

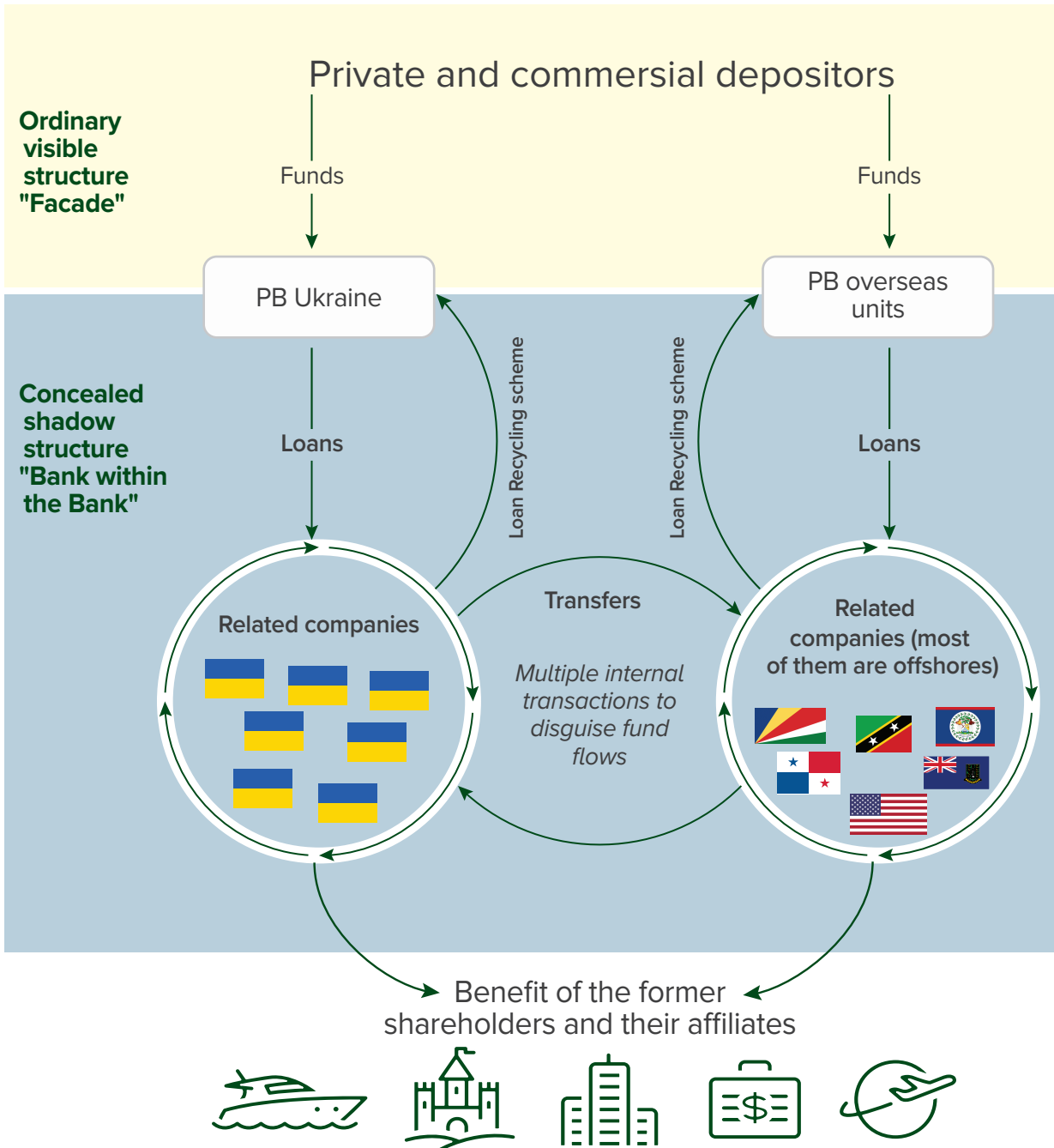


Fraud identified in PJSC CB “PRIVATBANK”
for the period before nationalisation

CONCLUSION

The investigation to date has identified a series of activities, which, taken together, indicate that PrivatBank was subjected to a **large scale and coordinated fraud** over at least a ten year period, which resulted in the Bank suffering **a loss of at least USD 5.5 billion.**

HOW FRAUD WAS CONDUCTED



1. Developing and providing new products and services to create the visibility of a real bank to attract funds from private and commercial depositors. The Bank employees stated the Bank was like a “vacuum cleaner”.

2. Providing loans to the companies related to the former shareholders and supporting of the Loan Recycling scheme – repayment of old loans provided to parties related to the former shareholders and their affiliates through the issuing of new loans to other parties related to the former shareholders and their affiliates, which in turn were repaid by further loans.

3. Disguising of flow of funds through dozens of internal transactions which demonstrated the characteristics of a large scale coordinated money laundering scheme, including the rapid and arbitrary split then re-joining of funds between multiple related accounts, multiple movements between accounts at the Bank.

4. Withdrawing these funds for the benefit of the former shareholders and their affiliates.

HOW FRAUD WAS CONCEALED

- The maintenance and growth of the fraud scheme was accomplished by issuing large numbers of new loans, disguising the flow of funds from the loans through numerous rapid and repeated transfers of funds through multiple linked company accounts, and repaying the principal and interest of old related party loans using the proceeds of new loans (Recycling Scheme) to parties related to former shareholders and their affiliates.
- 73% of the total movement of funds into corporate accounts at the key Bank's overseas unit were internal movements, which were done to conceal the loan recycling scheme and disguise the flow of funds. 92% of loans in this overseas unit were issued to only 50 borrowers.
- For over half the value of these internal movements were conducted between only 20 companies (out of around 3,000 customers).
- 90% of loans in Ukraine were issued to 10% of corporate borrowers.
- Many common characteristics of money laundering identified – placement, multiple layering, integration (extraction) – multiple transactions in short time with no clear purpose.
- Repeated loan recycling scheme in the Bank.

In order to hide the real risk to the Bank and its stakeholders, transactions for the benefit of former shareholders and their affiliates were deliberately concealed among a complex web of transactions which were intended to obfuscate the nature of the funding of the transactions, the flow of funds between related entities, and the ultimate destination of funds.

HOW FRAUD WAS COORDINATED

Analysis has confirmed that more than 95% of the borrowing was to parties related to the former shareholders and their affiliates.

Central to coordinating the fraud scheme was a shadow banking structure in the Head office of the Bank in Ukraine under the direction of the former UBOs, described by the Bank's employees as the "Bank within the Bank". This secretive structure had following functions:

- to create and/or control a network of companies, which directly or indirectly were controlled by the former shareholders and their affiliates, a major part of which were not recognized by the Bank as related parties;
- to provide financing services to the above mentioned companies;
- to structure deals between customers to disguise the true nature and destination of funds, including preparation (creation) of documents on behalf of those customers;
- to administer the portfolio of related party borrowers;
- to present a facade of an ordinary client-focused bank;
- to monitor when loans to shareholders and their affiliates were due for payment and initiate new loans to repay the old ones;
- to coordinate and support the loan recycling scheme;
- to control and support bypassing the related parties legislation requirements;
- to make repeated false representations of the Bank's financial position.

All above-mentioned was done to coordinate and conceal illicit banking support for companies related to the former shareholders and their affiliates.

THE CHARACTERISTICS OF THE FRAUD

- Balance sheet assets largely comprised of a related party loan portfolio that grew, is irrecoverable and remains outstanding.

- Loans were issued with questionable collateral including intangible complex collateral arrangements with doubtful security.

- Loans were recycled and remain unpaid.

- Using loan funds granted to one borrower as collateral (cash-deposit) for new loans to another borrowers.

- Disguising of funds through dozens of internal transactions which has a characteristics of a large scale money laundering scheme, including splitting of the funds between multiple company accounts in quick succession, and transferring funds back and forth between different currencies.

- The volume and timing of the transactions within minutes of each other, with no declared connection between the entity repaying the loan and the original borrower and very extensive use of Special Purpose Vehicle (SPV) companies based in off-shore jurisdictions as indications of a concerted attempt to disguise the true nature of the economic purpose from regulatory and other stakeholders for the benefit of the former shareholders and their affiliates.

THE CHARACTERISTICS OF THE FRAUD

- Using Bank's overseas units as a mechanism to service the related party companies.

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- Repeated material misrepresentation of the Bank's financial position.

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- Multiple instances of banking fraud and false accounting by the former management and directors of the Bank under the direction of the former shareholders, for the benefit of the former shareholders and their affiliates. Despite this, the accounts of the Bank were given a clean audit opinion by the auditors of the Bank for all years between 2007 and 2014 and in 2015 a qualified audit opinion was given only due to uncertainty of the impact of repossessed collateral by Bank on the Group's related party list.

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- Functioning of the concealed banking structure as core coordinator of the Bank's fraudulent activity.

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- Extraction of funds for the business and personal interests of the former shareholders and their affiliates

The Bank was subjected to a large coordinated money laundering scheme and bank fraud with a characteristics of a pyramid scheme.