

Kroll confirms: before nationalisation PrivatBank was subjected to a large scale and coordinated fraud, which resulted in a loss of at least USD 5.5 billion

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Press Release

The results of an independent investigation by the company Kroll have been presented to the National Bank of Ukraine. The investigation has identified that PrivatBank was subjected to a large scale and coordinated fraud over at least a ten-year period ending December 2016, which resulted in the Bank suffering a loss of at least USD 5.5 billion.

Key findings of the investigation include:

1. **Extraction of funds.** There are clear indications that loan proceeds were used to purchase assets and to finance business enterprises inside and outside of Ukraine for the benefit of former shareholders and their affiliates.
2. **Disguising the origins of funds.** The mechanisms used to disguise the origin and destination of loan funds demonstrated the characteristics of a large-scale money-laundering scheme. The volume and timing of the transactions within minutes of each other and with no declared connection between the entity repaying the loan and the original borrower and the extensive use of Special Purpose Vehicle (SPV) companies based in off-shore jurisdictions, demonstrated 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.
3. **Bank within the bank.** Central to the coordinated manipulation of the loan book, and extraction of benefit was a shadow banking structure within PrivatBank. The secretive structure processed and facilitated the movement of the proceeds of hundreds of loans worth billions of USD to parties related to the former shareholders and their affiliates. This shadow banking structure used hundreds of employees embedded within the bank.
4. **Structure and administration of the loans.** The shadow bank administered the related party corporate loan portfolio. It issued new loans, typically used to repay principal and interest on existing related party loans (Recycling Scheme), and was the architect of fund flow mechanisms to disguise the origin and destination of the loan funds, presenting a façade of an ordinary client-focused bank. The Bank attracted funds from private and commercial depositors from Ukraine and other countries, which facilitated the Loan Recycling Scheme.
This long term hiding of such a large exposure to related parties required PrivatBank to make repeated false representations of its financial position. This misrepresentation could only have been achieved through multiple instances of banking fraud and false accounting by the former management of the bank.
5. **Balance sheet.** Prior to nationalisation in December 2016, more than 95 percent of corporate lending was to parties related to former shareholders and their affiliates. Towards the end of 2016, 75% of the loan book was consolidated into loans to 36 borrowers related to the former shareholders and their affiliates. The majority of these loans remain overdue and unpaid, resulting in a loss to the Bank of at least USD 5.5 billion.

The results of the Kroll investigation confirm previous conclusions of the National Bank.

The National Bank confirms its readiness to share the results of investigations with law enforcement authorities.

You can also find results of the investigation [via this link](#).

Further information

The investigation by Kroll is consistent with Ukraine's commitments to the IMF, as set out in the Memorandum, "to perform a forensic audit of PrivatBank's operations to identify whether wrongdoing or bad banking practices took place prior to the bank's nationalisation".

Founded in 1972, Kroll is headquartered in New York.

Since the financial crisis of 2007 and resultant enhanced global regulatory environment, emerging market central banks,

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Recent case studies include:

- Working for the Icelandic government-appointed Resolution Committee to investigate whether unlawful transactions had contributed to the collapse of Glitnir Bank
- Working for the National Bank of Moldova to investigate the collapse of three financial institutions which requires a state bail out of \$1 billion
- Investigating the financial network used by Iraqi dictator Saddam Hussein to hide assets in the West on behalf of the Kuwaiti government.
- Working for the Central Bank of Afghanistan to trace and recover assets following the collapse of Kabul Bank amongst allegations of large-scale fraud and corruption
- Working for the office of Special Prosecutor in Sierra Leone to conduct an asset search investigation into former Liberian President Charles Taylor

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