

Privatbank fraud cost USD 5.5 bln, NBU says citing forensic audit

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Analyst: "So far, it is hard to conclude whether the results of the Kroll investigation can help the government to reclaim any compensation from Privatbank's former shareholders, but now there is a better chance for some success, in our view. All this does not change the likelihood of Privatbank bondholders recovering their bailed-in notes."

KYIV, Jan 18, 2018 - Privatbank, Ukraine's largest commercial bank until it was taken over by the state in 2016, engaged in "large-scale and coordinated fraud" for at least ten years that incurred at least USD 5.5 bln in losses, Concorde Capital informed clients in an online advisory. The information was based on a National Bank of Ukraine (NBU) report on Jan. 16, citing a report produced by the Kroll Inc. risk management consultancy that it hired to perform a forensic audit. Kroll confirmed that more than 95% of Privatbank's corporate loans were used to finance the related businesses of the former primary shareholders, according to the regulator's press release. The investigators also identified mechanisms employed by the bank to "disguise the origin and destination of loan funds" via multiple transactions between various SPVs based in offshore jurisdictions, the NBU alleged, citing the report. These mechanisms included a "bank within bank" that facilitated and controlled such operations, as well as administered a "loan recycling scheme" under which related borrowers were taking new loans from the bank to repay other related borrowers' old loans and interest. The investigation was part of Ukraine's commitment to the IMF "to perform a forensic audit of Privatbank's operations to identify whether wrongdoing or bad banking practices took place prior to the bank's nationalization," the NBU reported. Recall, Privatbank was declared insolvent and nationalized in December 2016, with total funds spent for its bailout having reached UAH 185 bln (over USD 6.8 bln), including a UAH 155 bln (USD 4.2 bln) contribution from the state and the rest from the bank's bailed-in creditors. The results of the Kroll investigation have already been sent to Ukrainian law enforcement bodies and Ukraine's international partners, Deputy NBU Head Kateryna Rozhkova said during the report's Jan. 16 presentation. "We are sure that the investigation's conclusions will help bring the Privatbank case to an end," she said. In response, former shareholder Ihor Kolomoyskyi called the report "a rant that makes no sense in commenting on." In his comments to the lb.ua news site, he stressed that the alleged "fraud" has yet to be proven, calling the presentation just part of the NBU's attempts to distract public attention from other scandals. Concorde analyst Alexander Paraschiy added: "According to the NBU, Privatbank was using a scheme to collect deposits to finance the businesses of the bank's shareholders. This "business model" in our view, was typical for some other failed banks, including Oleg Bakhmatyuk's VAB Bank and Finansova Initsiatyva; Kostiantyn Zhevago's Finance & Credit Bank; and even Platinum Bank, which was headed by Rozhkova herself. In its activities, Privatbank was much bigger and possibly much more creative than the mentioned banks. Therefore, it generated much bigger losses for the state and it will be much harder to prove the bank did something unlawful. "So far, it is hard to conclude whether the results of the Kroll investigation can help the government to reclaim any compensation from Privatbank's former shareholders, but now there is a better chance for some

success, in our view. All this does not change the likelihood of Privatbank bondholders recovering their bailed-in notes.”

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