks and admiration I am sharing now with you.

I wish new accomplishments and enthusiasm for further joint work both to the Management Board of Oschadbank and the new Supervisory Board. I am convinced you will do it. So, move on, onwards and upwards!

Sincerely,
Chairman of the Supervisory Board of JSC «Oschadbank»

Roman Hreba

We will never be the same we were before

«Looking back at the events of the previous year which we have endured together with our country, I realize that we will never be the same we were before», – this is the sentence used five years ago in my welcome speech to Oschadbank Development Strategy for the years of 2015–2017. The modernization strategy of the country’s oldest bank with the largest branch network.

This is the first time we present bank’s annual report in such format. And it is impossible to present our 2018 results without analyzing previous four years. Moreover, it was not easy, but fascinating way.

Year of 2014

The country and we withstood hit. The reality was changing, and it was necessary to make pivotal decisions to survive and create a platform for our own perspective. «Change or disappear» is the story of 5 years ago both about the country and Oschadbank.

I remember when in autumn of 2014, during the first strategic session, I set for my team a goal of becoming a leading bank. Under those conditions it sounded – to put it mildly – weird, at the threshold of adequateness. Rather similar reaction was noticed in the eyes of my colleagues. Although I was well aware of the level of existing problems, and even more – the level of my personal responsibility and that of Board members. In the end, we have implemented 90% of that modernization strategy which allowed the bank to be amongst leaders.

We stopped outflow of the resource base in summer of 2014. And at the end of the same year, our resource base was restored and began to increase. The bank has become the leader in terms of growth of individuals’ deposits. In 2016, this allowed to repay NBU refinancing loans recorded in the balance sheet of the bank since 2008 and amounting to more than UAH 20 billion – in advance and in its entirety.

We built a new modern bank inside the old bank – 600 branches of the new format. 20 of them are fully inclusive – the first ones in Ukraine and throughout Central and Eastern Europe. There are also mobile branches based on KrAZ vehicles. We created premium banking from scratch. If it were a separate bank, it would be one of the top-3 banks in the country based on the deposit portfolio. However, present-day banking is not just a network of bank branches, but rather digital technologies and online services. Five years ago, Oschadbank had only 13,000 users of its «Oschad 24/7» app. And I would like to meet each of them.

After all, functionality of the old app was a bit of a quest. Instead, we developed digital technologies and online services. Five years ago, Oschadbank had only 13,000 users of its «Oschad 24/7» app. And I would like to meet each of them.

Within the five years Oschadbank has done incredible things
and implemented a new, user-friendly app, and in fact, built from scratch an online banking ranked second in the country in terms of popularity and number of users (3,500,000 users).

We also came second in the market by the number of active payment cards and POS-terminals in retail store networks, though previously in these areas we lagged ourselves somewhere in the 20th and 30th places. Thanks to our strong competence, recognized international and Ukrainian trademarks such as McDon-al’d’s, Auchan, H&M, Turkish Airlines, KFC, DHL, TUI, PZU, Nova Poshta, Epicenter, ATB, Rozetka, SOCAR and many others have become customers of our acquiring services.

We have established a new business line aimed to support small and medi-

and-sized enterprises. We have developed an unprecedented targeted program «Build Your Own» and compete with the market leaders in this segment.

Oschadbank placed domestic municipal bonds of Lviv City Council in the amount of UAH 440 million, and it was the first placement in Ukraine in the last four years. The specific strategically important task was to work with a non-performing loan portfolio, which had rapidly increased following the annexation of Crimea and the war in Donbass, as well as the state of the national economy resulting from those events (i.e. deep industrial, monetary and bank crisis). In order to fulfill this task, the bank’s organizational structure was changed, and a new division established, having gathered the best lawyers in the market. We have won court cases and the opportunity to recover damages incurred to the bank by unscrupulous borrowers.

According to the Law of Ukraine «On Financial Restructuring», we launched the largest process of non-performing loans restructuring among state-owned banks. We have prepared and filed a lawsuit against the Russian Federation for the lost assets of the bank in Crimea, passed complex procedures, arbitration hearings – and won!

We introduced a new risk management system, having reviewed the functional structure and powers with due consideration of the Basel Accords credit risk management standards and global best practices. Bank’s implementation of new approaches to credit risks management when forming a «new» high-quality loan portfolio, as well as a conservative approach to provisioning, has resulted in the reduction of cost of credit risk.

We have developed and implemented a modern staff development system, established new corporate culture and clearly defined the mission and values of our team. And what is more important, we have become a desirable and reliable employer.

Our team understood the role played by Oschadbank among state-owned banks and was directly involved in developing a strategy for reforming the entire state banking sector. The strategy identified ways and deadlines for commercialization, specialization and partial privatization of state-owned banks by means of equity participation of reputable international financial institutions.

European Bank for Reconstruction and Development (EBRD) has become the most likely strategic investor for Oschadbank. In summer of 2014, I went on my first overseas business trip to the EBRD headquarters in London. I went there im-

mediately after a trip to Sloviansk and Kramatorsk in Donetsk region, where oper-

ation of Oschadbank branches was resumed in 48 hours after the fighting ceased.

And in just two years, the Ministry of Finance and EBRD signed the memorandum of strategic partnership and a roadmap of the transformations that must take place for this reputed international financial institution to become a shareholder of Oschadbank along with the State. And we are approaching this strategic goal every day.

As a result of implementing our modernization strategy for the years of 2015–2017, we entered the year of 2018 with the list of accomplishments, along with solving legacy issues and having gained new skills.

A question arose: what is next?

Modernization and changes could no longer be our strategic goal, because in four years these two concepts have shifted from goals to means of our daily lives. We have learned to change and adjust, find new opportunities in new challenges, and monetize them.

As a result, new goals and a strategy for achieving them were needed. And we chose development in order to identify, understand and implement new opportuni-

ties to the greatest possible extent. Development and leadership strategy is what we need at the new stage. At the end of 2017, having applied the best interna-

tional expertise, my team and I developed a step-by-step strategy for the years of 2018–2022.

The goal of this strategy is to become the largest universal bank in the country. On the one hand, to preserve and enhance our unique leadership competencies required for work with large companies, including those from the public sector, power industry, infrastructure and agriculture. On the other hand, to take leading positions in the segments of small and medium enterprises and retail banking, becoming an even more modern and technological bank, the first-choice bank for the Ukrainian people and companies.

The new strategy was set forth in the bank’s roadmap of transformation within the framework of the memorandum of strategic partnership with the EBRD. It immedi-

ately became a new stage in the history of Oschadbank and the Ukrainian banking system.

Why is it so important?

When our new strategy was developed in early 2018, the corporate governance of the bank was not yet reformed. New independent Supervisory Board which would approve this strategy was not yet formed. In order to move forward and continue transformation of the bank, we had no choice but to submit this important docu-

ment for consideration of the shareholder – the Cabinet of Ministers of Ukraine.

This is what we did. The Government reviewed and successfully approved it. And, by the way, this is an unprecedented case both in the history of the bank and the Ukrainian banking system. Several important markers of this strategy by the year 2022: increase in assets up to UAH 334 billion, ensure CIR of 63% and ROE of 12%.

Year of 2018

Given the objectives of the adopted strategy, we have challenged ourselves with eight priorities for the year of 2018.

Loan portfolio diversification and business model change.

What should the business model (loan portfolio) look like in 2022: corporate sector – 64%, retail sector – 22%, small and medium-sized enterprises sector – 14%.

What did it look like in 2014: 95% of the loan portfolio – loans to legal entities; 5% of the loan portfolio – loans to individuals (91% of them – in default); 0% – small and medium-sized enterprises sector.

The current business model as of the end of 2018: 87% of the loan portfolio – loans to legal entities (large corporate business), 8% – loans to individuals, 5% – loans to small and medium-sized enterprises.

Moreover, we managed to reduce the share of large corporate business portfolio and also ensured its significant diversification, having reduced the public sector share from 40% to 36%.

Increase of fee and commission income.

Five years ago, we came seventh in the market by amount of fee and commission income and eleventh by its increase, and it covered only 38% of bank’s administra-

tive costs (including network maintenance and staff remuneration). Currently, we rank second in the market, and bank’s fee and commission income covers 63% of administrative costs which is consistent with average market indicators.

Priority 1:

Given the objectives of the adopted strategy, we have challenged ourselves with eight priorities for the year of 2018.

Loan portfolio diversification and business model change.

What should the business model (loan portfolio) look like in 2022: corporate sector – 64%, retail sector – 22%, small and medium-sized enterprises sector – 14%.

What did it look like in 2014: 95% of the loan portfolio – loans to legal entities; 5% of the loan portfolio – loans to individuals (91% of them – in default); 0% – small and medium-sized enterprises sector.

The current business model as of the end of 2018: 87% of the loan portfolio – loans to legal entities (large corporate business), 8% – loans to individuals, 5% – loans to small and medium-sized enterprises.

Moreover, we managed to reduce the share of large corporate business portfolio and also ensured its significant diversification, having reduced the public sector share from 40% to 36%.

Increase of fee and commission income.

Five years ago, we came seventh in the market by amount of fee and commission income and eleventh by its increase, and it covered only 38% of bank’s administra-

tive costs (including network maintenance and staff remuneration). Currently, we rank second in the market, and bank’s fee and commission income covers 63% of administrative costs which is consistent with average market indicators.
We cooperated with the EBRD and Frankfurt School of Business to train credit managers and prepare a microcredit program. As a result, in 2018 alone, the loan portfolio of small and medium-sized enterprises increased by 67%, or UAH 1.4 billion, and exceeded UAH 3.5 billion. The deposit portfolio in this segment amounts to UAH 16.7 billion. We have launched the Corplight mobile app and now entrepreneurs have the opportunity to transfer their business to a smartphone and manage it 24/7.

**IT platform. «UnifiedData» Project.**

We were trying hard to create a single IT platform. Previously, Oschadbank had 300 different MFPs and 26 ABS of four different types. Now, a «one-stop shop» database has been established to serve customers. The next step is to configure business processes for the new level of service we are striving for. The new system provides in-depth analysis, identifies customer needs and offers up-to-date services. It helps to build new and modify existing approaches to customer service. As a result, customers will be able to benefit from all existing products and services. As a result, customers will be able to benefit from all existing products and services.

**Implementation of risk management requirements.**

In 2018, the National Bank of Ukraine approved new risk management approach for banks and banking groups of Ukraine (NBU Resolution No 64). As a result, Oschadbank is now focused on implementation of standards, requirements and principles of risk management system update. We have developed an action plan for implementation of risk management requirements.

In 2018, Oschadbank conducted 7 financial restructuring procedures amounting to UAH 16 billion. In total, the bank conducted 14 financial restructuring procedures amounting to about UAH 23 billion.

Therefore, it is not surprising that Oschadbank’s team has been recognized as the best one in the Ukrainian banking system according to the «Best Legal Department 2018» rating.

**Growth in the retail sector.**

Oschadbank has become the leader in terms of growth of individuals’ deposits and almost tripled its market share – from 7.12% in 2014 to 21.92% by the end of 2018. In 2018 alone, market share increased by 2.31 p.p. The bank has gained leadership in the mortgage market. It occupied 14% of the auto loan market, although two years ago it did not issue any auto loans at all. We rank second in the card market, where the number of active cards has reached 6.1 million.

We are developing our «Oschad 24/7» app and filling it with new products and services. We were among the first Ukrainian banks to introduce Google Play and Apple Play. Our premium banking has been recognized as the best one by the international magazine «Euromoney», as well as by the leading British magazines «PWM» (Professional Wealth Management) and «The Banker», belonging to the Financial Times Group.

In 2018, for the third time in a row, Oschadbank was at the top of the reputable national rating «50 Major Banks of Ukraine», and for the first time, gained nomination of the most technologically advanced bank at FinAwards.

We must pay tribute to the e-commerce team for pioneering the creation of a cashless space at the venues of the biggest national festivals, e.g. Atlas Weekend and Ulitsniya Eda, the Champions League Final at NSC «Olimpiyskiy». The bank together with Visa and Mastercard ensure large-scale introduction of NFC contactless payment technology at Kyiv Metro and other public transport in the Ukrainian cities. Besides, we confidently rank second in the merchant acquisition market, where the number of bank’s POS-terminals in retail store networks has reached 45,000. 87% of transactions in our retail network are made through remote channels and only 13% at bank tills. Five years ago, it was vice versa: more than 80% of transactions were cash transactions at bank tills.

According to GFK, the net promoter score (NPS) of Oschadbank has quadrupled – from 8% in 2015 to 32% in 2018. The share of those who are ready to promote the bank among their families, relatives, friends and colleagues, has increased from 32% to 48%. This is the highest dynamics of all banking sector. Thus, changes at Oschadbank were noticed and recognized by the Ukrainians, which is the highest appreciation of our team’s work.

In 2018, «Oschadbank» brand entered the national rating «The Top-100 Most Expensive Brands in Ukraine» by «Novoe Vremia» magazine and MPP Consulting, having increased its value by 71% compared to the previous year.

**Support for small and medium-sized enterprises.**

**Year of 2019. Our plans for the future.**

We are planning to introduce a single MFO and transfer to a new technological
level – launch complete digitalization of all processes, implement a large-scale innovative project «Integra», developed jointly with Deloitte. We continue to invest in the IT platform and information security.

We will soon experience a change of corporate governance – the appointment and start of work of the new Supervisory Board, mostly consisting of independent members. This means that the bank will acquire additional expertise, new internal regulations will be put in place for better interaction within the team. And my personal task is to ensure the quickest and most profound involvement of new Supervisory Board members into the bank’s problems to update the strategy and fulfill its tasks.

We are facing dozens of tasks and intentions, projects and initiatives. And their implementation requires not just a new corporate governance based on global best practices, but also consistency and succession of the team and the course that have changed and developed the bank.

For the past five years, Oschadbank’s team has demonstrated unique qualities pertaining not only to professionals but also to fighters. I am proud about it. The core of our team was formed in 2014–2015. Ambitious people joined us. And they were not motivated by salary, but by desire to accept a challenge, responsibility and, of course, to realize their potential.

We have built a new corporate culture inside the bank. And we started with the Manifesto, our code of life values and principles that we believe in. Our first Manifesto started with the words «My country is changing, and I do care, because I want to live here...». And then, the paradigm: the country changes, the bank changes, I change.

We started changes with ourselves. And now Oschadbank has a pool of staff, its own open and democratic communication system. All Oschadbank employees obtained the opportunity to grow and become leaders in their fields. We have a full range of professional development courses, and even our own banking equivalent of an MBA which has already graduated five waves of managers.

We have changed the bank which is now changing the country. Together with us, Ukrainian start-ups are growing and large business is getting more powerful. Together with us, millions of Ukrainians make their first steps and plan their future», these are the words from our new Manifesto.

We are aware of challenges, we understand tasks, we are confident and optimistic about the future because Michael Jordan said, «Talent wins games, but teamwork and intelligence win championships».

We will never be the same we were before – these words are still relevant today, as they were five years ago. Meanwhile, we have become more mature, pragmatic, united and ready to compete for leadership with the best ones. Thanks to our current and future customers. Join us and stay with us. To be continued.

Chairman of the Management Board of JSC «Oschadbank»

Andriy Pyshnyy
Section 1.
Nature of business

Macroeconomic environment and competitive position of the Bank

Macroeconomic indicators

JSC «Oschadbank» (hereinafter referred to as the «Bank» or «Oschadbank») conducts its activity in Ukraine. Currently, political and economic situation is gradually stabilizing, though the economy still presents characteristics typical of economies of developing countries.

Ukraine has experienced moderate growth and stabilization of the macroeconomic situation for the third consecutive year. During 2018, Ukraine’s economy continued to recover alongside the increase of domestic consumer demand, moderate investment activity as well as record-breaking harvest of grains. In 2018, real GDP grew by 3.3% (in 2017 – by 2.5%).

Moreover, for the first time in the last 5 years it was managed to reduce the inflation rate to the level below the double-digit threshold (9.8%). This was contributed by reasonable monetary policy of the NBU, relative stability of the exchange rate, expansion in the domestic supply as well as reduction of the global prices for foodstuffs and energy products.

The progress in economic development is reflected in the strengthened credit rating of Ukraine. In particular, in December 2018, Moody’s international rating agency upgraded the sovereign rating of Ukraine from Caa2 to Caa1.

In addition to Ukraine’s internal economic situation, the Bank’s activity and performance results are also impacted by external macroeconomic environment. The tightening of monetary policy by the FRS and the ECB, as well as deterioration of trade relations between the United States, the European Union and China since the beginning of 2018, have increased the risk of capital outflows from developing countries and had a negative impact on the cost of Ukraine’s external government bonds placement in 2018.

For more information on this issue, refer to Note 2 of the consolidated financial statements.

Banking sector

The overall situation in the banking sector has improved. The banking system continued to recover from the crisis and for the first time in recent years achieved a positive financial result. At the end of 2018, profit amounted to UAH 22 billion. Positive factors include the recovery of retail lending and growth in net lending. In 2018, the net loan portfolio of individuals increased by UAH 22 billion across the system, or + 24% compared to 2017. The growth rate of the net loan portfolio in 2018 reached 6% against 1% in 2017.

These changes occurred despite an increase in the discount rate in 2018. During the year, the NBU discount rate raised four times: from 14.5% at the beginning of the year to 18% in September 2018, after which it remained unchanged until the end of the year. Hryvnia deposit and loan rates changed the trend and started to grow rapidly, keeping the spread (the difference between loan and deposit rates) at the level of previous years.

The number of banks has continued to decline: the figure dropped to 77 in 2018 compared to 82 in 2017. A high proportion of non-performing loans remained a negative factor affecting the sector; in 2018, it was 53% against 55% in 2017.

According to international experts, the average annual GDP growth rate in Ukraine in the years of 2019-2020 is estimated at 3%. The combination of better economic conditions and a more stable national currency will help boost demand for loans and improve the loan repayment capacity of borrowers, while maintaining bank
profitability. In addition, reduction of geopolitical risk has increased the stability of bank deposits, reducing the pressure on the liquidity of the banking system. Comparing Ukraine’s banking sector to neighboring Eastern European countries, such as Poland, Hungary and the Czech Republic, a significant development potential can be observed. Thus, in Ukraine, the share of retail loans in the entire loan portfolio is less than 20%, while in the neighboring countries it exceeds 40%. At the same time, Ukraine’s deposit to GDP ratio is 27%, compared to an average of 66% for its neighbors. The ratio of net lending to GDP in Ukraine is 17%, while the benchmark of the neighboring countries is close to 60%. Interest rates reduction and revenue growth should help exploit the potential of the banking sector in the coming years.

Competitive position of the Bank

Oschadbank is one of the systemically important banks in Ukraine. The Bank ranks second in terms of assets and net loan portfolio. It is the largest bank in Ukraine in terms of liabilities in the corporate sector and the second one in terms of liabilities in the retail sector. Oschadbank is the largest bank in Ukraine by the number of branches and the second one by the number of ATMs and terminals. Picture 1.1 presents information on the competitive position of the Bank.

Brief description of the current business model

The Bank’s business model is defined by the Development Strategy of JSC «Oschadbank» for the years of 2018-2022 (hereinafter referred to as the «Development Strategy»), which was approved by the Cabinet of Ministers of Ukraine in February 2018. According to the Development Strategy, the Bank is universal, with priority given to development of the retail, micro, small and medium-sized business sectors (hereinafter referred to as the «MSME»), while maintaining a leading position in the corporate lending sector.

Today, the Bank’s assets are divided between an investment portfolio (54%), a loan portfolio (31%) and other assets (15%). The investment portfolio consists mainly of securities (domestic government bonds), a significant portion of which was obtained when the shareholder increased the authorized capital of the Bank.

As of the end of 2018, 87% of the loan portfolio was represented by loans to corporate customers, 8% - by loans to individuals and 5% - by loans to MSME. Personal funds constitute 62% of deposit portfolio and corporate funds constitute 38%.

The majority of the Bank’s interest income comes from loans to legal entities and securities investments. This ensures generation of interest income at a sufficient level and enables to maintain the size of assets, in line with the Development Strategy of Oschadbank as a major universal bank.

The Bank aims to improve the relative profitability of the loan portfolio through diversification by increasing the proportion of retail business loans (from 8% to 22%) and loans to MSME (from 5% to 14%) and reducing corporate business share (from 87% to 64%) by 2022. At the same time, the share of securities in assets will be reduced from 54% to 35%, while the share of loans will increase from 31% to 52%.

The planned changes in assets are shown in Picture 1.2.

Historically (until 2014), Oschadbank’s activity was not focused on active operations in retail business and MSME. Therefore, in order to increase the share of retail business and MSME loans in the loan portfolio, over the last five years the Bank has almost from scratch established the necessary processes, created an appropriate technology platform and launched new products to serve the mentioned categories of customers.

Picture 1.1: Competitive position of Oshadbank among the largest banks of Ukraine

<table>
<thead>
<tr>
<th>Bank</th>
<th>2018</th>
<th>2017</th>
<th>Net loan portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oschadbank</td>
<td>11</td>
<td>13</td>
<td>Net loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Corporate business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan and deposits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Retail business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Net loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
<tr>
<td>PrivateBank</td>
<td>9</td>
<td>3</td>
<td>Net loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Corporate business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan and deposits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Retail business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Net loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
<tr>
<td>Commercial Bank ABAB</td>
<td>8</td>
<td>9</td>
<td>Net loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Corporate business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan and deposits</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Retail business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Net loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liabilities</td>
</tr>
</tbody>
</table>

Picture 1.2: Changes in the bank’s business model during the period of 2018–2022

<table>
<thead>
<tr>
<th>(% of net assets)</th>
<th>Oschadbank 2018</th>
<th>Oschadbank 2022 (according to the Strategy)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Corporate loans</td>
<td>26%</td>
<td>33%</td>
</tr>
<tr>
<td>MSME loans</td>
<td>2%</td>
<td>64%</td>
</tr>
<tr>
<td>Loans to individuals</td>
<td>87%</td>
<td>7%</td>
</tr>
<tr>
<td>Securities</td>
<td>54%</td>
<td>14%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>22%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
The effectiveness of the current model is supported by low cost of customer resource base comparing to weighted average market indicators. This is mainly due to the retail segment: Oschadbank has one of the lowest interest rates on deposits and current accounts. Picture 1.3 provides a comparison of the cost of Oschadbank’s customer deposits with the market ones.

Picture 1.3: Comparison of the cost of Oschadbank’s customer deposits with the market

Structure (as of the end of 2018) and cost of customer deposits (in 2018)

<table>
<thead>
<tr>
<th>Deposits of individuals</th>
<th>Deposits of legal entities</th>
<th>Weighted average interest rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.0%</td>
<td>9.0%</td>
<td>8.4%</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

In order to maintain a low level of customer deposit cost, Oschadbank intends to increase the share of customer account balances as a low-cost and projected resource for financing ongoing operations, while ensuring management of fixed-term liquidity gaps, creating a sufficient level of highly liquid assets and meeting the NBU standards.

Section 3 hereof provides more details on the actual implementation of plans broken down by business sectors.

**Main products and services**

As a universal bank, Oschadbank offers its customers a wide range of banking products and services.

The main products of the retail business include:

- Passive products: term deposits, payroll programs, pension and social accounts and debit cards;
- Active products: auto loans, consumer loans and mortgages, credit cards, participation in government incentive programs for energy efficiency;
- Products generating commissions and trading income: payments of individuals, national and international transfers, rent of individual safes, foreign exchange transactions and transactions with banking metals;
- Additional services: remote service system «Oschad 24/7»

The main products of MSME include:

- Passive products: term deposits and current accounts of corporate customers;
- Active products: project financing, loans and overdrafts for corporate business, loans/obligations/leasing - financing of municipalities’ development budgets, investment projects, construction financing and refinancing of energy generating companies in the sphere of alternative energies.

with the German-Ukrainian Fund, microcredit programs, guarantees and bills avalization;

**Additional services:**

- System for remote account management for MSME customers «Corplight», which meets the requirements of the present-day market;
- The «Build Your Own» program, which aims to develop small business in Ukraine and includes four elements: training on a separate portal «Build Your Own», partner discounts for Oschadbank customers, Bank’s products (bank account, corporate card, «Corplight» remote service system) and business financing as part of standard MSME programs.

The main products of corporate business include:

- Passive products: term deposits and current accounts of corporate customers;
- Active products: project financing, loans and overdrafts for corporate business, loans/obligations/leasing - financing of municipalities’ development budgets, investment projects, construction financing and refinancing of energy generating companies in the sphere of alternative energies.
Section 2.

Management objectives and strategy of their achievement

Mission, goal and corporate values

The mission, goal and corporate values of the Bank have remained unchanged for 5 years. Defined in February 2015, they are essential for both the Strategy of JSC «Oschadbank» for the years of 2015-2017 (hereinafter referred to as the «Modernization Strategy») and the Development Strategy for the years of 2018-2022.

The Bank’s mission is to change and initiate positive change in the country, to be the bank of the first choice, emotionally close for all Ukrainians.

The strategic goal is to achieve the status of the largest universal bank in the country, Bank No. 1.

The corporate values of the Bank are:

- **Human**
  We strive to become the number one Bank for Customers and Employees. Our team is the driving force for positive change. Each member of the team benefits from decent conditions for effective work, training and development. Our Customers are Partners who trust us. We create modern products and services of high quality for them. We are building a barrier-free environment in which everyone will feel comfortable.

- **Development**
  We believe that the growth of each of us is the key to success of the Bank as a whole. We are convinced that development of the largest state-owned Bank is an important contribution to building a prosperous state. We encourage initiatives at all managerial levels. We introduce innovations and are committed to meet the expectations of our Customers in all areas - from products and technologies to quality of services and communications.

- **Transparency**
  We work with honesty and transparency. We consistently adhere to the generally accepted principles, regulations of the National Bank of Ukraine and the current legislation of Ukraine. We value decency and are always committed to meet the expectations of Customers, Employees, Partners and Shareholder.

The Modernization Strategy for the years of 2015-2017

**Background**

Until 2014, the branch network of Oschadbank was the largest among Ukrainian banks, but extremely outdated. Potential customers perceived the Bank mainly as a «savings bank», that is a place to receive a pension payment and pay for utilities. The bank was far behind its competitors in terms of service level. Active product offerings for retail and MSME customers were virtually absent.

At that time, low level of automation and performance, decentralization of functions and lack of IT systems unification made it impossible to ensure efficient management, obtain economies of scale and implement modern IT solutions.

Obviously, Oschadbank had inefficiently used its strategic assets, that is the largest retail network and a large customer base.

Such inefficiency was reinforced by the underdeveloped risk management function: the balance between risk and profitability was tilted towards taking excessive risks. The Bank’s decision-making process was characterized by excessive length and complexity of procedures. The lack of accountability for final results, poor quality of service as well as low level of aspiration for improvement were signs of the corporate culture of that time.
Modernization model

The renewal of the Supervisory Board membership in 2014 by the President and the Cabinet of Ministers of Ukraine and the election of a new Management Board resulted in a qualitative transformation of the interaction between the governing bodies of the Bank. These changes had a positive effect on the Bank’s overall transformation process, mainly by ensuring consistent and effective implementation of the decisions adopted.

First of all, the new management decided to involve the leading international consultant in the development of the Modernization Strategy of Oschadbank. As early as in February 2015, the Modernization Strategy was approved by the Management Board of the Bank. The implementation of this Strategy enabled the Bank to significantly transform and create its new image. As a result, in 2016 and 2017, Oschadbank was recognized as the leading bank in Ukraine.

The Modernization Strategy was aimed to develop the Bank’s business and operational models based on the principles of customer focus, accessibility and technological effectiveness, and to create a platform for further intensive growth.

In particular, an in-depth modernization of all management systems was anticipated, as well as the creation of a basis for the development of retail banking and MSME, centralization of management, development of efficient risk management, e-commerce, IT and staff development. An important element was also to update and strengthen Oschadbank’s brand.

The Modernization Strategy was successfully implemented in the years of 2015-2017. The main achievements of these years are as follows:

- **Retail sector:**
  - The branch network was optimized (more than 1,300 of the least efficient branches were closed), a new branch format was developed and implemented (more than 560 branches);
  - The universalization of branches’ activities was implemented;
  - The share in the individual deposits market has almost tripled (from 8% to 20%);
  - A new area of activity was established from scratch: VIP-banking for premium customers;
  - Strong skills on the market of merchant acquiring were developed;
  - Innovative projects in the field of e-commerce and payment cards were implemented (contactless cards, Android Pay, etc.);
  - The lending product package was expanded and the market share was increased;
  - The decision-making process for loans (for example, mortgages and auto loans) was accelerated from several days to several hours;
  - The remote channels were developed and the share of payments made through them increased from 22% to 50%.

- **MSME:**
  - A vertical line of work with MSME customers was established from scratch;
  - A single database of MSME customers was created, segmentation of customers into micro, small and medium enterprises was ensured;
  - Product matrix fully updated;
  - Centralized system of credit administration and risk taking;
  - The simplified and standard credit process was introduced; the document package was reduced by 70%;
  - Remote channel account service system was modernized.

- **Corporate sector:**
  - A single database of existing and potential corporate customers was established;

- **Risks:**
  - Optimization of the credit process in retail business and MSME was carried out;
  - The functional structure and powers were reviewed with due consideration of the Basel Accords credit risk management standards;
  - The regulatory framework (management policy, stress tests, limits, etc.) was reviewed and simplified;
  - Risk management system was reoriented to ensure substantial growth of the loan portfolio and improvement of its quality;
  - The process of automation of the management system key elements was launched.

- **IT and organization:**
  - The Information Technology and Information Security Development Strategy of JSC «Oschadbank» for the years of 2017-2019 was approved;
  - Matrix of processes was developed and their optimization and centralization started;
  - Core management team enhanced;
  - PMO function was introduced to coordinate implementation of the Bank’s entire IT project portfolio.

- **Basic development areas of regional network of JSC «Oschadbank» institutions were adopted (approved by Oschadbank’s Supervisory Board on August 26, 2014).**

Growth rate and evolution of market position

In order to carry out the tasks set forth in the Modernization Strategy, the Bank has systematically increased its assets and operating income, as shown in Pictures 2.1 and 2.2. In particular, during the period from 2014 to 2017, the Bank’s assets increased by 23% per annum on average, and net interest income and net fee and commission income together increased by 8%, which outpaced the market as a whole.

As a result, Oschadbank strengthened its own positions in the market with regard to its main areas of activity. Thus, as recently as in 2014, the Bank with the largest branch network in the country totaling 4,9 thousand branches ranked 11th by increase of fee and commission income. In 2017, the modernized network reduced to 3,6 thousand branches and the Bank already ranked 2nd by increase of fee and commission income. The Bank moved from the 3rd place in 2014 to the 2nd in 2017 in terms of funds of customers and from the 12th to the 8th place in terms of net loans to individuals, which is significantly higher than the growth rate of the banking system as a whole.
Dynamics of assets in the years of 2014–2017

Along with assets, the Bank’s revenues also increased. At the same time, the growth rate of fee and commission income outpaced that of interest income.

### Average market growth, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets</th>
<th>Net interest income</th>
<th>Net fee and commission income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>124.5</td>
<td>5.3</td>
<td>1.3</td>
</tr>
<tr>
<td>2015</td>
<td>159.1</td>
<td>5.9</td>
<td>1.6</td>
</tr>
<tr>
<td>2016</td>
<td>210.6</td>
<td>5.9</td>
<td>2.1</td>
</tr>
<tr>
<td>2017</td>
<td>233.9</td>
<td>5.5</td>
<td>2.7</td>
</tr>
</tbody>
</table>

### Net interest income and net fee and commission income increase in the years of 2014–2017

The Development Strategy for the years of 2018–2022

**Background**

The Bank has fulfilled the Modernization Strategy for the years of 2015-2017. Significant progress was made in all areas: retail business was significantly intensified, vertical line of work with MSME customers was built almost from scratch, substantial progress was made in corporate business, risk management system was improved, a real breakthrough was made in the areas of information technology and e-commerce, network was reduced and modernized.

Upon approval of the Modernization Strategy, the Bank managed to achieve a positive financial result.

Despite the unquestionable success achieved in implementing the Modernization Strategy, Oschadbank still has a significant potential for growth and efficiency increase, in particular:

- The Bank holds a small share of retail business and MSME loans;
- The value of return on equity (ROE) remains lower than that of the Top-10 commercial banks;
- The cost-to-income ratio (CIR) indicator is above market average - the Bank has a significant downside potential due to increase of business efficiency and operational efficiency;
- The net promoter score (NPS) has increased considerably, but the Bank intends to continue to increase its value significantly.

**Key objectives and performance indicators**

Given the fundamentals of future growth, Oschadbank’s management team has moved from stabilizing and modernizing business to developing it. Thus, at the end of 2017, the Bank’s Development Strategy for the years of 2018-2022 was developed and approved by the Cabinet of Ministers of Ukraine. Among the business models proposed by Oschadbank, the business model of a large universal bank was selected by the shareholder.

Picture 2.3 shows the strategic priorities set forth in the Development Strategy.
The Development Strategy defines strategic objectives and indicators of their achievement in order to ensure proper assessment of the progress made at each step and to react effectively to ensure long-term sustainable shareholder value growth. The key strategic objectives established by 2022 are as follows (see Picture 2.4):

1. Loan portfolio increase, in particular:
   - Retail – reaching the Bank’s market share of 11–13%;
   - MSME – reaching the Bank’s market share of 7–10%;
   - Corporate – reaching the Bank’s market share of 18%;
   - Growth of total assets up to UAH 334 billion;

2. Cost of risk reduction (COR) to 2%,
3. Levering up of return on equity (ROE) to 12%,
4. Reduction of cost-to-income ratio (CIR) to 63%.

Picture 2.4: Key strategic objectives by the year 2022

The Development Strategy has three conditional stages:
- Creating conditions to restore profitability (first 12-18 months);
- Growth in profitability and recovery of active lending (next 12 to 18 months);
- Sustainable growth and profitability of a new model (years of 2021-2022).
Section 3. Performance results and further growth

Major events of the year 2018

The year of 2018 was rich in events and achievements. The influence of some of them is already noticeable in the results of 2018. The influence of others will become more apparent over the next 3 to 5 years.

The most important are as follows:

I. Approval of the Development Strategy for the years of 2018-2022 by the Management Board and the Cabinet of Ministers of Ukraine;

II. Entry into force of the legal framework regarding corporate governance reform of state-owned banks;

III. The decision of the International Arbitration Tribunal on the repayment of USD 1,3 billion to Oschadbank by the Russian Federation;

IV. Oschadbank’s deployment of an unprecedented program for Ukraine aimed at development and support of small business «Build Your Own»;

V. Taking leading positions in innovative payment solutions (Apple Pay, Garmin Pay, cashless transport projects, including a joint project with MasterCard at Kyiv Metro, digital cards);

VI. Substantial growth in the number of premium banking customers;

VII. Completion of the «UnitedData» data centralization project;

VIII. Transition to IFRS 9 and introduction of an integrated automated solution for calculating the expected credit losses of financial assets;

IX. Centralization of the following functions: back office, IT, information security, risk management, currency control and collateral management;

X. Acquiring professional skills and development of processes to ensure effective and practical solution of issues regarding «old» non-performing loan portfolio management.

Results of the year 2018

As a result of the dedicated work of the Oschadbank team aimed at implementation of the Development Strategy during 2018, the Bank has managed to achieve substantial growth in most areas of business activity:

- Retail business and MSME were defined as priority segments for growth. It is in these segments that Oschadbank achieved significant results:
  - MSME loan portfolio has increased by 67% (or UAH 1,4 billion);
  - Oschadbank became one of the leaders in terms of growth in retail lending, having increased its net portfolio by UAH 1,6 billion. In particular, Oschadbank occupied about one-third of the market in terms of new mortgages, auto lending more than doubled, and the number of active cards reached 6,1 million;
  - Lending growth was ensured through efficient work dedicated to deposits attraction: Oschadbank occupies 22% of individual deposits market, while the cost of funding is below the market rate;
  - The Bank customers have almost doubled the frequency of using information and payment terminals, while the share of payments from the population via the Internet has increased up to 56%;

- The Bank continued to gradually improve and diversify its corporate loan portfolio, attracting low-risk borrowers. A 14% decrease in the volume of corporate business portfolio reflects the slowdown of lending activity in the corporate sector, which is typical of a banking system as a whole, and the effect of creation of additional provisions in accordance with the requirements of IFRS 9;

- The Bank continued to gradually improve and diversify its corporate loan portfolio, attracting low-risk borrowers. A 14% decrease in the volume of corporate business portfolio reflects the slowdown of lending activity in the corporate sector, which is typical of a banking system as a whole, and the effect of creation of additional provisions in accordance with the requirements of IFRS 9;

- The Bank ensured qualified protection of its interests in courts, which passed resolutions in the Bank’s favor in the amount of UAH 49,1 billion. Moreover, as a result of effective measures taken, during 2018, the non-performing
The increase in the volume of investment portfolio in 2018 is mainly due to changes in the accounting policy for securities in accordance with the requirements of IFRS 9 (for more information, see Note 5 of the consolidated financial statements).

Changes in the Bank’s assets and liabilities during the year by business segments are shown in Picture 3.1.

Picture 3.1: Growth by business segments in 2018

<table>
<thead>
<tr>
<th>Loans and other assets</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>3,8</td>
<td>5,4</td>
</tr>
<tr>
<td>MSME</td>
<td>2,1</td>
<td>3,5</td>
</tr>
<tr>
<td>Corporate</td>
<td>68,5</td>
<td>58,6</td>
</tr>
<tr>
<td>Investment activity</td>
<td>98,1</td>
<td>116,6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Deposits, current accounts and accrued interest expense</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>86,6</td>
<td>94,8</td>
</tr>
<tr>
<td>MSME</td>
<td>13,5</td>
<td>16,7</td>
</tr>
<tr>
<td>Corporate</td>
<td>48,3</td>
<td>39,9</td>
</tr>
</tbody>
</table>

According to Oschadbank’s separate statements, net profit amounted to UAH 162 million and reached its target for 2018. The consolidated net profit in 2018 amounted to UAH 161 million. The consolidated profit was slightly lower than the profit according to the separate statements due to consolidation of the Bank’s subsidiaries: PUSC «Real Estate Loan Refinancing Agency» which refinances mortgages (the Bank holds 70.86% of shares) and SSB NO. 1 Plc which is an ad hoc company to issue Eurobonds. For more information, refer to Note 1 of the consolidated financial statements.

In general, the Bank’s interest income decreased slightly compared to 2017 (by 2%). This is mainly due to lower interest income on the «old» portfolio, incl. as a result of transition to IFRS 9 and financial restructuring.

At the same time, the Bank’s interest expense also decreased by 2.3% compared to 2017. The Bank’s net fee and commission income increased by 29%. The growth is mainly due to revenue from settlement and payment services to customers (where revenues from banking payment card transactions grew faster). The devaluation of indexed domestic government bonds (UAH 2.3 billion) and gains from differences in exchange rates (UAH 0.8 billion) were the main factors of commercial result changes.

Oschadbank’s operating expenses increased by UAH 1.4 billion, mainly due to raising expenditures in such critical areas for the Bank as staff and infrastructure development.

- A 26% increase in employees’ salary compared to 2017 is explained by an increase in the level of minimum wage set forth by the law, as well as approaching of the Bank’s level of remuneration to the one that has been defined in the banking system.

- Infrastructure development (including previous years) led to increase of the cost of amortization and maintenance of fixed sand intangible assets with the share in operating expenses increasing by 1.5 p.p. and amounts to 24%.

In 2018, the Bank did not conduct any own studies or developments, and, therefore, the expenses for such types of activities were not recorded.

Among the factors that significantly impact the financial result, the following should be highlighted:

- The quality of «old» non-performing loan portfolio of the Bank formed before 2014. Changes in the economic environment and hryvnia devaluation have increased debt load for the Bank’s borrowers, which resulted in the aggravation of their financial standing and the quality of performance of their obligations to the Bank, which in turn led to a significant increase in the costs related to creation of loan provisions and the interest income shortfall.

- Voluntary financial restructuring mechanism pursuant to the Law of Ukraine «On Financial Restructuring» is now the only effective mechanism for collecting non-performing loans of customers from the «old» non-performing loan portfolio. In 2018, the Bank restructured the loan portfolio for UAH 22 billion. At the same time, as a result of the restructuring on favorable terms, interest rates on loans decrease, which lead to recognition of expenses resulting from the restructuring (modification) and the interest income shortfall for the Bank.

In 2018, the decrease in interest income from the «old» of non-performing loan portfolio, including due to the financial restructuring, amounted to about UAH 0.9 billion.

- Changes in the cost of domestic government bonds. In order to stabilize banks’ financial situation, in accordance with the Law of Ukraine «On Measures to Facilitate the Capitalization and Restructuring of Banks», Oschadbank’s capital was increased by issuance of domestic government bonds with indexed value (to the amount of UAH 25.4 billion). These indexed bonds after the bank’s transition to IFRS 9 are recognized at fair value, with revaluation through profit and loss. At the same time, in 2018, increase in the risk-free rate of return in hryvnia and US dollars, strengthening of exchange rate of hryvnia against the US dollar and decrease in its volatility led to a decrease in the fair value of indexed domestic government bonds and recognition of devaluation of these securities by UAH 2.3 billion.

- Dissolution of provisions for government debt securities (domestic government bonds) and a loan portfolio of state corporations. On December 21, 2018, Moody’s agency upgraded the rating of Ukrainian sovereign bonds from Caa2 to Caa1. Such rating increase resulted in a decrease in provisions for government debt securities in the amount of UAH 1.3 billion and loans of state corporations in the amount of UAH 0.7 billion.

Prospects for further growth

Plans for the year 2019

In order to pursue implementation of the strategy and considering the market potential, the Bank’s management has decided to set ambitious goals for 2019. In particular, the elaborated plan envisages further business growth in all segments. MSME and retail business remain strategic priorities. The Bank’s management expects the growth in loan portfolios to exceed 30% in these areas. In order to ensure the planned growth, management expects increase in surplus balances in all segments. Oschadbank expects reduction in the cost-to-income ratio (due to income growth and efficiency increase through further optimization of the network, business and supporting processes), thus ensuring profitability of the Bank.
The cost of risk is expected at the level of ~1%, in line with the Bank’s conservative risk strategy.

Key projects planned for 2019 include:
1. Improvement of risk management function in accordance with the NBU Resolution No. 64 (with the support from EBRD);
2. Development of Automated Management Accounting System (with the support from EBRD);
3. Establishment of a technological integrational and digital platform of a single MFO («Integra» Project);
4. Development of data management system («Data Governance» Project);
5. Establishment of the MSME Service Center.

The main risks that might affect the achievement of objectives established in the business plan for the year of 2019 and further development in accordance with the Bank’s strategy is political and macroeconomic instability, high market volatility, failure to increase the Bank’s capital in the required amount and outflow of the skilled staff as a result of tough competition in the labor market.

**Long-term plans**

During 2018, significant deviations were observed in basic macroeconomic indicators, which were included in the strategic model for the years of 2018–2022. Picture 3.2 shows the main assumptions included in the Bank’s strategic model and actual indicators of the year 2018.

Along with the changes in the macro-environment occurred in 2018, the forecasts for future periods have also changed accordingly. Therefore, international organizations cut their forecast as to nominal GDP growth. Moreover, political situation produces factors of additional uncertainty which raises inflation expectation and affects business activity of the Bank’s customers.

Considering changes in the external environment and macroeconomic forecasts, the Bank plans to update incoming data and assumptions in the strategic model for the years of 2018–2022 in order to specify the development pathway for the following years.
Section 4.

Key resources of the bank

Human capital

Human capital is a strategic resource of the Bank. The team formed over the period of 2014-2017 is composed of people who are not afraid to change, who are able to change the Bank and who are willing to change the country. They systematically work on innovative developments to leave the old image of Oschadbank in the past, to change internal processes and level of customer service for the better.

Realizing the fierce competition inherent in the Ukrainian labor market, during the implementation of the Modernization Strategy a new ideology and processes for staff recruitment founded on a competency-based approach were developed. Within 5 years of changes, the Bank’s team of 30,000 staff members was considerably renewed. It was an evolutionary recruitment process on a competitive basis. In 2018, an automated module for recruitment and approval of staff throughout the Bank system was introduced for commercial use purposes. A staff training, assessment and development system was implemented to ensure the necessary level of professional knowledge and skills of staff on an ongoing basis.

Centralization of HR function has been fully completed and its structure has been standardized.

Our next ambitious goal is to create the best environment for professional growth and career development of the Bank’s employees among all banking institutions.

According to the Strategy, the Bank has two types of motivation: material (decent wages) and non-material (development and leadership).

Some of the key accomplishments of 2018 in this area include: a corporate university «Oschad Business University», a system for distance and face-to-face training (in particular, its own mini-MBA program).

Oschadbank is one of the three largest employers in the financial sector and ranks seventh among the largest employers throughout the country.

Nowadays, the profile of Oschadbank’s team is as follows:

- 29,138 employees;
- Average age – 39 years;
- 75% – females, 25% – males;
- 89.6% of employees have basic, incomplete and complete higher education;
- Average staff turnover – 2.1%.

According to 2018 final results, Oschadbank has become the only bank which has occupied pride of place among Top-10 best employers of Ukraine in the rating by «Business» periodical and HRForum Association.

Infrastructure

Information technologies

During the last 5 years Oschadbank has been conducting a large-scale modernization of technological resources. In particular, IT-infrastructure and architecture were modernized, corporate data warehouse was commissioned, software was centralized, lending process was modernized and automated, and single office interface for network staff was developed.

For more details on the progress achieved by the bank in IT development during the last years, see Picture 4.1.

The main achievement of 2018 is the completion of «UnitedData» centralization project, dedicated to build a single infrastructure, gather customer information into
Information security

<table>
<thead>
<tr>
<th>Key elements</th>
<th>Maturity level</th>
<th>No activity</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT function organization</td>
<td></td>
<td></td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>IT processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT architecture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digitalization of transactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization of systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work stations security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidents analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile devices security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analytics, response, reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud prevention</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Database security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virtualization environment security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>User awareness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The main assets of the Bank's IT landscape include:

- **Own card processing.** Modernized processing center of the Bank operates on the basis of Way4 platform developed by OpenWay company and enables servicing of almost 12 million payment cards issued by the Bank, more than 6 thousand own self-service banking machines and more than 51 thousand payment terminals. As of now, capacity of the processing center ensures servicing of more than 95 million transactions on a quarterly basis amounting to UAH 83 billion.

- **Own contact center.** Within a year, modern contact center of Oschadbank has established around 60 million contacts with customers. Interaction with customers is established through operators, IVR, e-mail, chat (with the use of chat bot), Facebook and Telegram messengers, text messages. The Bank has implemented a dynamic IVR system, which enables automatic processing of 77% of customer calls and applications. The contact center technical platform is a telephony system of Lira and Microsoft XRM together with the HP server part with a cluster database.

- **«One-Stop Shop» system** is a work station of a Bank's front office employee for customer servicing in the leading «CRM Banking» system, which allows to deliver settlement and cash services (including all transactions with bank payment cards) to customers in a prompt and convenient manner. More than 70% of the total amount of payment cards issued by the Bank are opened with the use of «One-Stop Shop» system.

- **«Credit Factory» system.** «Credit Factory» system ensures automation of the process of retail lending. «Credit Factory» serves more than 95% of the total amount of credit cards issued to individuals. Existing functions of the system enable verification of customers, analysis and evaluation of their solvency, automatic settlement of a credit line on a bank payment card account, etc.

- **Corporate data warehouse:** Modern data warehouse was launched for commercial use in 2018. The warehouse was established on the basis of an industrial data model IBM Banking Data Warehouse with the use of IBM equipment, a full range of software IBM InfoSphere Information Server, and integrated with the main centralized systems of the Bank. The warehouse includes a unified centralized database which is automatically uploaded with data on customers, agreements, accounts, transactions, directories, etc. for storage and provision of managerial and financial information for all Bank users.

### Sales channels

The increase in commercialization and customer focus of the Bank requires establishment of modern sales channels.

The branch network has been modernized during the period of 2014-2017. 565 highly efficient branches of the new format were opened, exceeding networks of most of the Top-5 banks in the country, and is unprecedented in the history of a banking system. Among them, there are 17 inclusive units, 5 mobile units, two of which are based on KIAZ armored vehicles operating along the demarcation line and in humanitarian and logistical centers in the Donbass ATO area. At the same time, 1906 inefficient and unprofitable branches of the Bank were closed.

In 2018, the Bank established 40 branches of the new format (including 1 inclusive branch). At the same time, the Bank is actively closing inefficient branches and moving / changing the branch format to more attractive locations. As a result of such actions in 2018, the branch network was reduced by 576 branches. By using 19 remote service units, customer support is ensured in remote locations where the Bank is a single point of access to financial services.

The dynamics of the branch network is illustrated in Picture 4.2.

Alternative way to develop sales channels is the establishment of modern digital channels. The dynamics of digital channels penetration is shown in Picture 4.3. Improvement of remote customer service channels has become of significant importance for the Bank. Almost from scratch, «Oschad 24/7» became the second mobile banking in the country: the number of system users increased.

### Progress of bank in IT systems development

![Progress of bank in IT systems development](image)

**Table 4.1:** Progress of bank in it systems development

<table>
<thead>
<tr>
<th>Key elements</th>
<th>State in 2014</th>
<th>Current state</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT functions organization</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>IT processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT architecture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digitalization of transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization of systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work stations security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidents analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile devices security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analytics, response, reporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud prevention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Database security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virtualization environment security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>User awareness</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Own card processing.** Modernized processing center of the Bank operates on the basis of Way4 platform developed by OpenWay company and enables servicing of almost 12 million payment cards issued by the Bank, more than 6 thousand own self-service banking machines and more than 51 thousand payment terminals. As of now, capacity of the processing center ensures servicing of more than 95 million transactions on a quarterly basis amounting to UAH 83 billion.

- **Own contact center.** Within a year, modern contact center of Oschadbank has established around 60 million contacts with customers. Interaction with customers is established through operators, IVR, e-mail, chat (with the use of chat bot), Facebook and Telegram messengers, text messages. The Bank has implemented a dynamic IVR system, which enables automatic processing of 77% of customer calls and applications. The contact center technical platform is a telephony system of Lira and Microsoft XRM together with the HP server part with a cluster database.

- **«One-Stop Shop» system** is a work station of a Bank’s front office employee for customer servicing in the leading «CRM Banking» system, which allows to deliver settlement and cash services (including all transactions with bank payment cards) to customers in a prompt and convenient manner. More than 70% of the total amount of payment cards issued by the Bank are opened with the use of «One-Stop Shop» system.

- **«Credit Factory» system.** «Credit Factory» system ensures automation of the process of retail lending. «Credit Factory» serves more than 95% of the total amount of credit cards issued to individuals. Existing functions of the system enable verification of customers, analysis and evaluation of their solvency, automatic settlement of a credit line on a bank payment card account, etc.

- **Corporate data warehouse:** Modern data warehouse was launched for commercial use in 2018. The warehouse was established on the basis of an industrial data model IBM Banking Data Warehouse with the use of IBM equipment, a full range of software IBM InfoSphere Information Server, and integrated with the main centralized systems of the Bank. The warehouse includes a unified centralized database which is automatically uploaded with data on customers, agreements, accounts, transactions, directories, etc. for storage and provision of managerial and financial information for all Bank users.

### Sales channels

The increase in commercialization and customer focus of the Bank requires establishment of modern sales channels.

The branch network has been modernized during the period of 2014-2017. 565 highly efficient branches of the new format were opened, exceeding networks of most of the Top-5 banks in the country, and is unprecedented in the history of a banking system. Among them, there are 17 inclusive units, 5 mobile units, two of which are based on KIAZ armored vehicles operating along the demarcation line and in humanitarian and logistical centers in the Donbass ATO area. At the same time, 1906 inefficient and unprofitable branches of the Bank were closed.

In 2018, the Bank established 40 branches of the new format (including 1 inclusive branch). At the same time, the Bank is actively closing inefficient branches and moving / changing the branch format to more attractive locations. As a result of such actions in 2018, the branch network was reduced by 576 branches. By using 19 remote service units, customer support is ensured in remote locations where the Bank is a single point of access to financial services.

The dynamics of the branch network is illustrated in Picture 4.2.

Alternative way to develop sales channels is the establishment of modern digital channels. The dynamics of digital channels penetration is shown in Picture 4.3. Improvement of remote customer service channels has become of significant importance for the Bank. Almost from scratch, «Oschad 24/7» became the second mobile banking in the country: the number of system users increased.

### Progress of bank in IT systems development

![Progress of bank in IT systems development](image)

**Table 4.1:** Progress of bank in IT systems development

<table>
<thead>
<tr>
<th>Key elements</th>
<th>State in 2014</th>
<th>Current state</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT functions organization</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>IT processes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT architecture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Digitalization of transactions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Centralization of systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work stations security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidents analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Network security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mobile devices security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analytics, response, reporting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fraud prevention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Database security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virtualization environment security</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>User awareness</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
from 460 thousand in 2015 to 3.3 million at the end of 2018.

**Picture 4.3: Dynamics of digital channels penetration**

<table>
<thead>
<tr>
<th>Components of sales channels, million bank transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
</tr>
<tr>
<td>Oschadbank has obtained a digital face:</td>
</tr>
<tr>
<td>• «My Card» – an instant and free of charge «point of entry» to the bank for each customer;</td>
</tr>
<tr>
<td>• Upgraded web- and mobile-banking platforms rank among Top-3 in terms of functionality;</td>
</tr>
<tr>
<td>• 460 self-service areas;</td>
</tr>
<tr>
<td>• 3,176 ATMs and 3,178 information and payment terminals.</td>
</tr>
<tr>
<td>Apple Pay, Android Pay and Garmin Pay were introduced to provide Oschadbank customers with an opportunity to make contactless payments with the help of smartphones and smartwatches in the sales and service networks.</td>
</tr>
</tbody>
</table>

**Capital, liquidity and cash flows**

**Capital**
In 2018 there was no additional emission of shares or renewal of capital by other means. Bank shares were not purchased or sold. For more detailed information, see Note 28 of the consolidated financial statements.

As of December 31, 2018, the Bank's capital amounted to UAH 18.6 billion, where:
- UAH 49.7 billion – authorized capital;
- UAH 0.2 billion – 2018 profit and loss impact;
- UAH 33.4 billion – uncovered loss consisting of:
  - UAH 22.3 billion – loss within the period of 2014-2015 (mainly due to loss of assets in the Autonomous Republic of Crimea, Donetsk and Luhansk Regions, depreciation of hryvnia and financial crisis);
  - UAH 10.1 billion – effect of transition to IFRS 9 on the book value of loans (including effects from recognition of initial devaluation and modification of loans. For more detailed information, see Note 5 of the consolidated financial statements.
- UAH 2.1 billion – other elements of capital.

**NBU regulatory requirements.** In 2018, the Bank ensured compliance with the economic standards stipulated by requirements of the National Bank of Ukraine, including the regulatory capital adequacy ratio (H2), which at the end of 2018 was equal to 13.56% (with a standard value of at least 10%). For more information, see Note 32 of the consolidated financial statements.

**Increase of authorized capital.** The Development Strategy, approved by the Cabinet of Ministers of Ukraine, provides for an additional capitalization of UAH 16.8 billion for the Bank. In December 2017, the capital of the Bank was additionally financed with UAH 5.75 billion.

According to the Development Strategy, it is still important to ensure additional capitalization to form a target business model, to create a modern centralized technology platform for business scaling, as well as to ensure protection against stressful situations in the financial market.

**Liquidity and cash flows**
Ensuring liquidity was one of the main tasks and preconditions to achieving Bank's business objectives in 2018.

The Bank manages its liquidity by forecasting and managing cash flows, creating fixed-term gaps between assets and liabilities, and providing the necessary amount of primary and secondary liquidity (represented by a portfolio of highly liquid public securities that can be used to meet urgent needs of the Bank for liquid funds in the event of unexpected liquidity outflow).

**Standards.** In 2018, the Bank met liquidity standards with a significant margin for all indicators, including:
- H4 - instant liquidity (standard value >20%, actual – 99.92%);
- H5 - current liquidity (standard value >40%, actual – 136.12%);
- H6 - short-term liquidity (standard value >60%, actual – 85.55%);
- liquidity coverage rate (LCR) (standard value >80%, actual – 313.58%).

In 2018, the Bank conducted liquidity stress tests. According to the Bank's 1-month and 1-year liquidity stress test scenarios, the Bank had a significant liquidity cushion. Taking into account implementation of stress scenarios within one-month period, the liquidity cushion amounted to UAH 76 123 million, and within one-year period – to UAH 64 152 million.

**Primary and secondary liquidity reserve.** In 2018, the Bank constantly maintained a sufficient supply of primary (cash, correspondent accounts with the NBU and correspondent accounts with other banks) and secondary (domestic government bonds portfolio and NBU certificates of deposit) liquidity. As of December 31, 2018, the volume of primary and secondary liquidities amounted to UAH 21.5 billion (10.8% of liabilities coverage with liquidity reserve) and UAH 89.4 billion (44.4% of liabilities coverage with liquidity reserves) respectively.

**Customer resource base.** In 2018, the Bank’s main source of funds is attraction of customers' funds (both individuals and legal entities) in the domestic market, the share of which in the Bank's liabilities amounts to more than 77%, 62% of which come from individuals.

The Bank is not a member of the Deposit Guarantee Fund, because all deposits of individuals are guaranteed by the state.

The main areas of funds use were growth in the loan portfolio and repayment of the refinancing loan received from the National Bank of Ukraine (UAH 5 billion, ahead of schedule).

Dynamics and loan-to-deposit ratio are shown in Picture 4.4.
Picture 4.4: Ratio of loans and funds of Oschadbank customers
Risk management strategy, system and policy

General strategy concept
The Risk Management Strategy in the system of JSC «Oschadbank» (hereinafter referred to as the «Risk Management Strategy») defines the main aspects of risk management within the Bank: goal, scope, nature, principles and standards of risk management, risk classifier, list of relevant policies and their typical structure as well as the organizational basis for setting up a risk management process.

The goal of the Risk Management Strategy is to establish an effective system for managing risks generated by the external environment, structure of assets and liabilities, as well as internal rules, regulations and procedures of the Bank to achieve its strategic objectives by applying appropriate policies, methods, and risk control tools.

The main objectives of the Risk Management Strategy are to ensure achievement of the Bank’s business objectives with due consideration of risks and ensure the most efficient allocation of capital among risks.

Risk management system and policy
In accordance with the Risk Management Strategy, an organizational risk management system is defined. This system provides for the allocation of risk management powers between the Bank’s Supervisory Board, the Management Board, relevant committees, risk management units, audit unit, other units directly involved in banking operations and units supporting such transactions.

In 2018, risk management function was presented at the level of two departments:

- Credit Risk and Asset Estimation Department which performed credit risk management, in particular defined credit risk management methodology (processes), carried out credit risk analysis of all segments of the banking portfolio, performed transaction credit administration function of the business segment «Large corporate business», as well as carried out analysis, assessment and monitoring of collateral items and credit risks in accordance with the requirements of IFRS and the NBU;

- Strategic Risk Management and Forecasting Department which managed liquidity risk, interest rate, foreign exchange, price and operational risks, as well as compliance risks.

With the aim to comply with the requirements of the Resolution of the Management Board of the National Bank of Ukraine No. 64 as of June 11, 2018 (hereinafter referred to as the «NBU Resolution No. 64»), the Bank has reviewed organization of the risk management system and distributed duties between the Bank units with the use of «three lines of defense» model:

- The first line - at the level of business units and support units of the Bank which take risks and are responsible for them, as well as submit reports on ongoing management of these risks;

- The second line - at the level of the risk management and compliance control units;

- The third line - at the level of the Internal Audit Unit as to monitoring and evaluation of the risk management system efficiency.

The Supervisory Board has delegated certain powers to the Management Board of the Bank, including setting and approval of risk management policy and procedures. At the same time, the Supervisory Board has implemented an effective mechanism for monitoring activities of the Management Board by providing information on decisions taken by the Management Board and detailed reports on fulfillment of delegated powers on a semi-annual basis.
Moreover, a Report on Performance Results in the reporting period is also submitted by the Internal Audit Department for review by the Supervisory Board on a semi-annual basis. The report contains, inter alia, information on risks structure and, consequently, on internal system of control of audit results.

The Bank develops and updates management policies for all risks deemed significant.

Today, the following risk management policies are acting in the Bank:
- Risk Management Policy;
- Liquidity Risk Management Policy;
- Foreign Exchange Risk Management Policy;
- Interest Rate Risk Management Policy;
- Price Risk Management Policy;
- Operational and Compliance Risk Management Policy.

**Credit risks**

The Bank’s current credit risk management system ensures prompt and adequate detection, measurement, monitoring, reporting, control and mitigation of credit risks both on an individual and portfolio basis.

Oschadbank’s credit policy defines general approaches and basic priorities for conducting active operations by the Bank, powers of the Bank’s collegiate bodies when making decisions regarding active transactions with Bank’s counterparties, risk rules applicable to carrying out new active operations, changes of conditions governing active operations and taking measures in terms of debt settlement with Bank’s counterparties, minimization and diversification of risks associated with conducting active operations by the Bank, ensures permanent control of the loan portfolio structure and quality, including interbank and investment portfolios.

When assessing risks and making decisions regarding loan granting to a particular borrower which is a legal entity or private entrepreneur, receiving a loan to do business, the Bank takes into account the financial standing, creditworthiness and solvency of a borrower, financial status of a borrower’s group (i.e. takes into account legal or economic relations with affiliated companies), market analysis findings, risks associated with the sector in which a borrower operates and market position of borrower’s business. In addition, due consideration is given to such factors as quality of borrower’s management, geographical location, level of concentration of suppliers/customers, debt burden, the results of estimation of the liquidity and adequacy of collateral offered in terms of credit risk. When taking decisions as to loan granting, the Bank assesses potential borrowers using its own internal rating scale (internal credit rating). The procedure for determining the internal credit rating and class of a counterparty is governed by methods of financial standing evaluation.

The decision-making procedure as to consumer loans granting is standardized by the Bank. The maximum loan limits are defined with due consideration of income of a potential borrower, stability of future income, liquidity and quality of collateral.

When deciding whether to conduct active transactions with non-resident banks, Oschadbank takes into account the results of risk assessment of a country in accordance with the provisions of its internal regulatory documents.

The level of risk tolerance for transfer risk and risk of investments in subsidiaries is set by the Bank at zero level.

The purpose of the credit risk assessment is to determine expected credit losses resulting from default. Credit risk assessment for risk management purposes is complex and requires the use of a specific model as exposure to credit risk varies with changing market conditions, expected cash flows and time periods.

The bank assesses credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). The assessment is carried out both in line with the requirements of the National Bank of Ukraine and the requirements of the International Financial Reporting Standards. In accordance with the requirements of IFRS 9, the Bank sets up reserves for expected credit losses coverage.

Defining risk limits is the main tool for credit risks management at the operational level. Therefore, the Bank’s Management Board has approved limits on active operations in terms of economic sectors, geographical regions and various loan products. The Bank enables an efficient assessment of the credit risk concentration in terms of the active operations portfolio as a whole as well as its individual components.

Moreover, the Bank sets limits for individual borrowers and groups of borrowers. If the amount of loan exceeds limits of powers of the Management Board, these loans are approved by resolutions of the Supervisory Board.

For the purposes of operational control, business units ensure monitoring of compliance with the limits set regarding powers, quality of loan portfolio, both in terms of business areas and banking products.

Credit risk monitoring is the basis for control of credit risks, represented by individual borrowers. Corporate Customers Loan Operations Administration Division ensures constant monitoring of established commitments and control of important debt parameters (financial indicators, positive and negative obligations, warning signals, etc.) to identify potential credit risks of borrowers to respond quickly and minimize them on the part of the Bank. Collateral Management Division regularly monitors the availability and status of collateral. For customers belonging to the «Large corporate customers» business area, the Procedure for Debt Settlement under Credit Transactions of Customers – Economic Entities of JSC “Oschadbank” Central Office defines the procedure and process of prompt detection of factors of potential non-performing loan or non-performing loan transactions for a subsequent change of terms of loan granting and/or taking measures for out-of-court settlement and/or enforcement action.

At least once a year, the Bank carries out a regular credit review of borrowers-legal entities, i.e. the revaluation of a borrower’s debt risk: analysis of financial standing of a borrower, financial standing of a group of borrowers, revaluation of collateral and credit analysis based on the updated data.

The Bank’s Management Board participates in credit risk control procedure. On a regular basis, once in six months, the Bank’s organizational units submit to the Secretary of the Bank’s Management Board detailed reports regarding all matters of units approved by the Management Board of the Bank during a reporting period for their further submission to the Supervisory Board of the Bank.

Key credit risk reports include:
- Credit risk stress test;
- Concentration limits as per economic sectors;
- Analytical note on loan portfolio of large corporate customers (on a quarterly basis);
- Analytical note on loan portfolio of micro, small and medium-sized enterprises (on a quarterly basis);
- Analytical note on loan portfolio of retail business (on a quarterly basis);
- Monthly report on overdue indebtedness;
- Information on IFRS reserves;
- Calculation of the Bank’s uncovered credit risk;
- Limits as to non-resident banks.

**Liquidity risk, interest rate risk, market risks**

In order to manage its liquidity risk, the Bank monitors expected future cash flows from transactions with customers and banking transactions which is part
of asset/liability management process.

The main objective of liquidity risk management is to ensure the availability of sufficient liquidity funds to meet current and projected needs, in order to optimize the Bank's expenses related to the provision of the required amount of liquidity funds. Liquidity risk management also aims to guarantee the Bank's ability to cover cash outflows in the crisis scenario (in the event of a systemic crisis or close to a systemic liquidity crisis).

The primary objective of interest rate risk management is to limit the adverse impact of interest rate changes on profit and loss impact and capital of the Bank. Interest rate risk is managed primarily by establishing and reviewing yield curves in terms of funds attraction and investment, and by setting a target value for interest spread. In order to ensure the planned net interest income and target value of the interest spread, the Bank manages its balance sheet structure, including interest-bearing assets and liabilities, taking into account compliance with the optimal ratio of interest risk and profitability.

Among market risks, foreign exchange risk is the most significant one. The main objective of foreign exchange risk management is to limit the negative impact of exchange rate fluctuations on the financial performance of the Bank and its capital. To this end, the Bank manages the foreign currency position in the context of some foreign currencies and banking metals to ensure an optimal balance between risk and return.

The Bank’s Management Board approves risk management policies and delegates powers as to ongoing management of liquidity, interest rate and market risks to the Bank’s ALCO.

ALCO approves internal regulatory documents related to management of these risks, defines limits and restrictions for these risks and reporting forms, monitors, reviews risk reports, makes decisions regarding acceptance, mitigation or prevention of such risks.

Operational risks

Operational risk is the one inherent in all of the Bank’s business processes and represents the probability of further loss or additional expenses or failure to receive anticipated revenue from weaknesses or errors in the organization of internal processes, voluntary or involuntary actions of the Bank’s employees or other persons, disruptions of banking information systems operation or due to external factors. Operational risk includes legal risk, but excludes reputational and strategic risks.

In order to manage operational risks, the Bank uses the following tools: maintenance of the operational risk internal incidents database (Loss Data Base), risk self-assessment and internal control mechanisms (Risk Self-Assessments), preventive analysis of operational risks before the introduction of new products/significant changes, monitoring of key risk indicators for operation risk (Key Risk Indicators), operational risk stress tests, evaluation of the capital required to cover the losses related to operational risks.

The Bank’s Management Board approves the Operational Risk Management Policy and delegates powers as to ongoing operational risk management to the Bank’s Operational Risk Management Committee (ORMC).

ORMC approves internal regulatory documents on operational risk management, monitors operational risk levels, reviews operational risk reports (including Risk Self-Assessments, KRI, stress tests, etc.), decides on operational risk management methods (adoption, minimization/mitigation, avoidance and transfer of risks).

Compliance

One of the Bank’s primary objectives is to ensure that its activities and actions of its employees comply with regulatory requirements, ethical and behavioral principles as well as international practices, particularly the recommendations of the Basel Committee on Banking Supervision.

The improved risk management structure of JSC «Oschadbank» provides for organization of a separate compliance division reporting directly to the Bank’s Supervisory Board, with functional independence and separation from divisions of the first and third lines of defense. Compliance will become an integral part of the Bank’s culture and will be responsible for Bank’s compliance with legislation, internal banking documents and relevant standards of professional associations related to the Bank, as well as meeting the requirements of corporate ethics, compliance risk management, conflicts of interest resolution and prevention of their abuse.

Customer trust is the main asset of JSC «Oschadbank». The Bank understands that such trust is based on confidence that services are provided in accordance with the highest standards of professional ethics and quality standards. In order to ensure quality customer service, the Bank has put in place a system of training, developing and checking employees’ knowledge in terms of compliance.

Basic principles of internal control system organization

The Bank ensures functioning of internal control system (ICS) through:
- Control of the Bank’s management bodies in terms of compliance with the Bank’s legislative, regulatory and internal requirements;
- Distribution of duties and powers in the course of implementation of the Bank’s activities;
- Control of risk management system functioning;
- Control of informational security and information exchange;
- Implementation and monitoring of internal control tools and procedures;
- Introduction of internal audit procedures.

The Bank’s ICS is established and distributed on the basis of three lines of defense.

The Bank’s risk management, compliance, information security, audit and control divisions, governing bodies and collegiate bodies are responsible for organization and implementation of internal control system, improvement of control environment and introduction of methodology governing principles and approaches to internal control system, as well as additional control over activities of the first line of defense participants in accordance with functions and powers set forth in the regulations on divisions.

The unit performing internal audit functions (the third line of defense in ICS) conducts its activity in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Conduct. The internal audit function in implementation of activities determines strategy, principles and organization of the Bank’s internal audit; ensures a risk-based approach to planning activities, independence of judgments during the audit and periodic reporting to the Bank’s Supervisory Board and Management Board. The report to the governing bodies contains aggregated information on concentration of risks in terms of areas of banking activity, integrated assessment of internal control system and areas of improvement; status of audit recommendations implementation, etc.

The main functions of internal audit include:
- Verification of availability, evaluation of effectiveness and adequacy of risk management systems operation, internal controls, management processes
of the Bank, compliance of these systems and processes with types and volume of operations conducted by the Bank, including preventing the use of banking system for legalization of the proceeds of crime/financing of terrorism;

- Evaluation of activities by risk management and compliance units, committees established by the Bank;

- Independent assessment of compliance with requirements of the current legislation and regulatory acts (compliance - audit) by the Bank's managers and employees involved in delivery of banking and other financial services;

- Monitoring of completeness and timeliness of management’s implementation of recommendations based on the results of internal and external audits.

Using a systematic and consistent approach, the internal audit function assesses and contributes to improvement of corporate governance, risk management and control processes, as well as defines the level of their construction criteria adequacy.

Management and employees of all other divisions (as participants of first line of defense in ICS), including the Bank’s governing and collegiate bodies, are directly involved in fulfillment and maintenance of the Bank’s functions and processes, implementation and effective fulfillment of control procedures. The procedures applicable to their internal control are defined in the internal documents governing their activities.

**Impact of requirements set forth in the NBU Resolution No. 64**

As part of the adoption by the National Bank of Ukraine of new approaches to a risk management system in Ukrainian banks and banking groups, approved by the Resolution No. 64 as of June 11, 2018, from the date of its approval, the Bank works on implementation of standards, requirements and principles for updating the Bank’s risk management system in accordance with the requirements of the aforementioned Resolution. The Bank has developed an action plan for implementation of provisions of the NBU Resolution No. 64, which defines activities, deadlines of their fulfillment, as well as the Bank's units in charge of implementation of certain actions. Basic principles of the NBU Resolution No. 64 will be implemented as part of the EBRD's technical assistance.

**Significant types of risks and plans as to their mitigation**

According to the current Risk Management Strategy, the Bank identifies the following types of risks: financial risks (credit, interest rate, foreign exchange, price and liquidity risks), non-financial risks (operational risks, including legal, strategic, reputational and systemic risks).

According to the Action Plan on Implementation of the NBU Resolution No 64 Requirements at JSC «Oschadbank», the Bank is elaborating a methodology for identifying significant risks, which will determine the relevant risk identification procedure. It is assumed that the Bank will independently define factors, indicators and materiality threshold of other types of significant risks based on reasonable conclusions.

If other types of risks are identified and deemed significant by the Supervisory Board, the Bank will elaborate a management policy in terms of these risks. The planned identification of the types of risks and assessment of their significance should be done once a year. In the event of significant changes in the external environment that may affect the Bank's levels of risk, unplanned identification and assessment of risks materiality may be conducted.
Section 6.

Relations with the shareholder, related parties and strategic partners

Relations with the shareholder

According to the Charter, the founder of the Bank is the State represented by the Cabinet of Ministers of Ukraine. 100% of the shares of the Bank belong to the State.

Relations between the Bank and the shareholder are based on the principle of «the State Bank for the State», considering that the shareholder:

- defines the Bank’s core (strategic) business areas and management strategy as part of the overall management strategy for state-owned banks,
- ensures impartiality and transparency of management,
- does not interfere with ongoing operational activity,
- builds interaction on a mutually beneficial commercial basis,
- regularly monitors and evaluates activities.

On February 11, 2016, the Cabinet of Ministers of Ukraine adopted the Basic Principles for Strategic Development of State Banking Sector (hereinafter referred to as «the Basic Principles»), which were updated on February 21, 2018.

According to the Basic Principles, management of state-owned banks is aimed at:

- reduction of the State’s share in the banking sector through privatization of state-owned banks,
- marketing and specialization of banking activities,
- increased shareholder value due to increased efficiency.

Guided by the Basic Principles, in February 2018, the Cabinet of Ministers of Ukraine approved the Development Strategy of Oschadbank as a universal bank.

During a year, powers of the governing bodies were regulated in accordance with the provisions of Article 7 of the Law of Ukraine «On Banks and Banking Activity».

In 2018, both on a common basis and through participation in open tenders, the Bank was able to participate in the following government programs:

- delivery of services to public sector entities;
- government support programs for representatives of the agricultural sector (3);
- transactions with cash reserves of the National Bank of Ukraine upon permission of the latter.

Realizing the need to provide financial services to socially vulnerable population groups (the poor, internally displaced persons, residents of regions in decline, etc.), the Bank builds its activities taking into account the social mission.

Relations with related parties

Relations with related parties are established by the Bank in accordance with internal regulations governing transactions with related parties, as well as with the current legislation of Ukraine, in particular regulatory acts of the National Bank of Ukraine. The Bank conducts transactions with related parties according to the procedure that cannot be different from the procedure for conducting transactions with other customers/groups of Bank customers, except for procedures setting forth the powers of the Bank’s collegiate bodies as to decision-making on transactions with related parties and define specific requirements for structure of information which should be additionally obtained from parties related to the Bank.

In 2018, the Bank adhered to the standard value of the maximum amount of credit risk related to transactions with the Bank’s related parties (H9).

The Bank maintains an electronic register of related persons in accordance with the criteria set forth by the International Financial Reporting Standards as well as requirements of the current legislation of Ukraine.
Information on the relatedness criteria as well as the Bank’s balances and operations with related parties are described in Note 30 of the consolidated financial statements.

**Cooperation with the EBRD**

In accordance with the provisions of the Memorandum of Understanding in respect of Support of Reform of Oschadbank and its Preparation for Privatization, signed on November 25, 2016 between the Government of Ukraine, the EBRD and Oschadbank, the Bank continues to develop strategic partnership with the EBRD and attract the latter as a shareholder. As part of this partnership, the Bank and the EBRD have developed a transformation agenda for Oschadbank, consisting of an action plan and targets for commercialization, improving financial sustainability and quality of corporate governance, operational efficiency and, consequently, the investment attractiveness (shareholder value) of the Bank.

According to the Memorandum, the first stage of privatization provides for the sale of at least 20% of the Bank’s shares to strategic investors and/or IFI with further total or majority privatization of the Bank.

Oschadbank also effectively cooperates with the EBRD upon terms of the lending and technical assistance programs.

Technical assistance projects are aimed at:

- position strengthening in MSME market (in 2018, the loan project was successfully completed),
- centralization and optimization of risk management and compliance functions,
- development of a management accounting system,
- centralization of a branch network,
- improvement of a debt collection system.
Section 7.
Corporate governance

Updated corporate governance model

A fundamental change in principles and mechanisms of corporate governance of state-owned banks took place on November 10, 2018 following enactment of the Law of Ukraine No. 2491-VIII «On Amendments to Certain Legislative Acts of Ukraine concerning Improvement of Financial Sector Functioning in Ukraine» (hereinafter referred to as the «Law»). The purpose of the Law is to establish a governance system isolated from political influence, ensure compliance of corporate governance system with the recommendations of the OECD, the European Commission, the Basel Committee on Banking Supervision, enhance competitiveness and efficiency of state-owned banks, as well as create preconditions for potential attraction of foreign investors.

In particular, the Law terminated a special organization and structure of governance system at state-owned banks by means of amending Article 7 of the Law of Ukraine «On Banks and Banking Activity», that is to say has established a generally accepted (standard) corporate structure. The updated model of corporate governance at state-owned banks defined by the Law and regulatory acts of the National Bank of Ukraine is presented below in Picture 7.1.

Picture 7.1: Updated corporate governance model of state-owned banks

Current status of implementation of changes

The Bank’s activities in 2018 were stipulated by the notable influence of a specific model of corporate governance for state-owned banks, which remained unchanged since foundation of JSC «Oschadbank» in 1991 and until November 9, 2018, and was governed by requirements of the Law of Ukraine «On Banks and Banking Activity». This model did not provide for:

1. Level of the general meeting, as the supreme governance body was the Supervisory Board, established on the basis of the quota-share principle consisting of 15 persons - 5 members appointed by the Verkhovna Rada, the President and the Cabinet of Ministers of Ukraine, for a 5-year term of powers;
2. Any remuneration for performance of duties of a member of the Supervisory Board;
3. Independent members of the Supervisory Board, elected in accordance with the open competition procedure;

4. Committees of the Supervisory Board.

The specific features of the Bank’s activities during the reporting period also included absence of a quorum of the Supervisory Board (the actual number of the Board members from January 28, 2017 to December 12, 2018 was 8 persons, after December 12, 2018 – 7 persons, while at least 10 persons are needed to pass resolutions), as the Verkhovna Rada did not appoint 5 members. The posts of 3 other members remain vacant since December 12, 2018.

Upon resolution passed by the Supervisory Board on October 31, 2015, the Management Board was delegated with a range of powers, including definition and approval of risk management policies, ensuring functioning of internal control system, budget and business plan approval as well as definition of organizational structure. On a constant basis, that is every six months, the Bank’s Management Board provides information on the decisions taken and a detailed report on fulfillment of the delegated powers.

Within the scope of powers granted to the Management Board, inter alia, the organizational structure has been optimized, mainly with regard to separation of front/back-office functions, centralization of IT and back-office functions, as well as implementation of a large-scale program of network reform. Firstly, distribution of powers was standardized and a typical structure of regional divisions was introduced. At the level of these regional divisions, there were centralized functions of general management, back-office, service and support. Moreover, approaches to location were optimized and a radically new customer service model was established.

Despite significant differences in the Bank’s governance model, the Management Board’s position is aimed to systematically introduce best practices of effective risk management and internal control system implementation. Thus, the Head of the Credit Risk and Asset Estimation Department was granted with the right to impose a veto on decisions of committees and other collegiate bodies set up by the Management Board of the Bank if their implementation contravenes the approved risk limits, as well as in any other cases provided for in the Bank’s policies.

With regard to matters relating to the exclusive competence of the Supervisory Board (upon absence of a quorum), the Management Board initiated review and approval of the Development Strategy by the Cabinet of Ministers of Ukraine, determining the external auditor of financial statements for 2018 as well as approval of contractual terms on internal audit and establishing the remuneration amount for audit services.

The mandate of the Supervisory Board of the Bank is valid until the date of appointment of the new Supervisory Board, which is constituted in accordance with provisions of the Law.

At present, the process of implementing the Law initiated by the Cabinet of Ministers of Ukraine in part of updating the model of corporate governance for state-owned banks is ongoing.

Thus, in March 2019:

- Composition of the selection board was approved to determine the candidates for the positions of independent members of the Supervisory Boards at state-owned banks;
- Competition was held to allow HR companies to select candidates for positions of independent members of the Supervisory Boards at state-owned banks, including Oschadbank;
- The winning company was determined and the Chairman of Oschadbank was authorized to sign an agreement with LLC «PEDERSEN AND PARTNERS» under specified terms and fixed amount of remuneration for services rendered.

By May 10, 2019, the Cabinet of Ministers of Ukraine shall ensure formation of Supervisory Boards at state-owned banks.

More detailed information on the Bank’s activities and the current corporate governance system can be found in the Management Report as part of the Issuer’s Report for the year of 2018, available on the Bank’s official website.
Section 8.
Organizational development

Organizational structure

The Bank's organizational structure is approved by the Resolution of the Management Board as of March 23, 2018, and presented in Picture 8.1.

Picture 8.1: Bank's organizational structure

The following governance and control bodies are approved the Bank’s Charter:
- governance – the Supervisory Board and the Management Board,
- control – the Revision Committee and Internal Audit Unit.

The Supervisory Board is the supreme governance body of the Bank (the level of the general meeting is not anticipated).

The permanent executive body of the Bank is the Management Board, which manages the ongoing activities and is responsible for the Bank’s performance. Information on the full list of powers of the members and Chairman of the Management Board is available on Oschadbank’s official website.

In addition, in 2015, the Management Board was delegated with certain powers of the Supervisory Board regarding:
- definition and approval of risk management policies;
- ensuring functioning of the internal control system;
- budget and business plan approval;
- definition of credit policy;
- participation in non-profit unions or associations;
- definition of organizational structure;
- making decisions as to establishment of separate units.

On a constant basis, that is every six months, the Bank's Management Board provides information on the decisions taken and a detailed report on fulfillment of the delegated powers.

In order to ensure rapid and effective decision-making, some of the Management Board’s powers were delegated to standing collegiate bodies (15 committees). In addition, in order to ensure transparent and continuous communication with regions, an advisory body has been established - the Regional Coordination Council.
Information on managers and officials

The Supervisory Board of Oschadbank was composed pursuant to the provisions of Article 7 of the Law of Ukraine «On Banks and Banking Activity». During 2018 the Supervisory Board membership underwent some changes and as of December 31, 2018, consisted of 7 members appointed based on quotas of:

The Cabinet of Ministers of Ukraine:
- Hreba Roman Volodymyrovych – Chairman;
- Shevaliov Artem Valentynovych – Deputy Chairman;
- Voloshyn Viacheslav Eduardovych;
- Danylenko Anatoliy Ivanovych;
- Parakuda Oleh Vasylievych; the President of Ukraine:
- Danylenko Anatoliy Ivanovych;
- Smovzhenko Tamara Stepanivna.

On December 12, 2018, powers of O.S. Markarova were terminated by the Resolution of the Cabinet of Ministers of Ukraine.

Previously, in 2017, the President of Ukraine issued his Decrees to terminate powers of H.D. Pakhachuk and N.I. Hrebenyk. In May 2012, the term of office expired for members of the Supervisory Board of the Bank, who had been appointed based on quota of the Verkhovna Rada of Ukraine: Yu.V. Bordiuhov, D.M. Volynets, O.P. Koshelenko, A.I. Ltytik, S.V. Cheksakhin.

As of December 31, 2018, the Management Board consists of the same members and did not undergo any changes during 2018, in particular:

- Andriy Hryhorovych Pshynny – holds position of the Chairman of the Management Board. His work experience in the banking sector is over 11 years. Main areas of responsibility – strategic changes management, legal function, risk management, security, public relations and mass media, etc.
- Hryhoriy Vasylievych Borodin – holds position of the First Deputy Chairman of the Management Board. His work experience in the banking sector is almost 25 years. Main areas of responsibility – financial monitoring, human resources, procurement, etc.
- Anatoliy Zinoviiovych Barsukov – holds position of the Deputy Chairman of the Management Board. His work experience in the banking sector is almost 25 years. Main areas of responsibility – financial management including accounting, etc.
- Iryna Mykhailivna Zemtsova – holds position of the Deputy Chairman of the Management Board. Her work experience in the banking sector is over 30 years. Main areas of responsibility – methodology, planning, settlement and cash services and corporate business sales.
- Andriy Ihorovych Stetserych – holds position of the Deputy Chairman of the Management Board. His work experience in the banking sector is over 20 years. Main areas of responsibility – corporate business, micro, small and medium business, etc.
- Anton Oleksandrovych Tiutiun – holds position of the Deputy Chairman of the Management Board. His work experience in the banking sector is almost 20 years. Main areas of responsibility – retail business, including premium banking, e-commerce, marketing, etc.
- Yevheniy Volodymyrovych Drachko-Yermolenko – holds position of the Deputy Chairman of the Management Board. His work experience in the banking sector is almost 25 years. Main areas of responsibility – operational management and information technologies, etc.
- Volodymyr Mykolaiovych Lytvyn – holds position of the Deputy Chairman of the Management Board. His work experience in the banking sector is almost 10 years. Main areas of responsibility – depository activities.

Organizational structure changes in 2018

Organizational structure of Oschadbank is based on the principle of centralization with vertical subordination and as of December 31, 2018 includes:

- 34 separate structural units of central office;
- 24 branches distributed on separate balance sheets;
- 3 027 off-balance sheet branches isolated geographically (including 2 606 operating ones).

In 2018, the process of optimizing the Bank’s organizational structure continued with the aim to improve a business model by means of optimizing management processes, support functions and implementation of operational efficiency programs. For this purpose, IT, information security, currency control, back office, risk management, collateral management, staff recruitment and training functions (23 reorganizations of the structural units of the Bank’s central office) were centralized.

In order to ensure fulfillment of tasks regarding operational transformation and strengthening of cooperation with international financial institutions, the Bank has created an independent structural unit - the Department of Financial Institutions.

Principles of the Bank’s corporate standards

In their activity, the Bank’s employees adhere to moral and ethical as well as business standards and principles, corporate values and rules of conduct set out in the Code of Corporate Conduct. This enables the Bank to maintain a high level of confidence from customers and partners.

The collective agreement was concluded on the basis of principles of transparency, mutual respect and partnership between administration and staff of the Bank. It regulates rights and obligations of the parties with respect to professional, labor and socio-economic relations.

The Bank has a functioning mechanism of confidential notification on conflicts of interest, unacceptable behavior or violation in the Bank’s activity, providing for the protection of complainants (Whistleblower Policy Mechanism), as well as appropriate measures.

Anticorruption Efforts

The Bank has a set of rules, standards and procedures to identify, combat and prevent potential manifestations of corruption. In order to maintain the Bank’s reputation and prevent any abuse, all employees comply with requirements, principles and restrictions set out by Anti-Corruption Program of JSC «Oschadbank».

The program is implemented by the Commissioner for the Implementation of the Anti-Corruption Program, whose main task is to prepare, implement and monitor implementation of measures to prevent, fight and detect corruption and ensure respect for ethical rules of behavior. At the same time, the organizational structure of the Bank provides for a separate unit - the Department of Corruption Prevention within the structure of the Security Department of the Bank.
Section 9.

Environmental and social aspects of activity

Environmental aspects

Aware of the importance of introducing energy-efficient technologies in Ukraine, the Bank is actively supporting customers who are carrying out modernization of housing to reduce heat losses and introducing «green» technologies.

Since 2014, Oschadbank has been implementing the national «heat» loan program. The Government supported the launch of a large-scale modernization of housing aimed at reducing heat losses, and Oschadbank has gained unique experience. In total, 213 thousand citizens benefited from «heat» loans granted by Oschadbank for a total amount of over UAH 3,9 billion.

The affiliate network of Oschadbank, comprising more than 8 thousand manufacturers, suppliers, and resellers of energy-efficient equipment nationwide, enabled the implementation of this process. In addition, due to Oschadbank’s active cooperation with city, district, and regional state administrations, its customers can receive compensation both from the Government and local authorities at the same time. The number of regional partnership programs for energy efficiency between the Bank and the municipalities, districts, and regional state administrations is 90.

The Bank has also introduced the «Green Energy» banking product, which offers every citizen an opportunity to borrow money to buy equipment and related material ensuring green energy generation (converting solar, wind, heat, water, biomass energy into electric energy), as well as their installation and commissioning. Since implementation of the banking product, loans totaling UAH 17.5 million were granted.

In 2018, Oschadbank’s MSME customers benefited from loans for the projects that positively affect the ecology of the environment, including introduction of alternative energy, «green technologies» in agriculture and other projects. At the same time, Oschadbank cooperates with international organizations such as the EIF and the EIB, as well as with the German-Ukrainian Foundation through joint loan programs for MSME customers. As part of these programs implementation, Oschadbank is required to comply with the European Environmental Regulations prohibiting funding of harmful activities. In addition, as part of its participation in the EBRD’s Trade Facilitation Program, Oschadbank is committed to meet the EBRD’s environmental and social requirements for project implementation.

Social responsibility

Inclusion

Oschadbank is the first and currently the only bank in Ukraine to carry out systematic and comprehensive work aimed at full-scale integration of people with disabilities into society and ensuring equal access to banking services. In 2014, Oschadbank opened its first inclusive branch in Ukraine and Eastern Europe, fully accessible to all categories of customers. Today, the Bank’s network has already 20 similar branches and their number is constantly increasing. In 2018, Oschadbank began verifying and confirming accessibility of its inclusive branches by external experts. Inclusion level audit is conducted by «Inclusive Friendly» team of experts.

In addition, based on inclusive branches, inclusive clubs continued to operate, providing a platform for socialization and recreation activities for people with disabilities, both adults and children. In total, more than 150 meetings on various topics were organized during the year.

In order to enable visually impaired and hard-of-hearing customers to freely access information on the Bank’s products and services online, the official Oschadbank website has been adapted for practical use by such people. Today, the website has a text-enlargement function and most videos from the Bank’s website are titled or have an integrated function of automatic subtitles.

By means of involving business partners in joint projects, Oschadbank continued...
to disseminate and implement ideas aimed at integration of all people into society. Thus, for example:

- Within the framework of the project «Feel. Paintings», a tactile picture in which colors of the artwork were transmitted using different textures was made for each exhibition at Mystetskiy Arsenal under the sponsorship of the Bank. Thanks to this, both sighted and blind visitors of Mystetskiy Arsenal were able to see the artwork.
- Jointly with «Ulichnaya Eda» gastronomic festival and «Fight for Right» public association, an inclusive space «beTogether» was opened.
- Inclusive corporate calendar «Special people», which highlights the philosophy of a barrier-free society being actively introduced by Oschadbank, won the Grand Prix at the contest of the best corporate media of Ukraine.

Charity

In 2018, Oschadbank continued and expanded its interaction with the leading charity partner – «Tabletochki» Charitable Foundation. Since 2011, the Foundation has been protecting interests of children with cancer in Ukraine: provides targeted psychological, palliative care and systematic support with essential drugs for 16 cancer-treatment units around Ukraine.

As a result of this cooperation, employees and customers of the Bank can make transfers to «Tabletochki» Foundation via Oschadbank’s information and payment terminals. In 2018, with their help, UAH 452 thousand were transferred to the account of «Tabletochki» Foundation. In addition, in 2018 it became possible to make transfers to the Foundation via online system «Oschad 24/7».

Moreover, Oschadbank organizes a corporate Donor Day every year. In 2018, about 100 employees of the Bank participated and donated 43 liters of blood.

Investments into future

In 2018, the Finance Laboratory continued its work - an interactive educational program designed to teach financial literacy to children and young people as part of the «Arsenal of Ideas» project at Mystetskiy Arsenal, and established in partnership with Oschadbank. The program consists of a series of unique activities that demonstrate the development of financial sector and benefits of modern banking technologies. The Finance Laboratory offers special programs for children with disabilities and children without parental care.

In 2018, the work of worldwide known futurologist Yuval Noah Harari «21 lessons for the 21st century» was translated and published in Ukrainian under the sponsorship of the Bank. The Bank has made efforts to ensure that Ukrainian readers can read this book along with readers from most countries of the world.
Section 10.

Awards and recognition of the bank in the reporting period

AWARDS IN 2018

“50 Leading Banks of Ukraine”. Rating by the information agency
“Financial Club”
- For the third year in a row, Oschadbank is the leader of “50 Leading Banks of Ukraine” rating

First Awards 2018. Research conducted by analysts of Finance.ua and “Minfin” portals and a pool of financial market experts
- Oschadbank won the “The most technologically advanced bank” prize

“Financial Oscar 2017”. Rating by “Business” magazine
- Oschadbank won the “People’s Choice” prize
- Oschadbank won the “Leader of a card market” prize
- Oschadbank won the “Online bank” prize

“Banks of 2018”. Rating by “Financial Club” information agency
- Oschadbank won the “The largest savings bank” prize

Top-100 most expensive brands of Ukraine. Rating by “Navoe Vremia” (“New Time”) magazine
- Oschadbank is among Top-10 in terms of brand value growth rate and ranked 66-th among Top-100 most expensive brands of Ukraine

OschadPremium
- Won the “Highly Commended Private” prize from Global Private Banking Awards
- Recognized as the best adviser in financial planning of successful future in Private Banking segment of Ukraine according to rating by “Euromoney” magazine

“The Best Bank for SME”. Rating by “Business” magazine
- Oschadbank won “The best product” prize

Best Legal Departments 2018. Rating by “Iurydychna Praktyka” (“Legal Practice”) periodical
- Oschadbank’s Legal Department won “The Best Legal Department of Ukraine” and “The Best Legal Department of the Bank” prizes

- Oschadbank is the only bank among rating participants to enter TOP-10 companies-employers

Mastercard Day 2018
- Oschadbank was awarded with the honor “Cashless Fest Concept Support” for large-scale projects: Zymova Krasna, Atlas Weekend, NSC Olympic.

Banker of the Year
- Andriy Plyshyy, Chairman of the Management Board of JSC “Oschadbank”, was twice awarded with “Banker of the Year” 2018 prize from First Awards 2018 and “Business” magazine

A large number of awards, which our team received in 2018 in almost every area of activity, gives us the right to declare: we can do everything!

We will not leave any customers’ unresolved issues; we will offer modernized products and services to them.

Oschadbank has been holding leadership in a complex sector research “50 Leading Banks of Ukraine” for three years in a row.

The impressive growth in the number of bank’s online services users, cashless solutions, IT upgrades have enabled Oschadbank to receive the “Most Technologically Advanced Bank” prize for the first time ever.

For the first time, the significant results of MSME growth are reflected in a thorough expert evaluation.

The new line of OschadPremium received two international awards at a time having advanced the well-known players in the premium segment of the banking market.

Thousands of court cases won on the way to solving the NPL issue and a victory won against the Russian Federation in the International Court of Arbitration have allowed Oschadbank’s lawyers to become recognized.

The extreme complexity of the bank’s modernization tasks in the years of 2014-2017 and their successful implementation served as a basis for a corresponding assessment of the work conducted by the Chairman of the Management Board at JSC “Oschadbank” by his colleagues in the banking market. Andriy Plyshyy has been twice awarded with “Banker of the Year” prize.

We are grateful to market experts and our customers for high appreciation of our work.

To be continued!

Zveno, Oschad
I am changing the country because my bank is changing it

- Together with us, Ukrainian start-ups are growing, and large business is getting more powerful.
- Together with us, millions of Ukrainians make their first steps and plan their future.
- Innovations which make our lives easier and branches available anytime and anywhere.
- Reliability in any circumstances – all of these are about zvisno, Oschad!

The largest country’s universal bank

- Large but close, easy-to-understand and open for everyone.
- For sure, Oschad is a simple answer to any financial issue.
- Because we can do everything!
  And we are doing everything.
  For everyone to say:

My bank is zvisno, Oschad!

Year of 2019

We have made Oschad the market front-runner. For four years in a row, the state bank has been No 1 among 50 leading banks in the country. The results obtained give us grounds to change our own positioning which we will once again start with our ideological platform – the Manifesto.

Five years ago it became our obligation to change, our endeavor to obtain a vote of confidence in order to ensure radical changes. It helped us understand what kind of bank we are creating and send this message to our customers. We have overcome a very difficult five-year-long period and are ready to share the results. Today, we are convinced: “Zvisno, Oschad!” is a simple answer to any financial issue of a customer. The updated Manifesto reflects our common worldview. This is both an appeal and understanding of our new status: we can do everything!

Zvisno, Oschad!