



# Development Strategy of JSC CB "PrivatBank" until 2024

# 1

Strategy Summary

# Strategy to unlock core business value, augment operational and financial stability, and maximize dividend and privatization potential through effective target operating model

## Key Targets of Strategy Update

### Create operationally strong and competitive organization

As a leading provider of Retail and SME services, secure and expand Bank's position as one of the strongest and biggest retail banks in CEE with economic and social impact on Ukraine and beyond

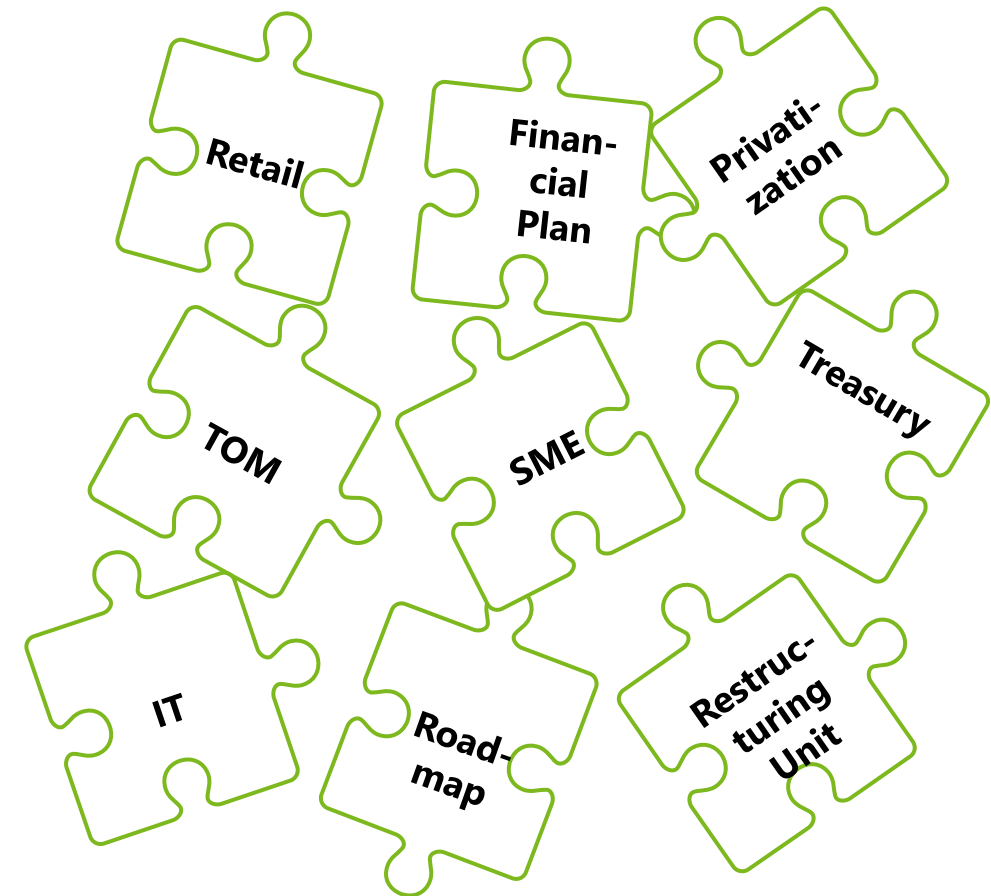
### Ensure dividend strength and financial stability

Sustainable and strong dividends to the shareholder provided by reaching core business goals and target operating model

### Transform Bank into attractive, viable investment opportunity

Maximization of shareholder value with high potential for a successful sale considering time value proposition is not geared to a quick privatization

## Requires multi-dimensional operating model



# Strategy Update unlocks the real core business value, striving for maximization of dividend and privatization potential

Strategy Update | Summary

## Core outcomes of defined strategy

### Create strong competitive bank

- Strengthened public perception due to enhanced service offering to Retail and SME client base
- Focused, leading Retail bank in Ukraine will foster economic growth and anti-fraud measures
- Long term profitability, employment security and an overall stable banking environment
- Implementation of Target Operating Model using efficient, cost effective best practices
- Strength realized through organizational transformation and digitalization of processes

### Ensure dividend strength and financial stability

- Focus core business strength and lean operating model – grow as real leading Retailer
- Good Bank's net income increases based on robust and diversified lending
- Dividend growth driven by core business contributing up to ~26 bn UAH in 2024
- Good Bank Balance Sheet and Bond Swap provide financial stability and transparency

### Transform into viable investment opportunity

- Viable way to split legacy – unlocking privatization potential without external cash
- Reducing ownership of the state via now possible privatization follows state's requirements
- Clear focus on core value levers in Retail and SME Strategy – building a strong story
- Good Bank ready for privatization – up to ~80 UAH bn sales proceeds possible
- Clear view on pros and cons of each privatization options guide shareholder decisions

# Main principles of Good Corporate Governance in PrivatBank

## Corporate Governance | Principles

### Fairness and integrity

PrivatBank treats fairly its clients, employees, shareholder, community and other stakeholders. We require fairness and integrity in all business dealings, to avoid any improper advantage or the appearance of questionable conduct by employees or third parties with whom we do business or who act on our behalf.

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### Accountability

PrivatBank's management board presents a balanced and understandable assessment of the bank's position and prospects. The Supervisory board is responsible for determining the nature and extent of the significant risks and the communication towards the main stakeholder of the bank. Together they stand for sound risk management and internal control systems

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### Responsibility

The Supervisory Board accepts the responsibility for the power given and the authority exercised within the regulatory and legislative framework. It ensures strategic management and exercises control over the activity of the management board with the aim of implementation of the strategy of the Bank. The supervisory board acts in the best interests of the Bank consistent with the legislation, protects the rights of depositors, other creditors and the shareholder of the Bank. In doing so, it acts in the best interests of the bank and its clients.

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### Transparency

Disclosure of material matters concerning the bank's performance and activities is timely and accurate to ensure that all stakeholders have access to clear, factual information which accurately reflects the financial and social position of the bank. PrivatBank's transparency across all management layers ensures that stakeholders can have confidence in the decision-making and management processes the bank.

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### Corporate Social Responsibility (CSR)

As the biggest retail bank in the country and being conscious about the impact it has on all aspects of the society, including economic, social, and environmental, PrivatBank is intentional and deliberate in taking actions aimed at enabling economic growth and societal progress by creating a positive impact for clients, employees, investors and communities in Ukraine. Its CSR agenda and initiatives aim to boost the bank's perception to be a socially minded enabler, a reliable partner, and a catalyst for change. The agenda also helps to build trust, employee and client loyalty, and strengthen PrivatBank's reputation. PrivatBank's CSR strategy unfolds on three layers: improving financial inclusion; developing and implementing the customer protection principles; and social initiatives beyond banking.

# Strategy fulfills expectations set by the state owned banks (SOB) strategy framework for 2024

Good Bank view

## Overall business model and profit monitoring

	2020	2021*	SOB Target	PB's Target
RoE %	45%	51%	>30%	> 40%
Net Profit UAH bn	24,3	29,5	> 15,8	> 30
Dividend ratio	80%	70%	70-90%	70%
CIR %	31%	42%	< 45%	< 45%
CoR %	2,8%	3,5%	< 5,0%	< 5,0%
NPL** %	6,6%	6,5%	< 20%	< 20%
Leading Retail Bank in UA				
Strong Player in SME				
Adjusted progressive operating model				

\* 2021 - forecast  
\*\* NPL of new portfolio

## Sustainability/ privatization readiness monitoring

	2020	2021*	SOB Target	PB's Target
Share of SoE <sup>1)</sup>	~ 0%	~ 0%	~ 0%	~0%
Share gov. bonds <sup>2)</sup>	57%	53%	< 40%	< 25%
Readiness for the exit of the state				
Leading Bank in Innovation				
Best risk management systems				
Developed <sup>3)</sup> IT systems				
Max. recovery from "old" NPL portfolio				

1) SOE = state owned enterprises ; 2) in total assets; 3) stable, secure, scalable  
Source: SOB Strategy, Project Team

# 2

Core Elements of Good Bank

## **PrivatBank with a clear mission and vision to be number one player for Retail and SME in Ukraine – already is in the lead on retail and in core products**

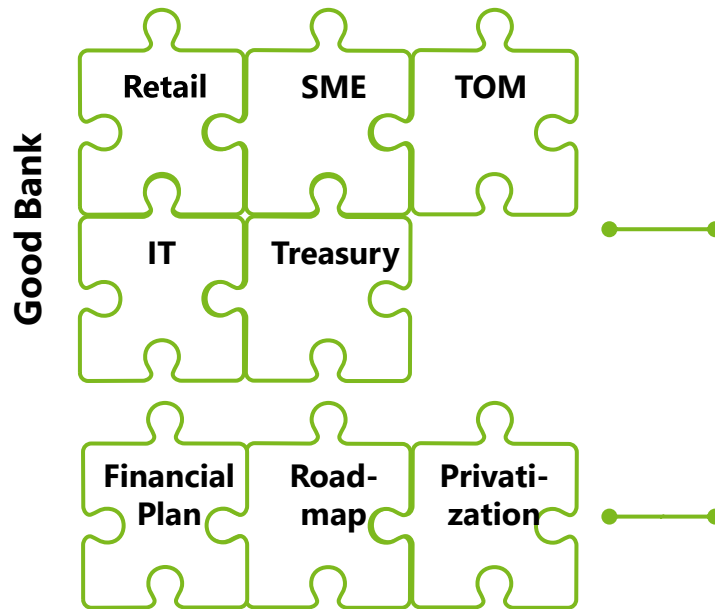
### **Current strengths and opportunities PrivatBank**

- 1 Largest player in retail**
  - 2 Strongest in Ukraine in terms of multichannel proximity**
  - 3 Market leader in cards and payments**
  - 4 Strong footprint in SME**
  - 5 Overall reasonable cost base**
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# Core focus of project is to define a strategy for a sellable “Good” Bank and their privatization approach – legacy issues to be concentrated in a separate unit

Elements of Strategy Update project



## Key elements

### Retail & SME

- Strategic cornerstones, value proposition, market share and revenue pool aspirations
- Requirements to Target Operating Model (TOM) to fulfill business strategy

### TOM & IT

- Functional needs for new business strategy, sizing of FTE needs, OPEX base and IT assessment

### Treasury

- Treasury cornerstones needed for comprehensive Financial Plan

### Financial Plan

- Core financial elements for Good Bank 2020-2024, structured by trackable value drivers that can be monitored year by year

### Roadmap

- Prioritized high-level action plan / roadmap

### Privatization

- Most suitable privatization options given unique situation, privatization roadmap and time plan

### Restructuring Unit<sup>1)</sup>

- Creation of composite and high-level financial corner stones
- Frame for split and potential funding gaps
- Non-core services and general options thereto
- Transition of Surplus bonds

1) Working title (still to be aligned), used for the rest of the presentation;

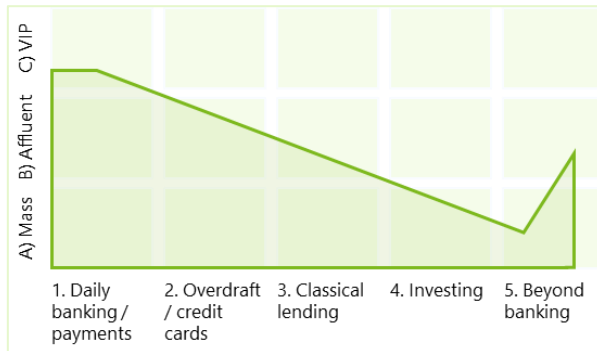
# 2.1

Business Direction

# Retail: Full offering to take advantage of huge client base and increase share of wallet while securing existing cards leadership, building on physical and digital proximity

## Retail Strategy

### Broad retail offering as chosen strategy



### Proposition element

### Key cornerstones per value proposition element

#### Client centricity

- Segmented client base, with targeted, need-based offerings (e.g. for payroll and other subsegments) and easy and convenient access

#### Products

- Lending expansion by consumer loans, car loans and selected mortgage offering
- Growing borrower base and volumes in lending in commercial banking
- Deposit offering in LCY and FX

#### Pricing

- Pricing at market (or slightly above), compensated by distribution proximity and quick and convenient processes

#### Distribution

- Effective and efficient omni-channel distribution approach, growing mobile and digital offering, and decreasing branch footprint

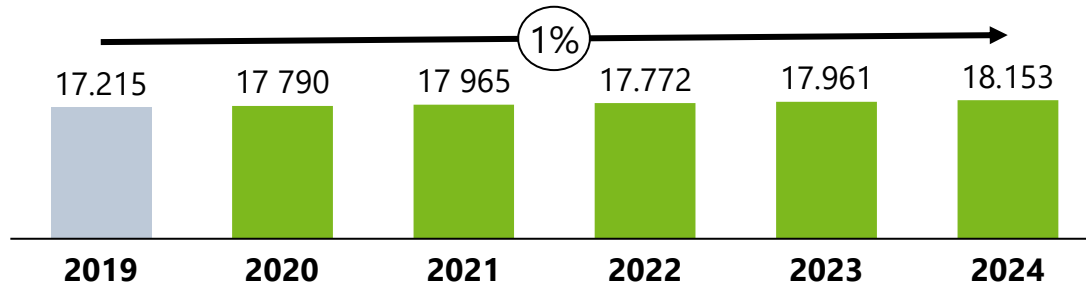
#### Sales & service

- Sales and service model focused on product push and cross-sell to existing client base
- Clear relationship approach towards (larger) business clients
- Increasingly digitalized and self-dominated service model, with diminishing human servicing

# Majority of Retail income growth can be attributed to increased cross selling rather than acquiring new clients – evidenced by increasing products per client and income per client

Retail income metrics

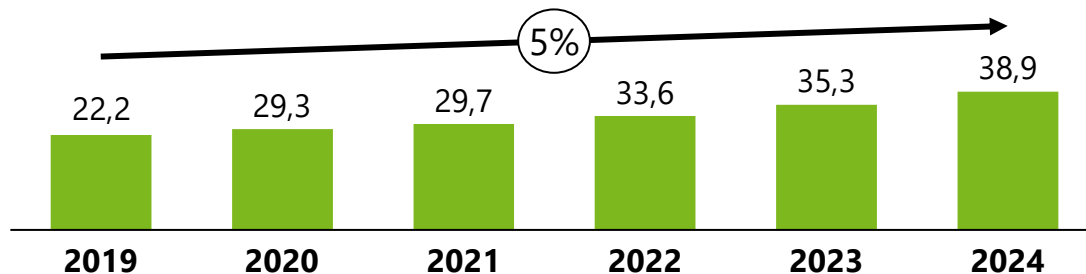
**Strong client base with marginal client growth ...<sup>1), 2)</sup>**



**... paired with a strong incentive to cross-sell and activate ...**



**... will trigger strong Retail income<sup>3)</sup> growth (bn UAH)**



**Leverage exceptionally strong Retail client base with minimal need for growth**

**Focus energy on sales activity to grow from cards/ payment into lending and non-banking products**

**Combined Retail income – despite Covid-19 and card fee changes – can grow more than 8bn UAH**

1) Acquisition rate of 5,1% as avg. of '17-19 historic rate and churn rate of -4% in line with cross-selling focus and as agreed during interviews with Retail; 2) With regards to service efforts see TOM section

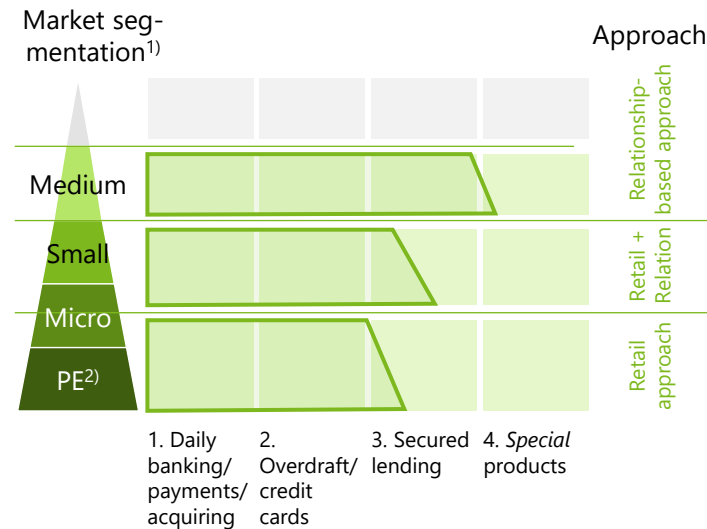
Source: Project team analysis

3) Net interest income + Net fees and commission income

# Business Banking: Broad client base allows for implementing distinct strategies per subsegment – retail approach for the most, relationship-based model for larger clients

Business clients

## Distinct approach – “client segmentation”



## Proposition element

## Key cornerstones per value proposition element

### Client centricity

- Differentiated service model according to needs of the different clusters of clients
- Focus on target clients
- Focus and in-depth understanding of selected industries (e.g. Agri)

### Products

- Coherence between segments/clients needs and the product offer (typology and pricing)
- Focus on simple, standardized lending products
- Broad offering of non-banking services

### Pricing

- Retail approach: market pricing (or slightly above), compensated by distribution proximity and quick and convenient processes
- Relationship-based approach: Competitive and tailored pricing

### Distribution

- PE<sup>2)</sup>, majority of Micro and Small clients covered by Branch employees
- Selected Small and Medium clients covered by relationship managers located in Ukrainian business regions
- Selective approach for focused industries (e.g. Agriculture)

### Sales and service

- PE<sup>2)</sup> and majority of Micro and Small clients: retail style sales model, focused on product push and cross-sell to existing client base
- Relationship based service model for medium clients and selected small clients
- Increasingly digitalized and self-dominated service model, with diminishing human servicing

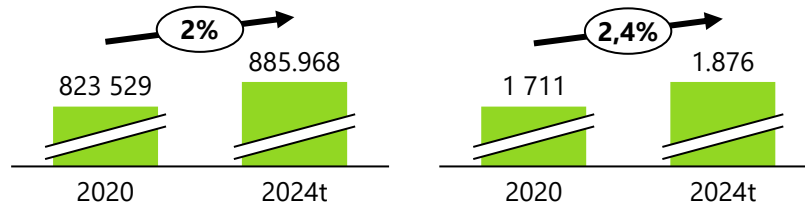
1) In accordance with the Commercial Code of Ukraine, Medium – customer revenue EUR 10 M–50 M, Small – customer revenue EUR 2 M–10 M, Micro – customer revenue less than EUR 2 M; 2) Private Entrepreneurs

# Overall, strategy should result in approx. ~10 bn UAH additional income – making it happen requires significant transformation

## Business clients metrics

### Overview of main KPIs (2020-2024)

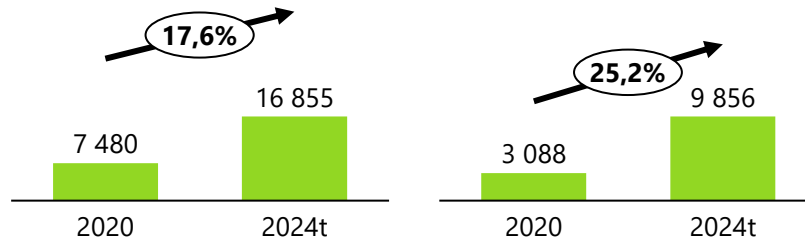
Number of clients, units



### Insights

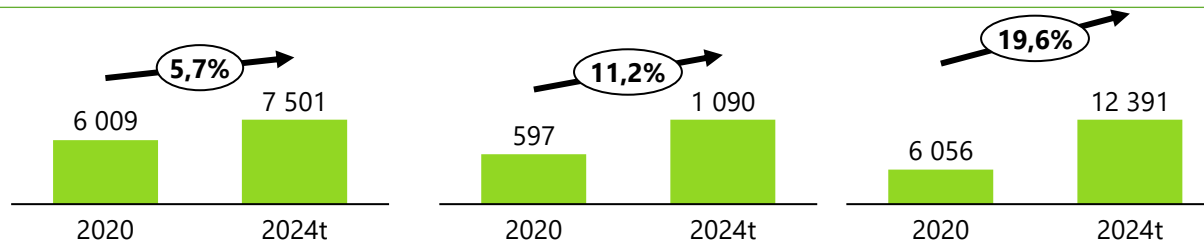
- Moderate growth in number of active clients expected in 2024
- PB already has significant market share and should focus on cross-selling loans

Lending volume, mn UAH



- With the execution of strategy PB should have approx. 17 bn UAH in loans offered in retail-like approach and 10 bn UAH in relationship-based approach

Net interest and commission income, mn UAH



- Earning from lending will grow by approx. 750 mn UAH, though margins are expected to shrink significantly
- Main driver of the income will be POS terminals acquiring business (~8,5 bn UAH increase)

PE / Micro / Small<sup>1)</sup>

Medium / Corp<sup>2)</sup>

Other / Not assigned<sup>3)</sup>

# Balancing physical and digital services to retail and business customers: maximizing customers engagement through accessibility and convenience

## Summary

### Key areas of focus

### Insights

Customer  
Experience

**Become the preferred bank in Ukraine**



- Implement comprehensive measurements of customer experience
- Rollout targeted program to increase customers satisfaction and loyalty
- Establish CustEx as key personal target at all levels

Branches  
optimization

**Accessibility: sales and value add service**



- Footprint optimization based on customers preference (traffic) and economic performance
- Adapt branches typology reflecting changing servicing models
- Processes optimization and migration to digital channels to maximize time to sell and serve

Digital growth

**Digital transformation: innovation / UI / UX**



- Recapture focus on digital innovation
- Continuously simplify and improve UI / UX in Privat24
- Develop LiqPay with anticipated market growth, using scale to add new relevant services

# 2.2

## Target Operating Model & IT

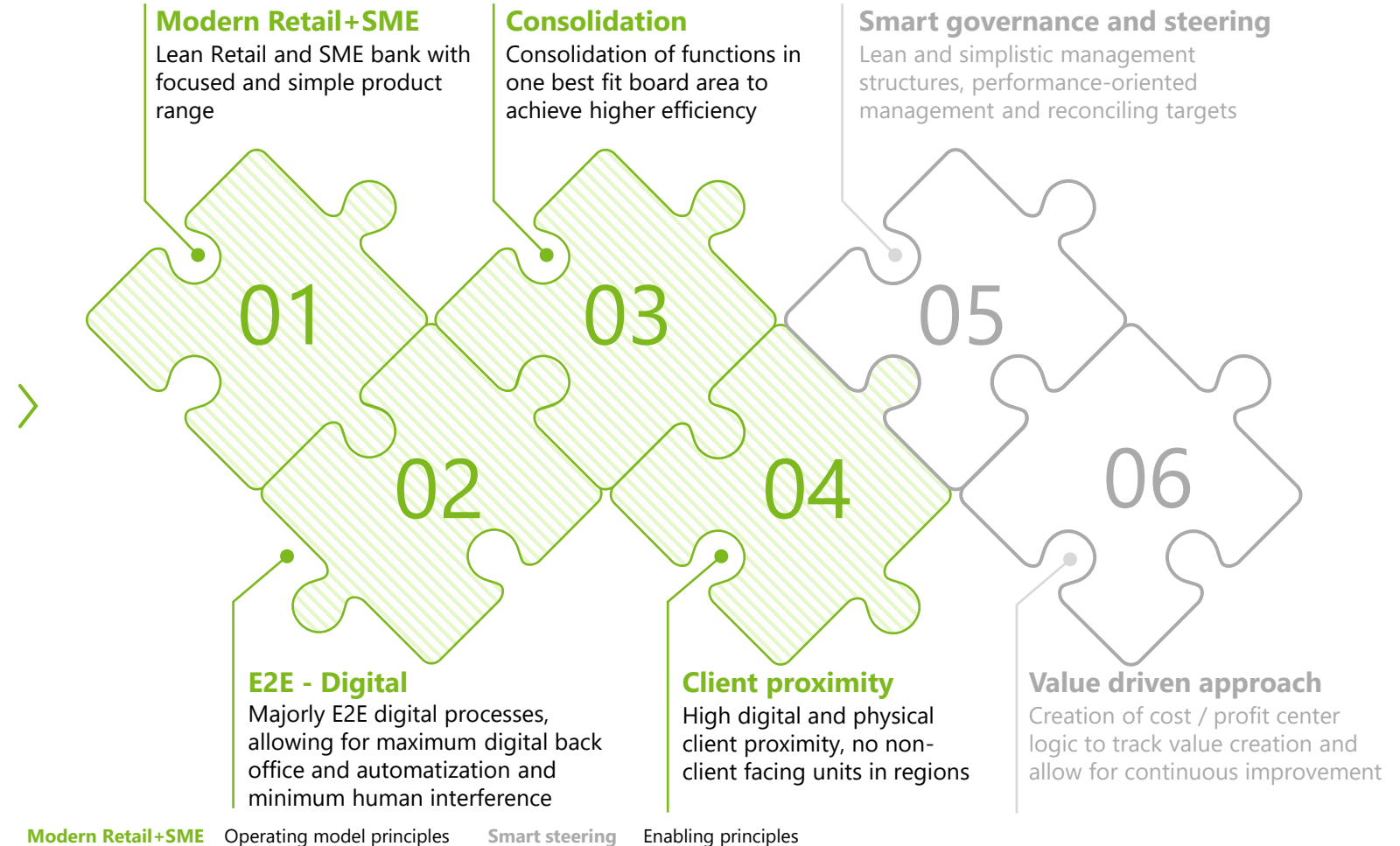


# Core objective of defining guiding principles for Target Operating Model (TOM) to define what the Good Bank will need from an operating perspective to capture business potential

Objectives of TOM and core guiding principles

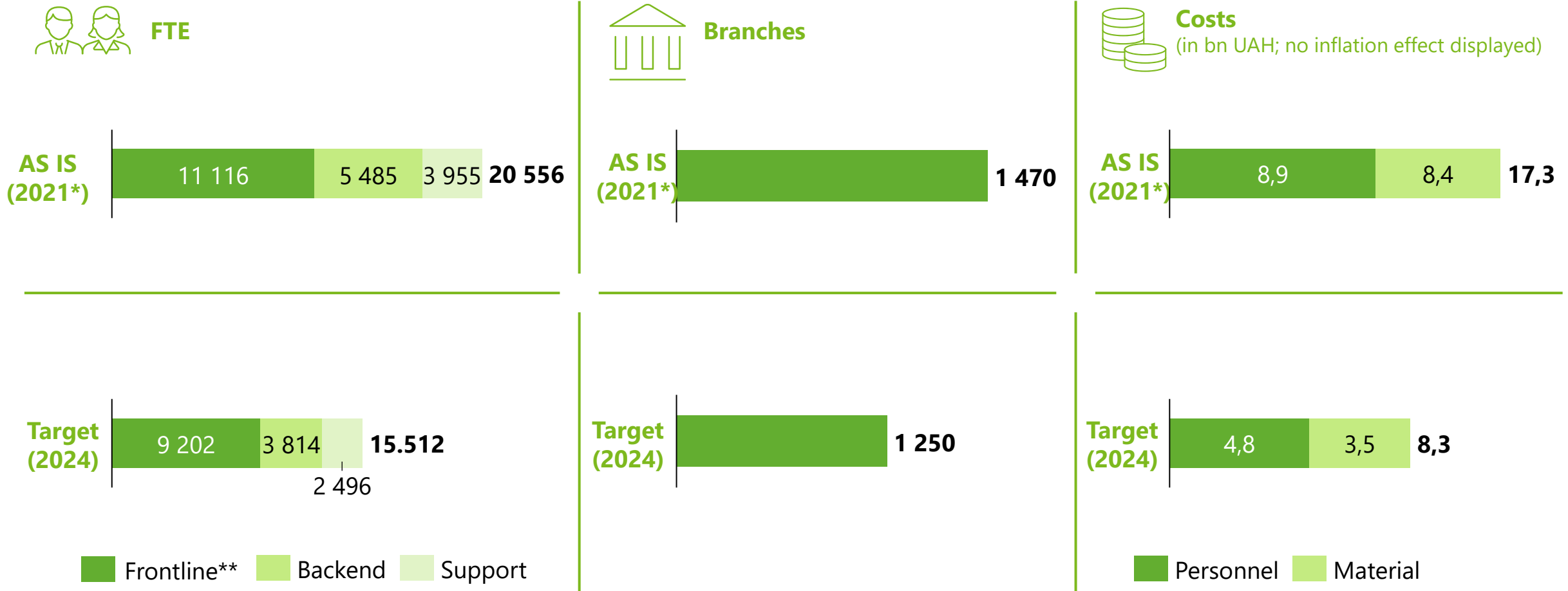
## Target Operating Model to be drafted for Good Bank in order to ...

- ... achieve a clear understanding what **operating model the Good Bank will need** to fulfill its strategy and **business model**
- ...allow for **planning a target P / L for the Good Bank**, capturing the revenues as devised in the Retail and SME strategy, and **confronting that with the expected cost base**, assuming a lean and modern banking operation
- ...**identify what the bank already has** / is in place and what the **gaps** are
- ...identify what **functions are not needed** in the target setup



# Target picture of the Good Bank with ca. 15.000 FTE and 1.250 branches – 8,3 bn UAH target OPEX compared to 11,4 bn UAH today

## Overview Good Bank







\* 2021 forecast

\*\* Frontline - front office (branches and business middle) and call centers staff Backend – support functions on middle level, Back office and business staff in HO  
Support – support functions in HO

# Deep Dive: For the implementation of the new structure several requirements need to be fulfilled

TOM requirements – Excerpt

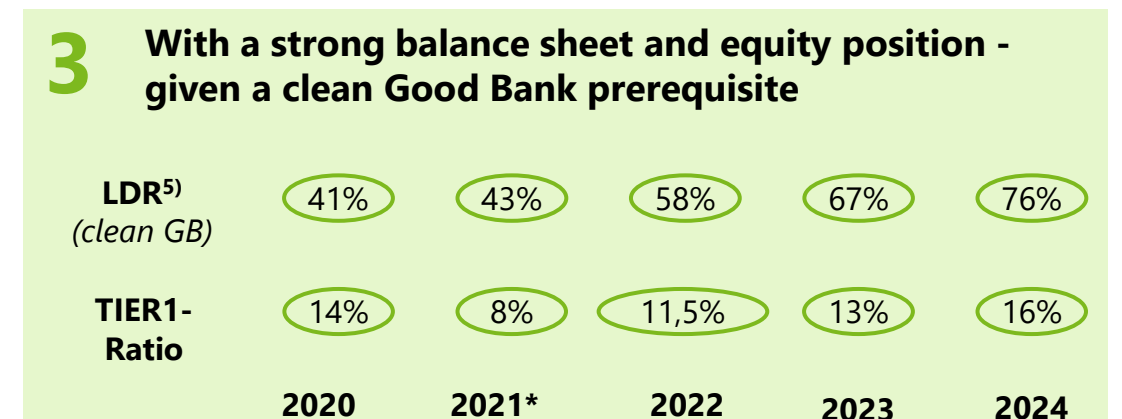
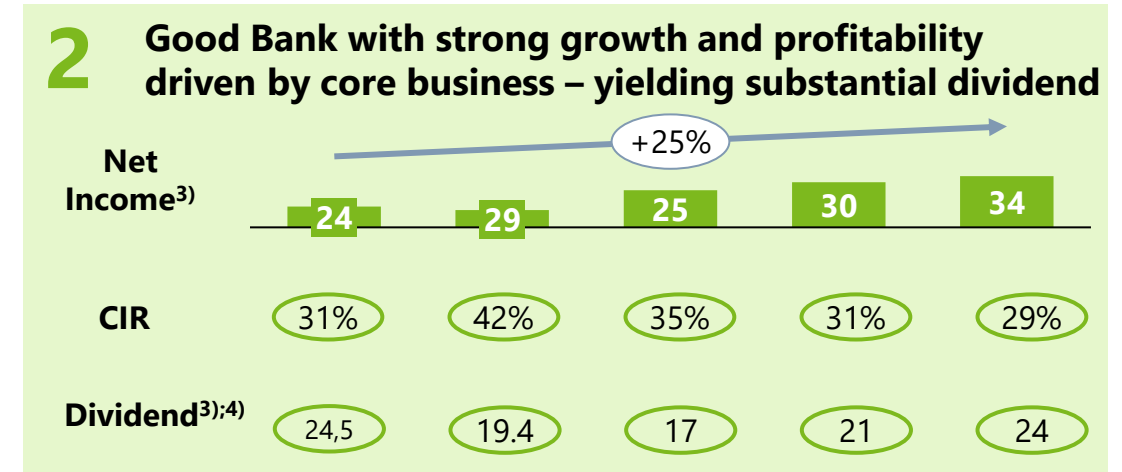
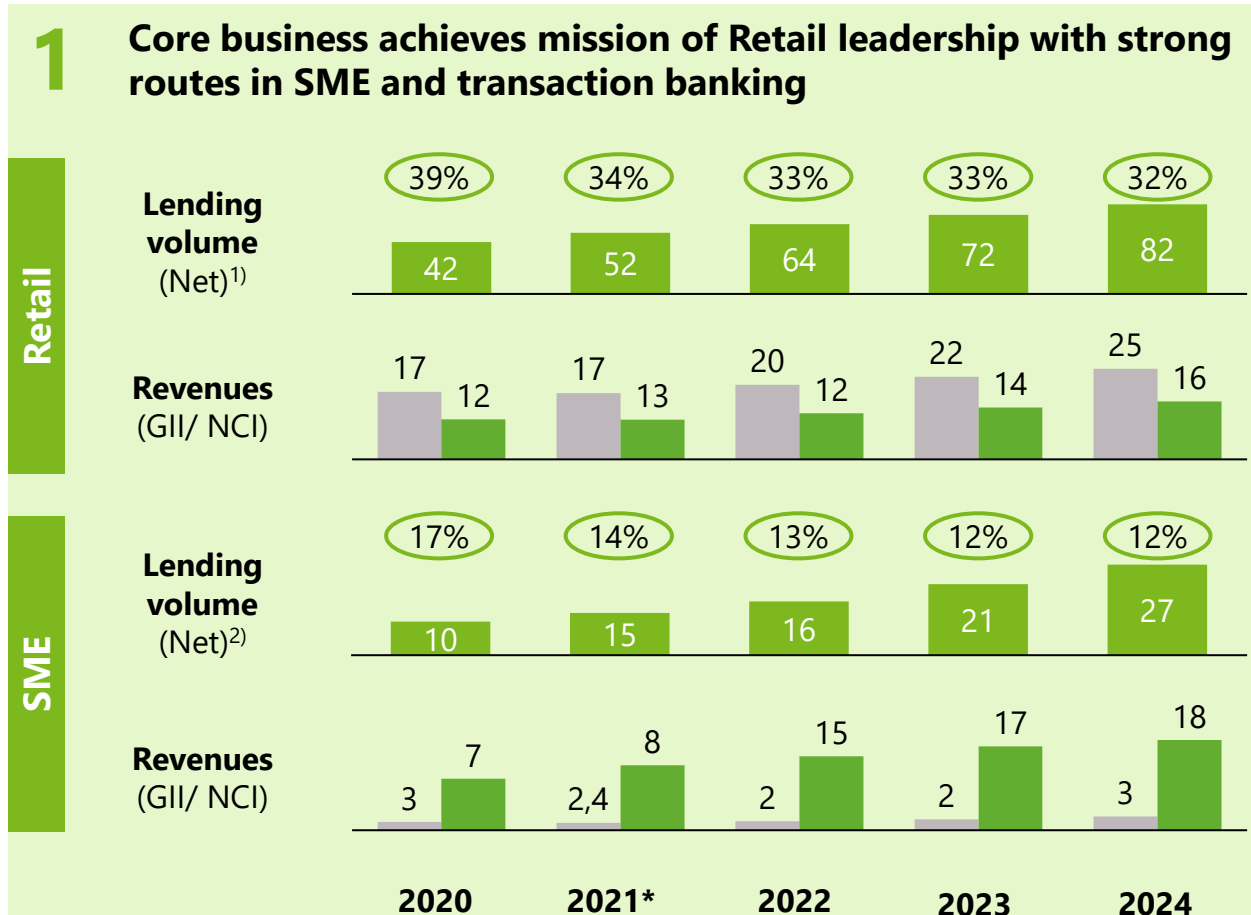
Area		Description	Activities	Timeline
Standardization of processes		<ul style="list-style-type: none"> <li>• <b>Reduction</b> of overall number of <b>processes</b></li> <li>• <b>Elimination of unnecessary steps</b> within the processes</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of <b>centralized matrix combining</b> all bank <b>processes</b></li> <li>• <b>Documentation</b> of all ongoing processes</li> </ul>	<ul style="list-style-type: none"> <li>• <b>24 months</b></li> </ul>
Interface optimization		<ul style="list-style-type: none"> <li>• <b>Clear split of responsibilities</b> within each department</li> <li>• <b>Streamlining of decision process</b> - ongoing monitoring of emerging issues</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Establishment of agile working teams</b></li> <li>• <b>Implementation of oCRM and aCRM</b> to improve sales activities</li> </ul>	<ul style="list-style-type: none"> <li>• <b>24 months</b></li> </ul>
Automation of processes		<ul style="list-style-type: none"> <li>• Utilization of technologies to <b>eliminate most of manual handling</b></li> <li>• Utilization of technologies to significantly <b>reduce error rate</b></li> </ul>	<ul style="list-style-type: none"> <li>• Development of <b>automated scoring engine</b> enabling quick assessment of loan applications</li> <li>• Implementation of <b>workflow and robotics</b> in processes identified for improvement</li> </ul>	<ul style="list-style-type: none"> <li>• <b>18 months</b></li> </ul>
Max self servicing		<ul style="list-style-type: none"> <li>• <b>Reduction of client interactions in branches &amp; call center</b> in favor of digital channels</li> <li>• <b>Educating customers</b> in order to make them more <b>self-reliant</b> and asking for support only in specific situations</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of <b>cashless branches</b> focused on advisory services</li> <li>• Imposition of <b>fees on activities</b> that could be <b>easily conducted in digital channels</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>24 months</b></li> </ul>

# 3

Financial Plan Good Bank

# Proposed initiatives shape Good Bank's business and operating model – rising net income to 34 bn UAH in 2024 with strong cost efficiency, building baseline for sustainable dividends

Summary overview Financial Plan Good Bank



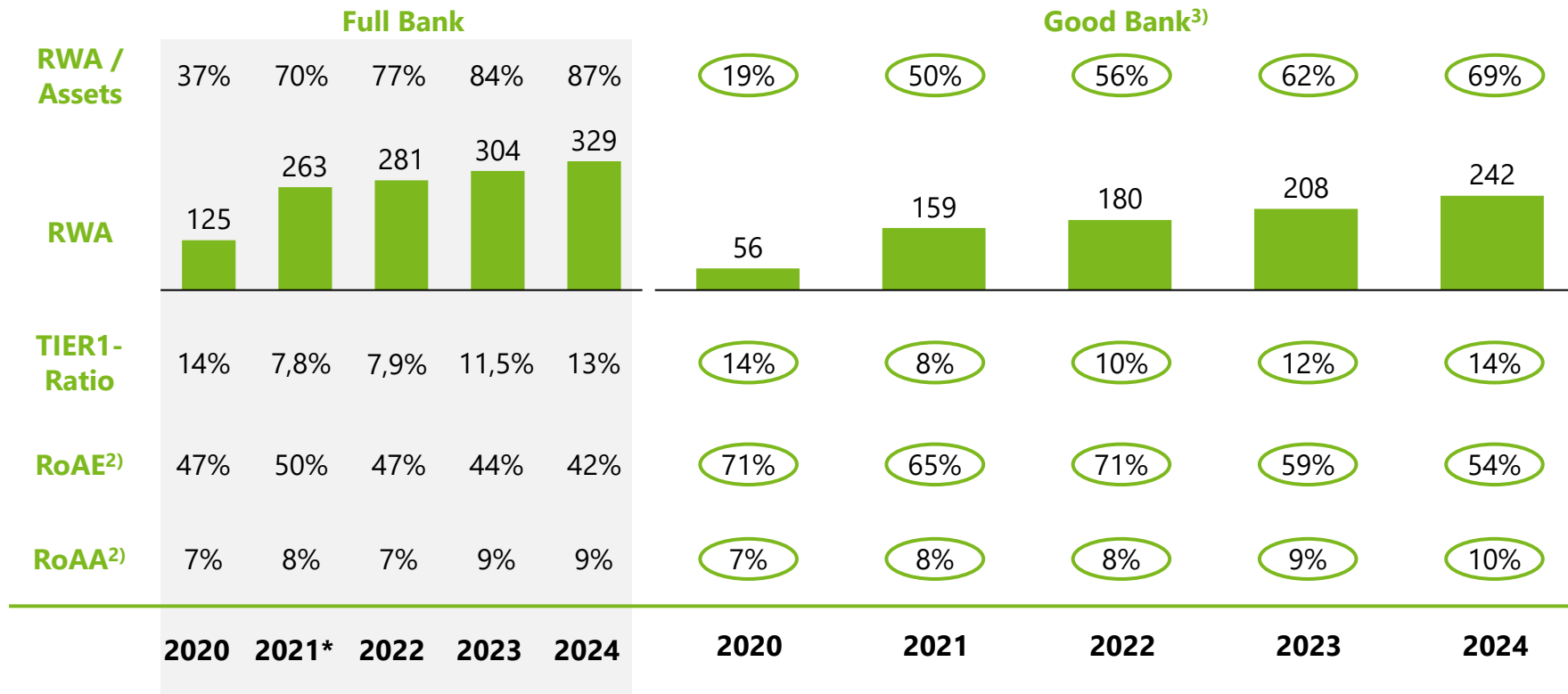
○ Average gross interest rate; calculated as a weighted average

■ Gross Interest Income ■ Net Commission Income

1) GII = gross interest income | NCI = Net commission income; 2) incl. Corporate parts; 3) assuming tax loss carry forwards utilizable/ before tax; 4) Depending on equity retention requirements – introduction of buffers would diminish distributable dividends to reach target Tier-1; 5) Requiring a split of the legacy assets including surplus government bonds and a stable Treasury portfolio of around 46 bn UAH in the Good Bank; Source: Project team, zeb.analysis

## Good Bank exhibits above market profitability

Capitalization in bn UAH (incl. op. Risk)



- Major upcoming regulatory changes are considered :
  - RWA from operational risk (100%)
  - Risk weight of 150% for unsecured consumer loans
- Base scenario: no loss on bail-in legal case
- Split of equity between Good Bank and Restructuring Unit based on initial need of Restructuring Unit<sup>4)</sup>
- Increase in RoAA<sup>2)</sup> driven by the key initiatives of retail business and cost efficiency
- RoAE<sup>2)</sup> continues above market average for a retail and SME focused bank in CEE<sup>1)</sup>

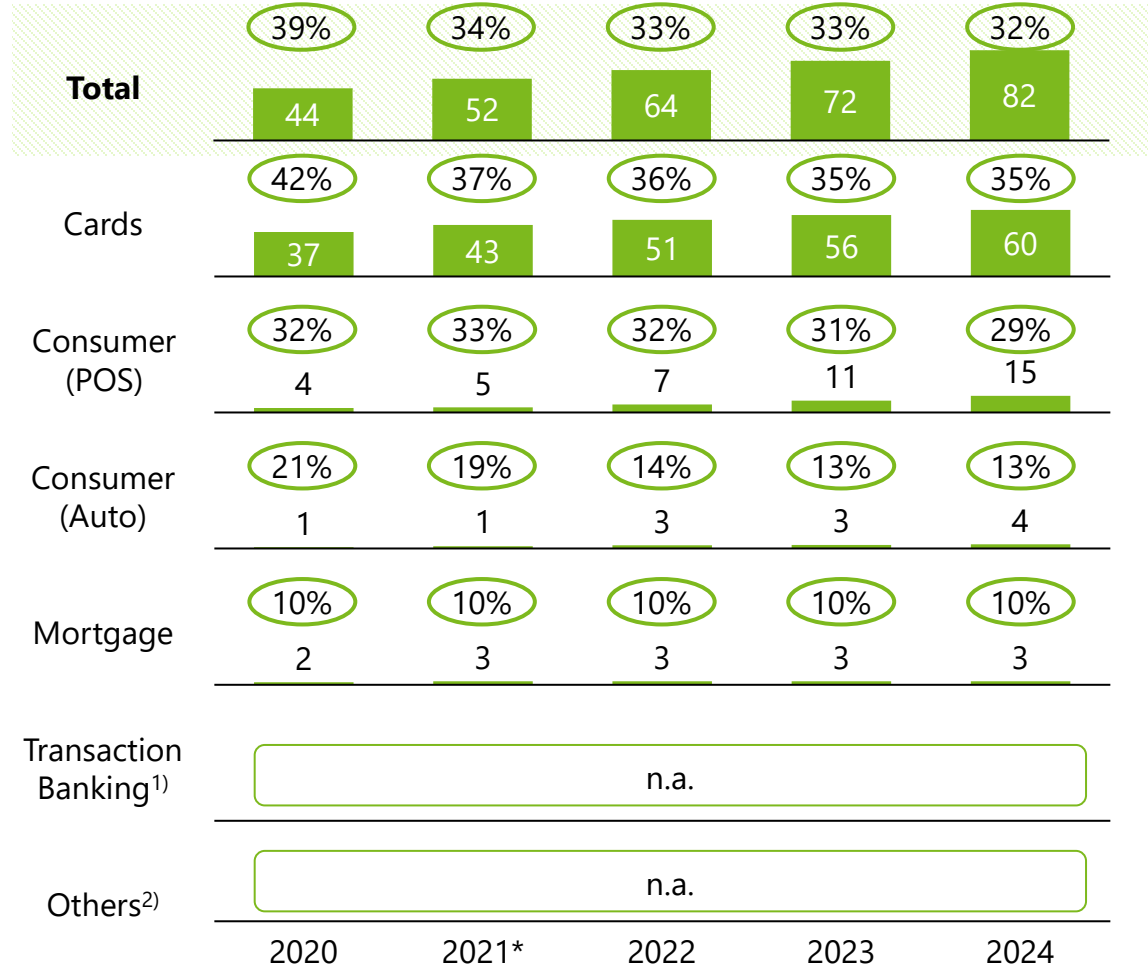
1) Median around 20% (project documentation Phase 1); 2) RoAE = Return on average equity | RoAA = Return on average assets; 3) Aligned financial cornerstones of the Restructuring Unit considered (i.e. loan to the RU and self-sufficient non-core services); 4) Could be lower in case no banking license is needed; Source: Project team analysis

\* 2021 forecast

# Deep Dive: Retail lending mostly concentrated in the cards business – both interest income and commission income are mainly driven by this subsegment

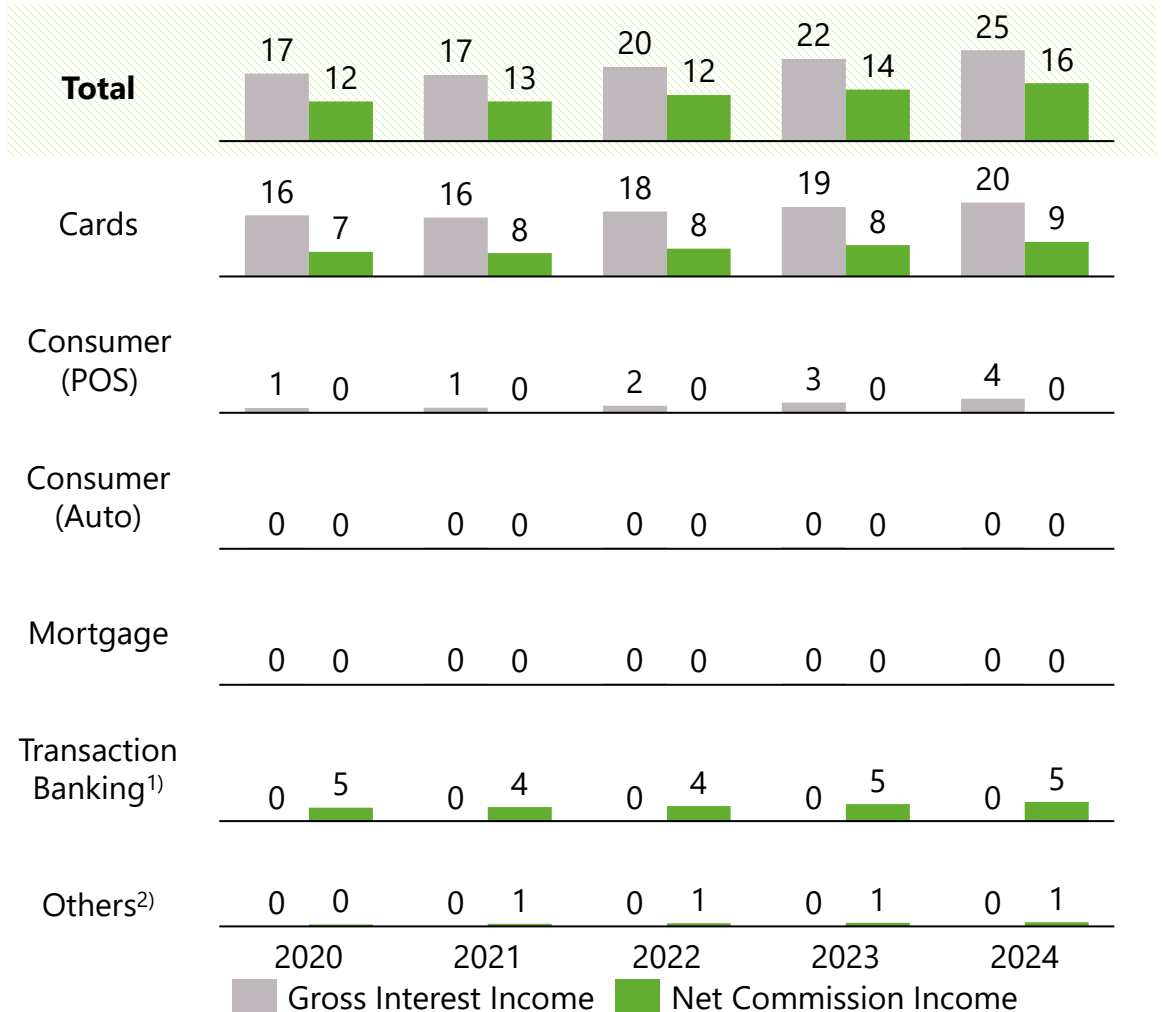
## Deep Dive | Retail Lending

### Lending volume (Net in bn UAH)



Impact of regulatory reduction of interchange fee initially included, further detailing needed once more clarity emerges

### Gross Interest Income and Net Commission Income (in bn UAH)



1) Payments and international transfer; 2) non-banking products;

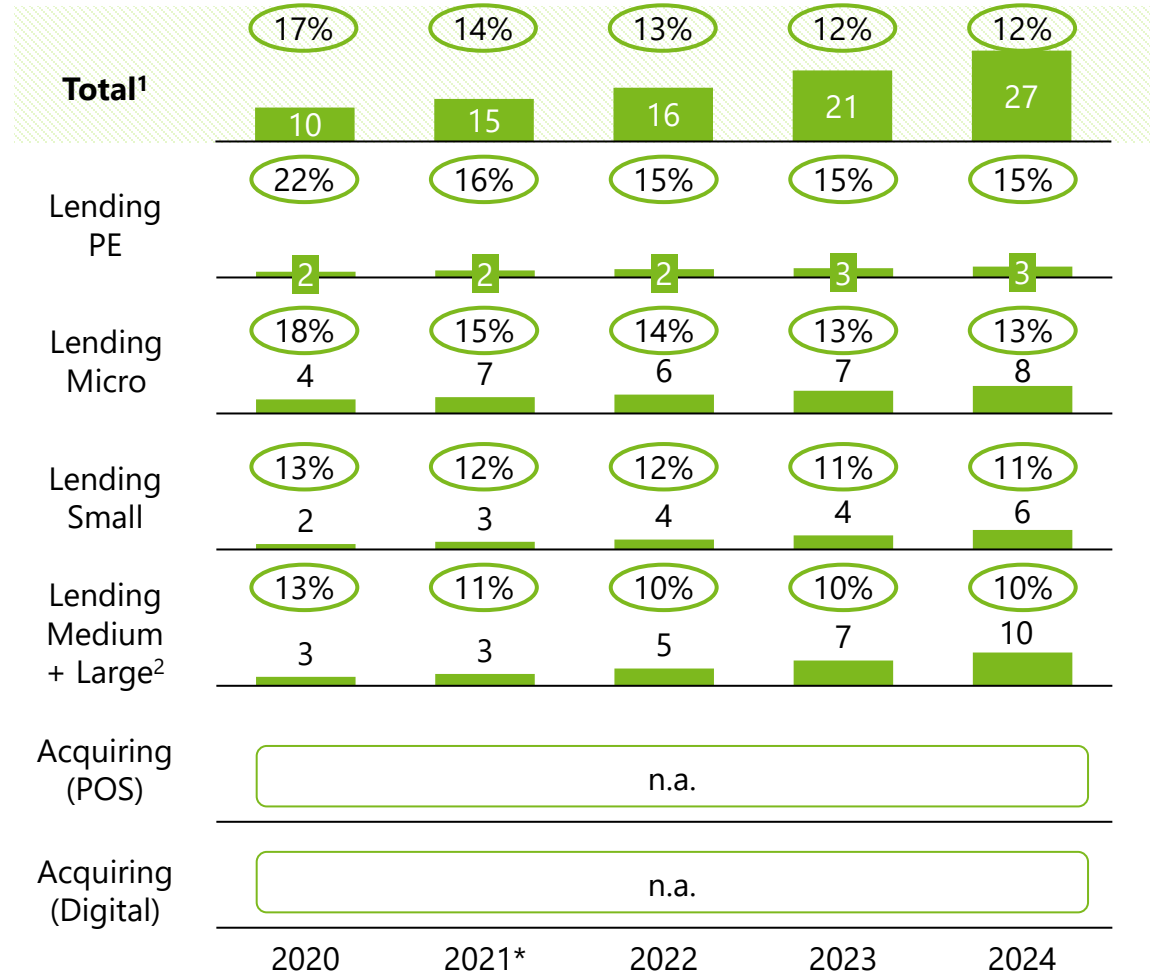
% Average gross interest rate; total rates calculated as a weighted average

\* 2021 forecast

# Deep Dive: SME and Corporate<sup>3)</sup> lending is distributed more evenly across the segments, but the most prospective segment in terms of NCI growth is the acquiring (POS) business

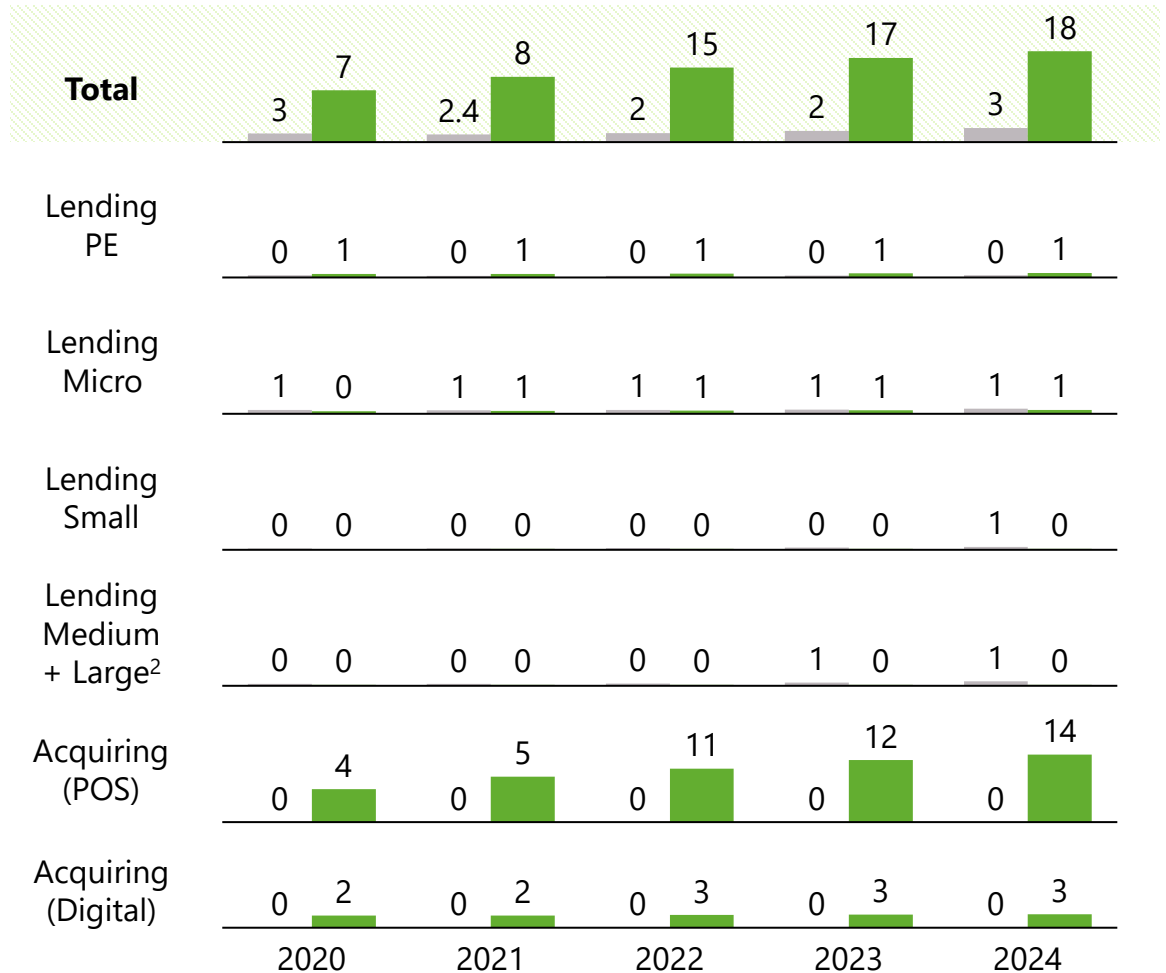
## Deep Dive | SME and Corporate<sup>3)</sup> Lending

### Lending volume (Net in bn UAH)



Impact of regulatory reduction of interchange fee initially included, further detailing needed once more clarity emerges

### Gross Interest Income and Net Commission Income (in bn UAH)



1) All interest rates are calculated as a weighted average for FX and UAH lending, Total is calculated as a weighted average of the segments; 2) The splits are available in the model between the Large and Medium segments; 3) Corporate lending as an enabler for transaction banking business;

% Average gross interest rate; total and medium/large rates calculated as a weighted average

\* 2021 forecast



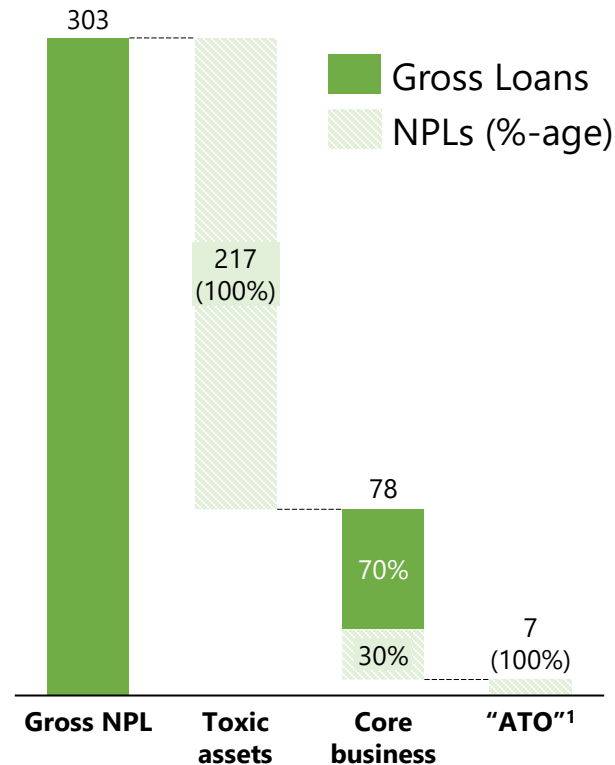
# The NPL strategy clearly addresses the need to reduce legacy NPLs as well as broadened collection measures for new business related NPLs

Deep Dive | High level summary NPL strategy

Excursion

## Overview Gross Portfolio

(in bn UAH as of 30 June 2020)



## Key Insights

### High NPL-ratio of 81.7% driven by history prior to 2017:

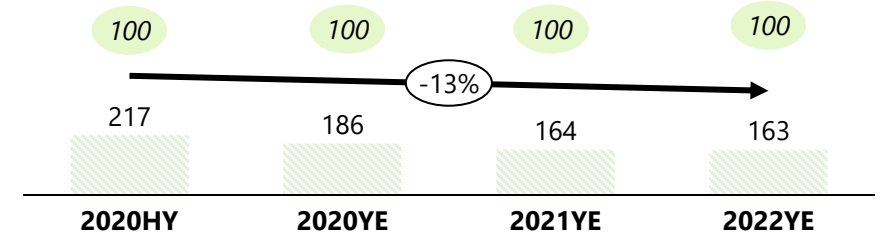
- 72% (217 bn UAH) are Toxic assets related to former owners and managers of the Bank ("Toxic") – it is set to 100% NPL
- 26% (78 bn UAH) is business related ("Core"), whereof
  - 22 bn UAH with >90% NPL-ratio date prior to 2017,
  - 57 bn UAH with < 6% NPL-ratio are actual new business

## Key Targets until 2022

xx NPL Ratio

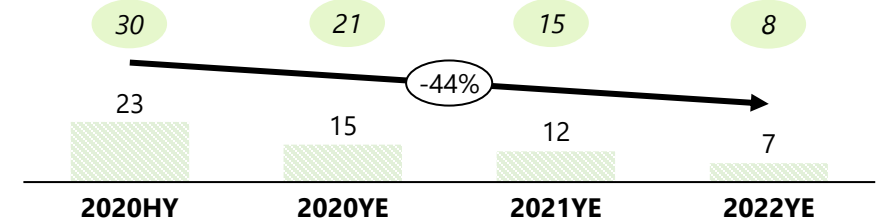
### Toxic portfolio<sup>2</sup>:

- Sell 94% (4bn UAH) of non-operating real estate
- Reduce loan portfolio to 163 bn UAH gross
- Decision making on write-off of 90% of portfolio



### "Core" business related portfolio<sup>3</sup>:

- Reduce NPL-ratio to a level of 8%
- Expand collection measures, reorganize department



1) ATO = assets related to the Joint Forces Operation Area; 2) Key steps: i) complete litigation both in UA and foreign, ii) maximize revenues from toxic assets workout, iii) write offs; 3) Key steps: i) write-off bad assets without recovery potential, ii) sell non-performing assets, iii) debt settlement with partial forgiveness for mortgages issued before 2017, iv) engage external collection agencies, v) reorganize internal collection services; Source: PB's NPL strategy for 2020-2022, dated Dec. 2020

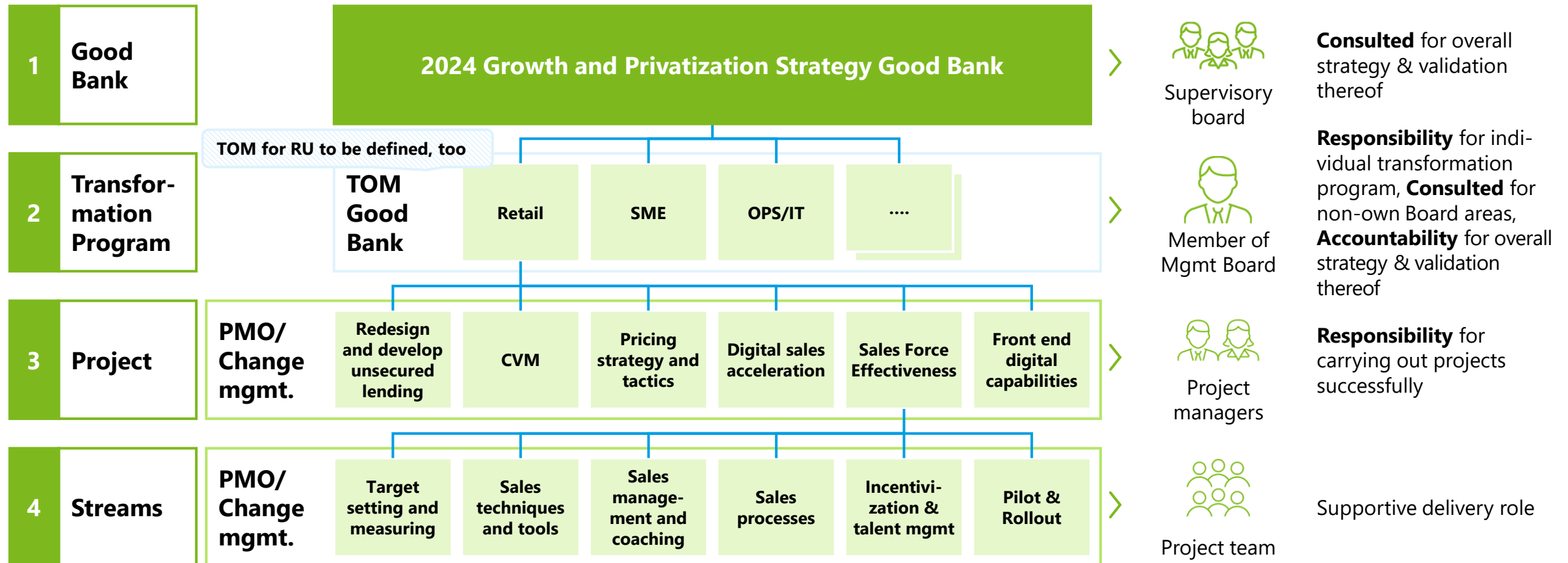
# 4

Roadmap Good Bank

# All implementation steps to be ranked according to PrivatBank's project framework – general roles and accountability to be assigned respectively

Example Good Bank – Retail Transformation Program disaggregation

## Action hierarchy



# 5

Restructuring Unit

# Restructuring Unit will consist of three distinct areas that need to be managed professionally to extract additional value

## Setup Restructuring Unit

### Core Elements

#### 1 Litigations

#### 2 Surplus Bonds and NPLs

#### 3 Non-Core Services and Assets

### Core Principles

#### Governance

Good Bank and Restructuring Unit will follow same governance principles and similar bodies

#### Dedicated targets according to SOB guidelines regarding...

##### ... Litigations<sup>1)</sup>

Professional management of international litigation to keep recovery potential

##### ... Legacy portfolios

Professional wind-down and maximized value extraction for legacy NPL and bond portfolios

##### ... Funding

Funding by an intragroup loan<sup>2)</sup> with rightsizing along the wind-down process

##### ... Non-core services

Evaluation and management of non-core services (wind-down, privatization, future offering)

- **Financial cornerstones** set in place<sup>3)</sup>
- **Bond-swap Impact** (and loan conditions) to be incorporated
- **Detailed strategy** (including targets and timetable) Q2 2022

1) Potential for recovery from ongoing litigations (gross volume of litigation claims around 10 bn USD; probability of success not assessed) 2) Further details in implementation phase; 3) General self sufficiency in both liquidity as well as P&L based cash generation could be achieved

Source: Project team, zeb.analysis