

PRIVATBANK GROUP

**Interim Management Statement
for the Six Month Period
Ended 30 June 2014 (unaudited)**

CONTENTS

INTERIM MANAGEMENT STATEMENT

| | |
|---|---|
| Management Basis Statement of Financial Position | 1 |
| Management Basis Statement of Profit or Loss and Other Comprehensive Income | 2 |
| Management Basis Statement of Changes in Equity | 3 |
| Management Basis Statement of Cash Flows | 5 |

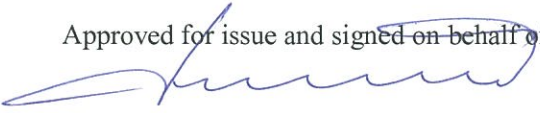
Selected Explanatory Notes to the Interim Management Statement


| | | |
|----|---|----|
| 1 | Introduction..... | 6 |
| 2 | Operating Environment of the Group..... | 7 |
| 3 | Basis of Preparation and Summary of Significant Accounting Policies..... | 8 |
| 4 | Critical Accounting Estimates, and Judgements in Applying Accounting Policies | 10 |
| 5 | Cash and Cash Equivalents and Mandatory Reserves..... | 11 |
| 6 | Loans and Advances to Customers..... | 13 |
| 7 | Other Financial Assets..... | 18 |
| 8 | Due to the NBU and Due to Other Banks and Other Financing Institutions..... | 19 |
| 9 | Customer Accounts | 20 |
| 10 | Debt Securities in Issue | 21 |
| 11 | Subordinated Debt..... | 21 |
| 12 | Share Capital | 22 |
| 13 | Interest Income and Expense | 23 |
| 14 | Fee and Commission Income and Expense | 24 |
| 15 | Administrative and Other Operating Expenses..... | 24 |
| 16 | Contingencies and Commitments | 25 |
| 17 | Derivative Financial Instruments..... | 27 |
| 18 | Related Party Transactions | 28 |
| 19 | Events After the End of the Reporting Period..... | 29 |

PRIVATBANK GROUP**Management Basis Statement of Comprehensive Income (Unaudited)**

| <i>In millions of Ukrainian hryvnias</i> | Note | 30 June 2014 (unaudited) | 31 December 2013 |
|---|------|-----------------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents and mandatory reserves | 5 | 31,343 | 32,293 |
| Due from other banks | | 12,529 | 14,781 |
| Loans and advances to customers | 6 | 156,979 | 139,663 |
| Embedded derivatives | 17 | 5,591 | 3,816 |
| Investment securities available-for-sale | | 681 | 1,364 |
| Investment securities held to maturity | | 1,485 | 421 |
| Current income tax prepayment | | 114 | 51 |
| Deferred income tax asset | | 18 | 23 |
| Goodwill | | 51 | 48 |
| Premises, leasehold improvements and equipment and intangible assets | | 3,875 | 4,004 |
| Other financial assets | 7 | 1,125 | 353 |
| Other assets | | 794 | 753 |
| TOTAL ASSETS | | 214,585 | 197,570 |
| LIABILITIES | | | |
| Due to the NBU | 8 | 18,096 | 3,473 |
| Due to other banks and other financing institutions | 8 | 4,675 | 3,758 |
| Customer accounts | 9 | 148,921 | 150,888 |
| Debt securities in issue | 10 | 12,520 | 11,080 |
| Current income tax liability | | 20 | 32 |
| Deferred income tax liability | | 862 | 890 |
| Provisions for liabilities and charges, other financial and non-financial liabilities | | 1,933 | 1,319 |
| Subordinated debt | 11 | 4,370 | 3,306 |
| TOTAL LIABILITIES | | 191,397 | 174,746 |
| EQUITY | | | |
| Share capital | 12 | 16,352 | 16,352 |
| Share premium | 12 | 20 | 20 |
| Contributions received for new shares issued but not registered | | 1,749 | - |
| Revaluation reserve for premises | | 532 | 562 |
| Revaluation reserve of investment securities available-for-sale | | 492 | 381 |
| Currency translation reserve | | 564 | 308 |
| Retained earnings and other reserves | | 3,110 | 4,755 |
| Net assets attributable to the Bank's owners | | 22,819 | 22,378 |
| Non-controlling interest | | 369 | 446 |
| TOTAL EQUITY | | 23,188 | 22,824 |
| TOTAL LIABILITIES AND EQUITY | | 214,585 | 197,570 |

Approved for issue and signed on behalf of the Management Board on 15 September 2014.


 Olexandr V. Dubilet
 Chairman of the Board


 Lubov I. Korotina
 Chief Accountant

PRIVATBANK GROUP**Management Basis Statement of Profit or Loss and Other Comprehensive Income (Unaudited)**

| <i>In millions of Ukrainian hryvnias</i> | Note | Six months ended 30 June 2014 (unaudited) | Six months ended 30 June 2013 (unaudited) |
|--|------|---|---|
| Interest income | 13 | 13,179 | 10,950 |
| Interest expense | 13 | (8,772) | (6,676) |
| Net interest income | | 4,407 | 4,274 |
| Provision for impairment of loans and advances to customers | 6 | (1,768) | (1,633) |
| Net interest income after provision for impairment of loans and advances to customers | | 2,639 | 2,641 |
| Fee and commission income | 14 | 2,111 | 2,088 |
| Fee and commission expense | 14 | (503) | (387) |
| Gains less losses/(Losses less gains) from embedded derivatives | | 1,939 | (48) |
| Gains less losses from trading in foreign currencies | | 69 | 93 |
| Foreign exchange translation (losses less gains)/gains less losses | | (3,104) | 185 |
| Other operating income | | 78 | 86 |
| Other gains less losses/(losses less gains) | | 439 | (230) |
| Gains from disposal of subsidiary | 7 | 601 | - |
| Losses less gains of subsidiary | 7 | (199) | - |
| Administrative and other operating expenses | 15 | (4,011) | (3,708) |
| Profit before tax | | 59 | 720 |
| Income tax expense | | (34) | (30) |
| Profit for the period | | 25 | 690 |
| Other comprehensive income/(loss): | | | |
| Revaluation reserve of investment securities available-for-sale | | 157 | 59 |
| Income tax recorded directly in other comprehensive income | | (37) | (9) |
| Exchange differences on translation to presentation currency | | 665 | (67) |
| Other comprehensive income/(loss) for the period | | 785 | (17) |
| Total comprehensive income for the period | | 810 | 673 |
| Profit/(loss) is attributable to: | | | |
| Owners of the Bank | | 109 | 687 |
| Non-controlling interest | | (84) | 3 |
| Profit for the period | | 25 | 690 |
| Total comprehensive income/(loss) is attributed to: | | | |
| Owners of the Bank | | 685 | 690 |
| Non-controlling interest | | 125 | (17) |
| Total comprehensive income for the period | | 810 | 673 |

PRIVATBANK GROUP
Management Basis Statement of Changes in Equity (Unaudited)

| | Attributable to Owners of the Bank | | | | | | | | | | Non- Total | |
|--|------------------------------------|------------------|---|--|--|------------------------------------|---|----------------------------------|--------|--------|---------------|--|
| | Share capital | Share premium | Share Contributions received for new shares issued but not registered | Revaluation reserve for premises securities available- for-sale | Revaluation reserve of investment translation earnings and other reserves | Currency translation reserve | Retained earnings and other reserves | Total controlling interest | equity | | | |
| <i>In millions of Ukrainian hryvnias</i> | | | | | | | | | | | | |
| Balance at 1 January 2013 | 14,897 | 20 | - | 562 | 242 | 322 | 4,939 | 20,982 | 423 | 21,405 | | |
| Profit/(loss) for the period | - | - | - | - | - | - | 687 | 687 | 3 | 690 | | |
| Total comprehensive income/(loss) for the period | - | - | - | - | 50 | (47) | 687 | 690 | (17) | 673 | | |
| Contributions received for new shares issued but not registered | - | - | 1,455 | - | - | - | (1,455) | - | - | - | | |
| Balance at 30 June 2013 | 14,897 | 20 | 1,455 | 562 | 292 | 275 | 4,171 | 21,672 | 406 | 22,078 | | |

The notes set out on pages 6 to 29 form an integral part of this interim management statement.

PRIVATBANK GROUP
Management Basis Statement of Changes in Equity (Unaudited)

| | Attributable to Owners of the Bank | | | | | | | | | | Non-Total equity |
|---|------------------------------------|---|--|--|---|---|----------------------------------|---------------|------------|---------------|---------------------|
| | Share capital premium | Share Contributions received for new shares issued but not registered | Revaluation reserve for premises securities available- for-sale | Revaluation reserve of investment translation reserve | Currency earnings and other reserves | Retained earnings and other reserves | Total controlling interest | | | | |
| <i>In millions of Ukrainian hryvnias</i> | | | | | | | | | | | |
| Balance at 1 January 2014 | 16,352 | 20 | - | 562 | 381 | 308 | 4,755 | 22,378 | 446 | 22,824 | |
| Profit/(loss) for the period | - | - | - | - | - | - | 109 | 109 | (84) | 25 | |
| Total comprehensive income/(loss) for the period | - | - | - | - | 120 | 456 | 109 | 685 | 125 | 810 | |
| Contributions received for new shares issued but not registered | - | - | 1,749 | - | - | - | (1,749) | - | - | - | |
| Other changes in interest attributable to owners of the Bank and non-controlling interest | - | - | - | 4 | - | 29 | (36) | (3) | 2 | (1) | |
| Disposal of subsidiary | - | - | - | (34) | (9) | (229) | 31 | (241) | (204) | (445) | |
| Balance at 30 June 2014 | 16,352 | 20 | 1,749 | 532 | 492 | 564 | 3,110 | 22,819 | 369 | 23,188 | |

The notes set out on pages 6 to 29 form an integral part of this interim management statement.

PRIVATBANK GROUP
Management Basis Statement of Cash Flows (Unaudited)

| | Note | Six months ended 30 June 2014 (unaudited) | Six months ended 30 June 2013 (unaudited) |
|---|------|--|--|
| <i>In millions of Ukrainian hryvnias</i> | | | |
| Cash flows from operating activities | | | |
| Interest received | | 12,707 | 9,941 |
| Interest paid | | (8,746) | (6,420) |
| Fees and commissions received | | 2,111 | 2,088 |
| Fees and commissions paid | | (503) | (387) |
| Income received from embedded derivatives | | 690 | 10 |
| Income received/(loss incurred) from derivatives arising from swap, forward and spot transactions | | 467 | (198) |
| Income received from trading in foreign currencies | | 69 | 93 |
| Other operating income received | | 78 | 86 |
| Staff costs paid | | (2,066) | (1,854) |
| Administrative and other operating expenses paid, except for staff costs paid | | (1,929) | (1,539) |
| Income tax paid | | (170) | (190) |
| Cash flow from operating activities before changes in operating assets and liabilities | | 2,708 | 1,630 |
| Changes in operating assets and liabilities | | | |
| Net decrease/(increase) in mandatory reserve balances | | 2,045 | (28) |
| Net decrease/(increase) in due from other banks | | 8,493 | (1,927) |
| Net increase in loans and advances to customers | | (14,204) | (13,221) |
| Net (increase)/decrease in other financial assets | | (239) | 30 |
| Net increase in other assets | | (74) | (197) |
| Net increase/(decrease) in due to the NBU | | 14,625 | (579) |
| Net (decrease)/increase in due to other banks and other financing institutions | | (550) | 389 |
| Net (decrease)/increase in customer accounts | | (14,790) | 16,699 |
| Net increase in provisions for liabilities and charges, other financial and non-financial liabilities | | 1,040 | 118 |
| Net cash (used in)/from operating activities | | (946) | 2,914 |
| Cash flows from investing activities | | | |
| Acquisition of investment securities available-for-sale | | (72) | (494) |
| Proceeds from investment securities available-for-sale | | 741 | - |
| Acquisition of investment securities held to maturity | | (1,013) | - |
| Proceeds from redemption of investment securities held to maturity | | 102 | 66 |
| Proceeds from disposal of premises, leasehold improvements and equipment | | 15 | 5 |
| Acquisition of premises, leasehold improvements and equipment | | (381) | (275) |
| Net cash used in investing activities | | (608) | (698) |
| Cash flows from financing activities | | | |
| Proceeds from disposal of subsidiary, net of disposed cash | 7 | (1,644) | - |
| Repayment and repurchase of debt securities issued | | - | 1,102 |
| Proceeds from debt securities issued | | - | (17) |
| Net cash (used in)/from financing activities | | (1,644) | 1,085 |
| Effect of exchange rate changes on cash and cash equivalents | | 4,293 | (34) |
| Net increase in cash and cash equivalents | | 1,095 | 3,267 |
| Cash and cash equivalents at the beginning of the year | | 27,021 | 25,888 |
| Cash and cash equivalents at the end of the period | 5 | 28,116 | 29,155 |

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the management statement of cash flows are disclosed in Note 5.

1 Introduction

The financial information on which this Interim Management Statement is based, and the data set out in the explanatory notes to this statement, are unaudited and have been prepared in accordance with PrivatBank Group's accounting policies as described in the Bank's Consolidated Financial Statements for the year ended 31 December 2013. A glossary of terms is also provided in the Bank's Consolidated Financial Statements for the year ended 31 December 2013.

The Bank was initially registered as a commercial entity with limited liability, re-organised into a closed joint stock entity in 2000. In 2009 the Bank changed its legal form to a public joint stock company limited by shares in accordance with changes in Ukrainian legislation. As of 30 June 2014 and 31 December 2013 the ultimate major shareholders of the Bank were Mr I.V. Kolomoyskiy and Mr G.B. Bogolyubov who as of 30 June 2014 owned directly or indirectly respectively 44.83% (31 December 2013: 46.33%) and 45.46% (31 December 2013: 46.66%) of the outstanding shares and neither of which individually controlled the Bank. The major shareholders of the Bank do not have a contractual agreement on joint control of the Bank.

| | |
|------------------------------------|---|
| Chairman of the Supervisory Board: | Mr. G.B. Bogolyubov |
| Members of the Supervisory Board: | Mr. I.V. Kolomoyskiy Mr. A.G. Martynov |

As of the date of issuing of the interim management statement composition of the Management Board was as follows:

| | |
|--|--|
| Chairman of the Management Board: | Mr. A.V. Dubilet |
| Members of the Management Board: | |
| General Deputy Chairman of the Management Board: | Mr. Y.P. Pikush |
| First Deputy Chairman of the Management Board: | Mr. V.A. Yatsenko Mr. T.Y. Novikov Mr. O.V. Gorohovskiy |
| Deputy Chairman of the Management Board: | Mr. Y.V. Kandaurov Mrs. L.I. Chmona Mrs. T.M. Gurieva Mrs. L.A. Shmalchenko Mr. D.A. Dubilet Mr. V.G. Zavorotniy Mr. A.P. Vitiaz Mr. S.V. Kryzhanovskiy Mr. R.M. Neginskiy |
| Chief Accountant: | Mrs. L.I. Korotina |
| Head of Financial Monitoring Department: | Mr. I.L. Terekhin |

Principal activity. The Bank's principal business activity is commercial and retail banking operations within Ukraine. The Bank has operated under a full banking licence issued by the National Bank of Ukraine (the "NBU") since March 1992. The Bank participates in the state deposit insurance scheme (registration #113 dated 2 September 1999), which operates according to the Law №2740-III "On Individuals Deposits Guarantee Fund" dated 20 September 2001 (as amended). Individuals Deposits Guarantee Fund guarantees repayment of individual deposits up to UAH 200 thousand (31 December 2013: UAH 200 thousand) per individual in case bank liquidation procedure is started.

As of 30 June 2014 the Bank had 32 branches and 2,889 outlets within Ukraine and a branch in Cyprus (31 December 2013: 32 branches, 3,217 outlets in Ukraine and a branch in Cyprus). Additionally, as of 30 June 2014 the Bank had subsidiary banks in Latvia, Georgia (31 December 2013: in the Russian Federation, Latvia, Georgia) and representative offices in Kyiv (Ukraine), Almaty (Kazakhstan), London (United Kingdom) and Beijing (China), several consolidated structured entities in Ukraine and the United Kingdom.

PRIVATBANK GROUP

Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)

1 Introduction (Continued)

The principal subsidiaries included in the interim management statement, were as follows:

| Name | Nature of business | Country of registration | Percentage of legal interest in subsidiary | |
|------------------|--------------------|-------------------------|--|------------------|
| | | | 30 June 2014 (unaudited) | 31 December 2013 |
| Moscomprivatbank | Banking | Russian Federation | 0.00% | 70.04% |
| JSC PrivatBank | Banking | Georgia | 57.86% | 57.86% |
| AS PrivatBank | Banking | Latvia | 50.02% | 50.02% |

In April 2014 Moscomprivatbank agreement on sale of legal interest of 79.18% was concluded.

Registered address and place of business. The Bank's registered address is:

50, Naberezhna Peremohy Str.,
49094, Dnipropetrovsk,
Ukraine.

Presentation currency. This interim management statement is presented in millions of Ukrainian hryvnias ("UAH million"), unless otherwise stated.

2 Operating Environment of the Group

The Ukrainian economy is currently characterised by high economic and political risks. As a developing economy, in addition to political and economic turmoil, it is also vulnerable to market downturns and economic slowdowns elsewhere in the world.

In 2013, the Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the national currency, the Ukrainian Hryvnia (UAH). Inflation during the year was close to zero as the National Bank of Ukraine restricted the money supply. The national foreign exchange reserves reduced to the level of 3 month imports at the year end due to reduced inflows from sale of commodities and agricultural produce, the need to settle scheduled payments, primarily with International Monetary Fund, and to pay for the current and past purchase of natural gas.

The anticipated association agreement and free trade agreement with the European Union was not signed at the end of November 2013. The Ukrainian Government announced a deal with the Russian Federation for the purchase of up to USD 15 billion of Ukrainian Government bonds, of which USD 3 billion was provided in December 2013. Ukraine experienced protests against the Government's actions beginning in late 2013 that turned into street violence in January and February 2014, with more than one hundred killed. At the end of January 2014 the President of Ukraine accepted the resignation of Ukraine's Prime Minister. Following this, the Russian Government suspended its financial support and international bond rating agencies downgraded Ukraine's sovereign debt to pre-default level.

An agreement between the President and opposition leaders in late February 2014 in an attempt to stem the violence ultimately ended up with the Parliament voting to return to the 2004 Constitution, which provided greater sharing of powers between Parliament and the President, and the President fleeing the country and later Parliament dismissed the President. On 26 February 2014, the Parliament appointed a new Prime Minister and government.

On 16 March 2014 a referendum was held in Crimea on its secession from Ukraine and Russia signed a treaty with Crimea to annex the territory to Russia. The Russian Federation, Mongolia, Syria and Kazakhstan are the only countries that recognised the referendum and the annexation. On 15 April 2014 the Ukrainian parliament adopted the law on occupied territories.

2 Operating Environment of the Group (Continued)

Beginning in April and continuing to the present, a number of government buildings in eastern Ukraine were occupied by pro-Russian groups. This has led to instability and violence in the east of the country and the mobilisation of Ukrainian government forces. On 11 May 2014, the Donetsk and Lugansk regions held independence referendums. While the organisers of these referendums claimed that the population in both regions voted for a split from Ukraine the result of the referendums was largely viewed as fraudulent and condemned as illegitimate by the Ukrainian government and not recognised by most countries. Eastern Ukraine continues to face armed battles between pro-Russian groups and Ukrainian forces.

On 25 May 2014 a new President was elected. The Government is working with the United States, European Union and the International Monetary Fund ("IMF") in order to obtain financing and avoid possible default on its loans. On 30 April 2014, the Executive Board of the IMF approved a two-year Stand-By Arrangement for Ukraine, amounting to USD 17 billion, to support the Government's economic program aiming to restore macroeconomic stability and enhance the efficiency of mechanisms aimed at securing sustainable economic growth. On 7 May 2014, Ukraine received the first tranche of USD 3.2 billion and 4 September 2014 the second tranche of USD 1.4 billion under this program. At the same time, for the six months the National Bank of Ukraine paid to IMF from its own resources USD 1.38 billion to repay the government's commitment to Stand-By program of 2010.

On 5 September 2014 a protocol on ceasefire in the Donetsk and Lugansk regions was signed in Minsk.

In 2014, the UAH depreciated against the major world currencies. As of the date of issue of these consolidated statements official US dollar and euro exchange rates were UAH 12.95 and UAH 16.742 per one unit respectively.

The final resolution and the effects of the political and economic crisis are difficult to predict but they may have further severe effects on the Ukrainian economy and the Group's business.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Ukrainian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 4.

The tax, currency and customs legislation within Ukraine is subject to varying interpretations and frequent changes. The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in Ukraine.

On 27 March 2014, the Parliament of Ukraine passed an economic stimulus law that makes a number of changes to the Tax Code. The corporate tax and VAT rates are confirmed at level of 18% and 20% respectively with no prescribed reduction in the future.

3 Basis of Preparation and Summary of Significant Accounting Policies

Basis of Preparation. The accounting policies and methods of computation adopted in the preparation of the interim management statement are consistent with those followed in the preparation of the Bank's consolidated financial statements for the year ended 31 December 2013.

The Bank operates in an industry where significant seasonal or cyclical variations in operating income are not experienced during the financial year.

3 Basis of Preparation and Summary of Significant Accounting Policies (Continued)

Any further changes to this interim management statement require approval of the Management Board who authorised this interim management statement for issue.

Income taxes. Income tax expense is recognised in each interim period based on the best estimate of the weighted average effective annual income tax rate expected for the full financial year. Amounts accrued for income tax expense in one interim period may have to be adjusted in a subsequent interim period of that financial year if the estimate of the weighted average effective annual income tax rate changes. Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings; that is, the estimated average annual effective income tax rate is applied to the pre-tax income of the interim period.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank, and the Group's presentation currency, is the national currency of Ukraine, Ukrainian hryvnia ("UAH").

The principal rates of exchange used for translating foreign currency balances were as follows:

| | 30 June 2014, UAH | 31 December 2013, UAH |
|-----------------------|------------------------------|----------------------------------|
| 1 US Dollar (USD) | 11.823346 | 7.993000 |
| 1 Euro (EUR) | 16.086845 | 11.041530 |
| 1 Russian Ruble (RUB) | 0.350310 | 0.244970 |
| 1 Latvian Lat (LVL) | n/a | 15.733158 |
| 1 Georgian Lari (GEL) | 6.639038 | 4.725112 |

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the interim management statement and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the interim management statement and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 814 million or UAH 841 million (30 June 2013: an increase or decrease in loan impairment losses of UAH 771 million or UAH 826 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 1,327 million or UAH 1,602 million (30 June 2013: increase or decrease in loan impairment losses of UAH 971 million or UAH 1,487 million), respectively.

Assessment of loans and advances issued to a group of borrowers-oil traders for impairment. The Group regularly reviews its outstanding loans and advances issued to the oil traders who are engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As of 30 June 2014 gross amount of such loans was UAH 40,311 million (31 December 2013: UAH 42,510 million). In determining whether an impairment loss should be recorded in profit or loss for the period, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans issued to oil traders before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in an oil traders group, or regulatory, industry or national economic conditions that correlate with defaults on assets in the oil traders group. Management uses estimates based on historical loss experience for assets with credit risk flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Defining of related party and initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Judgment is also applied to determine whether the counterparty is a related party or not including transactions with those entities where the major shareholders of the Bank individually directly or through intermediaries beneficiary owns a share in the share capital.

Tax legislation. Ukrainian and Russian tax, currency and customs legislation is subject to varying interpretations.

5 Cash and Cash Equivalents and Mandatory Reserves

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-------------------------------------|-----------------------------|
| Cash on hand | 7,468 | 9,136 |
| Cash balances with the Central Bank of Latvia | 3,447 | 3,175 |
| Cash balances with the NBU | 2,810 | 5,146 |
| Cash balances with the Central Bank of Georgia | 381 | 357 |
| Cash balances with the Central Bank of Cyprus | 172 | 103 |
| Cash balances with the Central Bank of Russian Federation | - | 1,685 |
| Correspondent accounts and overnight placements with other banks | | |
| - Ukraine | 193 | 396 |
| - Other countries | 16,872 | 12,295 |
| Total cash and cash equivalents and mandatory reserves | 31,343 | 32,293 |

Disclosed in other countries are UAH 3,860 million or 12% of cash and cash equivalents and mandatory reserves held with Aa3 rated bank (2013: UAH 6,232 million or 19% to Aa3 rated bank).

As at 30 June 2014 and 31 December 2013 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period and should be maintained at the level of 0 to 15 per cent of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. In June 2014 the Bank's mandatory reserve average balance was UAH 4,715 million (December 2013: UAH 3,875 million).

As at 30 June 2014 and 31 December 2013 the Bank had to deposit on a separate account with the NBU the amount of 20% (2013: 40%) of mandatory reserve balance for the preceding month. This deposit carries interest at rate of 30% of discount rate set by the NBU. The amount is subject to interest payments from the side of the NBU at a rate of 1.950% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2013: the interest was 1.950%, which was calculated as 30% of the NBU official interest rate).

As at 30 June 2014 and 31 December 2013, in accordance with the NBU regulations the Bank was required to maintain the balance on correspondent account with the NBU at the level not less than 40% (2013: 60%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 10 times within a 3 month period.

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****5 Cash and Cash Equivalents and Mandatory Reserves (Continued)**

In addition, Ukrainian banks are required to keep other mandatory reserves on a separate account with the NBU for:

- provisions for loan impairment determined according to the NBU requirements and recognised for loans issued in foreign currencies to the borrowers with no foreign currency income;
- deposits and loans in foreign currencies received from non-residents for a period of less than 183 calendar days.

As the result, as at 30 June 2014 this provision of UAH 2 million (31 December 2013: UAH 3 million) has been placed on a separate account.

As of 30 June 2014 the mandatory reserve balances of the Bank's subsidiaries in Latvia, Cyprus and Georgia that should be kept with respective central banks were UAH 416 million (31 December 2013: UAH 1,394 million of the Bank's subsidiaries in Russia, Latvia, Cyprus and Georgia).

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow statement, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 3,227 thousand, that is 100% of the mandatory reserve balance with the NBU and other Central Banks (31 December 2013: UAH 5,272 million).

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|---|-------------------------------------|-----------------------------|
| Total cash and cash equivalents and mandatory reserves | 31,343 | 32,293 |
| Less mandatory reserves balances | (3,227) | (5,272) |
| Cash and cash equivalents for the purposes of the consolidated statement of cash flows | 28,116 | 27,021 |

As of 30 June 2014 mandatory reserve balance with the NBU of UAH 1,294 million (31 December 2013: UAH 1,294 million) have been pledged as a collateral for the refinancing loan received from the NBU. Refer to Note 8.

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the consolidated statement of cash flows are as follows:

| <i>In millions of Ukrainian hryvnias</i> | Six months ended 30 June 2014 (unaudited) | Six months ended 30 June 2013 (unaudited) |
|--|--|--|
| Non-cash operating activities | | |
| Other assets | (194) | (86) |
| Recognition of finance lease receivables | 194 | 86 |
| Non-cash financing activities | - | - |

PRIVATBANK GROUP

Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)

6 Loans and Advances to Customers

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-------------------------------------|-----------------------------|
| Corporate loans | 144,088 | 123,932 |
| Loans to individuals - card | 25,059 | 27,836 |
| Loans to individuals - mortgage | 5,485 | 4,022 |
| Loans to individuals - consumer | 608 | 891 |
| Loans to individuals - auto | 343 | 353 |
| Loans to individuals - other | 1,120 | 1,021 |
| Loans to small and medium enterprises (SME) | 2,026 | 2,357 |
| Finance lease receivables due from individuals | 476 | 493 |
| Finance lease receivables due from corporate customers | 207 | 98 |
| Less: Provision for loan impairment | (22,433) | (21,340) |
| Total loans and advances to customers | 156,979 | 139,663 |

As of 30 June 2014 interest income of UAH 2,477 million (31 December 2013: UAH 1,859 million) was accrued on loans and advances to customers impaired at the end of the reporting period.

Movements in the provision for loan impairment for the six month period ended 30 June 2014 are as follows:

| <i>In millions of Ukrainian hryvnias</i> | Corporate loans | Loans to individuals | | | | | SME Finance lease receivables | Total | |
|--|----------------------------|-----------------------------|-----------------|-------------|-----------------|--------------|--|--------------|---------------|
| | | Card | Mortgage | Auto | Consumer | Other | | | |
| Provision for loan impairment at 1 January 2014 | 18,914 | 967 | 949 | 84 | 27 | 141 | 236 | 22 | 21,340 |
| Provision for impairment during the period | 211 | 926 | 434 | 61 | 53 | 171 | 443 | 33 | 2,332 |
| Amounts written off during the period as uncollectible | (1,446) | (376) | (193) | (62) | (48) | (57) | (174) | - | (2,356) |
| Currency translation differences | 1,474 | 34 | 136 | (5) | 4 | (62) | - | - | 1,581 |
| Disposal of subsidiary | (54) | (397) | - | - | - | (12) | (1) | - | (464) |
| Provision for loan impairment at 30 June 2014 | 19,099 | 1,154 | 1,326 | 78 | 36 | 181 | 504 | 55 | 22,433 |

The provision for impairment for the six month period ended 30 June 2014 differs from the amount presented in profit or loss for the period due to UAH 564 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in profit or loss for the six month period ended 30 June 2014.

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****6 Loans and Advances to Customers (Continued)**

Movements in the provision for loan impairment for the six month period ended 30 June 2013 are as follows:

| <i>In millions of Ukrainian hryvnias</i> | Corporate loans | Loans to individuals | | | | SME | Total | |
|--|--------------------|----------------------|------------|------------|-----------|------------|------------|---------------|
| | | Card | Mortgage | Auto | Consumer | | | Other |
| Provision for loan impairment at 1 January 2013 | 17,634 | 737 | 936 | 148 | 19 | 100 | 191 | 19,765 |
| Provision/(reversal of provision) for impairment during the period | 1,399 | 484 | 15 | 34 | 34 | 118 | 74 | 2,158 |
| Amounts written off during the period as uncollectible | (1,145) | (356) | (86) | (84) | (31) | (11) | (93) | (1,806) |
| Currency translation differences | (4) | (23) | (1) | - | - | (1) | 1 | (28) |
| Provision for loan impairment at 30 June 2013 | 17,884 | 842 | 864 | 98 | 22 | 206 | 173 | 20,089 |

The provision for impairment for the six month period ended 30 June 2013 differs from the amount presented in profit or loss for the period due to UAH 525 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in profit or loss for the six month period ended 30 June 2013.

Economic and business sector risk concentrations within the customer loan portfolio are as follows:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | | 31 December 2013 | |
|--|--------------------------|------------|------------------|------------|
| | Amount | % | Amount | % |
| Oil trading | 40,311 | 22 | 42,510 | 26 |
| Loans to individuals | 33,091 | 19 | 34,616 | 22 |
| Ferroalloy trading and production | 22,402 | 12 | 18,657 | 12 |
| Agriculture, agricultural machinery and food industry | 22,237 | 12 | 17,214 | 11 |
| Manufacturing and chemicals | 18,721 | 10 | 16,334 | 10 |
| Commerce, finance and securities trading | 12,240 | 7 | 7,168 | 4 |
| Air transportation | 7,433 | 4 | 5,508 | 3 |
| Real estate construction | 6,824 | 4 | 5,973 | 4 |
| Ski resorts, tourism and football clubs | 6,443 | 4 | 4,688 | 3 |
| Small and medium enterprises (SME) | 2,026 | 1 | 2,357 | 1 |
| Other | 7,684 | 5 | 5,978 | 4 |
| Total loans and advances to customers (before impairment) | 179,412 | 100 | 161,003 | 100 |

6 Loans and Advances to Customers (Continued)

Disclosed in oil trading industry are UAH 40,311 million or 22% of gross loans and advances, (31 December 2013: UAH 42,510 million or 26%) issued to companies engaged in wholesale and retail sale of petrol, oil and oil products. These companies form an entire supply chain and due to it, based on the management estimation, the credit risk of these loans is lower. As at 30 June 2014 loans issued to these companies of UAH 36,972 million (31 December 2013: UAH 42,016 million) were collateralised with inventory of oil, gas and oil products, property rights for advances made by borrowers and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 36,676 million (31 December 2013: UAH 38,628 million).

Disclosed in manufacturing and chemicals industry are UAH 14,638 million of gross loans and advances to customers (31 December 2013: UAH 12,628 million) issued to companies combined in the structure, but they produce and sell various products in the Western, Central and Eastern European markets. Consumers of the products are companies operating in the food processing industry on these markets.

As of 30 June 2014 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 21,202 million (31 December 2013: UAH 16,462 million) or 12% of the gross loan portfolio (31 December 2013: 10%).

As of 30 June 2014 the Group had 3 borrowers (31 December 2013: 1 borrower) with aggregate loan balances in excess of 10% of the net assets or UAH 2,319 million (31 December 2013: UAH 2,282 million). The total aggregate amount of these loans was UAH 11,942 million (31 December 2013: UAH 4,077 million).

As of 30 June 2014 mortgage loans of UAH 233 million (31 December 2013: UAH 175 million) have been pledged as collateral with respect to the mortgage bonds issued. Refer to Note 10.

As of 30 June 2014 loans issued to fifty eight corporate borrowers of UAH 26,538 million were pledged as collateral under the NBU refinancing. Refer to Note 8.

PRIVATBANK GROUP

Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)

6 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding as at 30 June 2014 is as follows:

| <i>In millions of Ukrainian hryvnias</i> | Corporate loans | Loans to individuals | | | | | SME | Finance lease recei- vables | Total |
|--|--------------------|----------------------|--------------|------------|------------|------------|--------------|--------------------------------------|----------------|
| | | Card | Mortgage | Auto | Consumer | Other | | | |
| <i>Neither past due nor impaired</i> | | | | | | | | | |
| - Large borrowers with credit history with the Group over two years | 85,821 | - | - | - | - | 507 | - | - | 86,328 |
| - Large new borrowers with credit history with the Group less than 2 years | 9,362 | - | - | - | - | - | - | - | 9,362 |
| - Loans to medium size borrowers | 5,666 | - | - | - | - | 197 | 45 | - | 5,908 |
| - Loans to small borrowers | 646 | - | - | - | - | - | 790 | - | 1,436 |
| - Loans between UAH 1-100 million | - | 46 | 329 | 3 | 2 | - | - | 80 | 460 |
| - Loans less than UAH 1 million | - | 22,198 | 1,179 | 83 | 473 | 262 | - | 457 | 24,652 |
| Total neither past due nor impaired | 101,495 | 22,244 | 1,508 | 86 | 475 | 966 | 835 | 537 | 128,146 |
| <i>Past due but not impaired</i> | | | | | | | | | |
| - less than 30 days overdue | 136 | 1,197 | 456 | 65 | 44 | 32 | 102 | 39 | 2,071 |
| - 30 to 90 days overdue | 1,376 | 684 | 230 | 23 | 31 | 15 | 183 | 33 | 2,575 |
| - over 90 days overdue | 150 | - | - | - | - | - | - | - | 150 |
| Total past due but not impaired | 1,662 | 1,881 | 686 | 88 | 75 | 47 | 285 | 72 | 4,796 |
| <i>Loans individually determined to be impaired (gross)</i> | | | | | | | | | |
| - Not overdue | 33,185 | - | - | - | - | - | - | 47 | 33,232 |
| - less than 30 days overdue | 1,177 | - | - | - | - | - | - | - | 1,177 |
| - 30 to 90 days overdue | 362 | - | - | - | - | - | - | - | 362 |
| - 90 to 180 days overdue | 715 | 574 | 197 | 14 | 36 | 30 | 215 | 19 | 1,800 |
| - 180 to 360 days overdue | 1,033 | 169 | 118 | 16 | 10 | 44 | 119 | 5 | 1,514 |
| - over 360 days overdue | 4,459 | 191 | 2,976 | 139 | 12 | 33 | 572 | 3 | 8,385 |
| Total individually impaired loans (gross) | 40,931 | 934 | 3,291 | 169 | 58 | 107 | 906 | 74 | 46,470 |
| Less impairment provisions | (19,099) | (1,154) | (1,326) | (78) | (36) | (181) | (504) | (55) | (22,433) |
| Total loans and advances to customers | 124,989 | 23,905 | 4,159 | 265 | 572 | 939 | 1,522 | 628 | 156,979 |

PRIVATBANK GROUP

Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)

6 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

| | Corporate loans | Loans to individuals | | | | SME | Finance lease receivables | Total | |
|--|-----------------|----------------------|--------------|------------|------------|------------|---------------------------|------------|----------------|
| | | Card | Mortgage | Auto | Consumer | | | | Other |
| <i>In millions of Ukrainian hryvnias</i> | | | | | | | | | |
| <i>Neither past due nor impaired</i> | | | | | | | | | |
| - Large borrowers with credit history with the Group over two years | 77,061 | - | - | - | - | 476 | - | - | 77,537 |
| - Large new borrowers with credit history with the Group less than 2 years | 5,578 | - | - | - | - | - | - | - | 5,578 |
| - Loans to medium size borrowers | 1,746 | - | - | - | - | 82 | 12 | - | 1,840 |
| - Loans to small borrowers | 396 | - | - | - | - | - | 1,612 | - | 2,008 |
| - Loans between UAH 1-100 million | - | 7 | 188 | - | - | - | - | 37 | 232 |
| - Loans less than UAH 1 million | - | 24,920 | 1,213 | 158 | 784 | 272 | - | 476 | 27,823 |
| Total neither past due nor impaired | 84,781 | 24,927 | 1,401 | 158 | 784 | 830 | 1,624 | 513 | 115,018 |
| <i>Past due but not impaired</i> | | | | | | | | | |
| - less than 30 days overdue | 112 | 1,395 | 143 | 20 | 45 | 24 | 109 | 25 | 1,873 |
| - 30 to 90 days overdue | 181 | 874 | 62 | 15 | 24 | 22 | 70 | 40 | 1,288 |
| - over 90 days overdue | 104 | - | - | - | - | - | - | - | 104 |
| Total past due but not impaired | 397 | 2,269 | 205 | 35 | 69 | 46 | 179 | 65 | 3,265 |
| <i>Loans individually determined to be impaired (gross)</i> | | | | | | | | | |
| - Not overdue | 32,494 | - | - | - | - | - | - | - | 32,494 |
| - less than 30 days overdue | 44 | - | - | - | - | - | - | - | 44 |
| - 30 to 90 days overdue | 804 | - | - | - | - | - | - | - | 804 |
| - 90 to 180 days overdue | 223 | 457 | 96 | 14 | 26 | 26 | 83 | 7 | 932 |
| - 180 to 360 days overdue | 3,081 | 151 | 91 | 15 | 9 | 85 | 39 | 5 | 3,476 |
| - over 360 days overdue | 2,108 | 32 | 2,229 | 131 | 3 | 34 | 432 | 1 | 4,970 |
| Total individually impaired loans (gross) | 38,754 | 640 | 2,416 | 160 | 38 | 145 | 554 | 13 | 42,720 |
| Less impairment provisions | (18,914) | (967) | (949) | (84) | (27) | (141) | (236) | (22) | (21,340) |
| Total loans and advances to customers | 105,018 | 26,869 | 3,073 | 269 | 864 | 880 | 2,121 | 569 | 139,663 |

6 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period. The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status, a significant financial difficulty as evidenced by the borrower's financial information and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

Past due but not impaired loans, represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments, except for card loans and consumer loans for which impairment is recognised starting from 90 days past due. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

The Group believes that loans and advances to large and small sized borrowers with longer credit history are of a higher credit quality than the rest of the loan portfolio.

Information on loans and advances to customers from transactions with related parties is disclosed in Note 18.

7 Other Financial Assets

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|---|-------------------------------------|-----------------------------|
| Receivables from disposal of subsidiary | 585 | - |
| Receivables from operations with customers | 527 | 185 |
| Plastic cards receivables | 64 | 147 |
| Embedded derivatives with expired underlying contracts | 49 | 49 |
| Financial derivatives arising from swap, forward and spot | 28 | 82 |
| Less: Provision for impairment | (128) | (110) |
| Total other financial assets | 1,125 | 353 |

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****7 Other Financial Assets (Continued)**

On April 2014, the Group disposed of 79,18 % of the share capital of CJS CB "Moscomprivatbank". The subsidiary was previously classified as a disposal group and its assets and liabilities were accordingly reclassified in the statement of financial position. The details of the disposed assets and liabilities and disposal consideration are as follows:

| <i>In millions of Ukrainian hryvnias</i> | April 2014 |
|--|-------------------|
| Cash and cash equivalents | 2,208 |
| Loans and advances to customers | 5,716 |
| Available for sale financial assets | 255 |
| Other assets | 835 |
| Customer accounts | (7,289) |
| Other liabilities | (732) |
| Net assets of subsidiary | 993 |
| Less: non-controlling interest | (207) |
| Carrying amount of disposed net assets | 786 |
| Total disposal consideration | 1,149 |
| Less: fair value of receivable arising on disposal | (585) |
| Less: cash and cash equivalents in disposed subsidiary | (2,208) |
| Cash inflow on disposal | (1,644) |

The gain on disposal of the subsidiary comprises:

| <i>In millions of Ukrainian hryvnias</i> | Gain on disposal of subsidiary |
|--|---------------------------------------|
| Consideration for disposal of the subsidiary | 1,149 |
| Carrying amount of disposed net assets, net of non-controlling interest | (787) |
| Cumulative currency translation reserve on foreign operation recycled from other comprehensive income to profit or loss | 229 |
| Revaluation reserve for available-for-sale financial assets recycled from other comprehensive income to profit or loss upon disposal | 10 |
| Gain on disposal of subsidiary | 601 |

The portion of the loss on disposal of the subsidiary attributable to measuring the investment retained in the former subsidiary at fair value at the date when control was lost amounts to UAH 199 million.

8 Due to the NBU and Due to Other Banks and Other Financing Institutions

Due to the NBU at 30 June 2014 and 31 December 2013:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-------------------------------------|-----------------------------|
| Term borrowings from the NBU | 18,096 | 3,473 |
| Total due to the NBU | 18,096 | 3,473 |

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****8 Due to the NBU and Due to Other Banks and Other Financing Institutions (Continued)**

In February, March, April and May 2014 the Bank attracted UAH denominated refinancing loans from the National Bank of Ukraine in the total amounts of UAH 5,024 million, UAH 5,000 million, UAH 5,000 million and UAH 2,570 million with interest of 19.5%, 19.5%, 19.5% and 19% respectively maturing in 2015 and 2016. In June 2014 interest rates on these loans have been decreased to 14.25%, 19%, 19% and 14.25% respectively.

Assets pledged under the NBU loans are as follows:

| <i>In millions of Ukrainian hryvnias</i> | Note | 30 June 2014 (unaudited) | 31 December 2013 |
|--|------|-----------------------------|---------------------|
| Loans and advances to customers (before impairment) | 6 | 26,538 | - |
| Assets owned by related and third parties, some of those are borrowers of the Bank | | 5,435 | 4,907 |
| Mandatory reserve balance with the NBU | 5 | 1,294 | 1,294 |
| Premises | | 907 | 936 |

Due to other banks and other financing institutions at 30 June 2014 and 31 December 2013:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-----------------------------|---------------------|
| Term placements of other commercial banks | 2,969 | 3,414 |
| Correspondent accounts and overnight placements of other banks | 1,592 | 217 |
| Long-term loans under the credit lines from other financing institutions | 111 | 125 |
| Pledge deposits of other banks | 3 | 2 |
| Total due to other banks and other financial institutions | 4,675 | 3,758 |

9 Customer Accounts

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-----------------------------|---------------------|
| Individuals | | |
| - Term deposits | 96,896 | 101,535 |
| - Current/demand accounts | 19,707 | 21,357 |
| Legal entities | | |
| - Term deposits | 10,772 | 8,145 |
| - Current/settlement accounts | 21,546 | 19,851 |
| Total customer accounts | 148,921 | 150,888 |

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****9 Customer Accounts (Continued)**

Economic sector concentrations within customer accounts are as follows:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | | 31 December 2013 | |
|--|---------------------------------|------------|-------------------------|------------|
| | Amount | % | Amount | % |
| Individuals | 116,603 | 78 | 122,892 | 81 |
| Trade | 13,673 | 9 | 14,127 | 9 |
| Services | 5,047 | 3 | 3,743 | 2 |
| Manufacturing | 4,139 | 3 | 3,269 | 2 |
| Agriculture | 3,453 | 2 | 2,796 | 2 |
| Transport and communication | 2,448 | 2 | 1,736 | 1 |
| Machinery | 429 | 1 | 341 | 1 |
| Other | 3,129 | 2 | 1,984 | 2 |
| Total customer accounts | 148,921 | 100 | 150,888 | 100 |

At 30 June 2014 the aggregate balances of top 10 customers of the Group amount to UAH 8,270 million (31 December 2013: UAH 9,253 million) or 6% (31 December 2013: 6%) of total customer accounts.

At 30 June 2014 included in customer accounts are deposits of UAH 2,604 million (31 December 2013: UAH 2,658 million) held as collateral for loans and advances to customers, issued by the Group.

10 Debt Securities in Issue

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-------------------------------------|-----------------------------|
| Private placements of bonds | 7,979 | 7,990 |
| Eurobonds | 4,431 | 2,989 |
| Mortgage bonds | 110 | 101 |
| Total debt securities in issue | 12,520 | 11,080 |

In February 2013 the Group issued USD denominated Eurobonds with a par value of USD 175 million (UAH 1,399 million at exchange rate at the date of issue) maturing in February 2018. The bonds carry a coupon rate of 10.875% per annum. The Eurobonds are listed on the Irish Stock Exchange.

In September 2010 the Group issued USD denominated Eurobonds with a par value of USD 200 million (UAH 1,583 million at exchange rate at the date of issue) maturing in September 2015. The bonds carry a coupon rate of 9.375% per annum. The Eurobonds are listed on the London Stock Exchange.

11 Subordinated Debt

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-------------------------------------|-----------------------------|
| Subordinated debt provided by legal entities | 4,268 | 3,252 |
| Subordinated debt provided by individuals | 102 | 54 |
| Total subordinated debt | 4,370 | 3,306 |

PRIVATBANK GROUP

Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)

11 Subordinated Debt (Continued)

In August 2013 the Group issued USD denominated subordinated debts with a par value of USD 100 million (UAH 799 million at par at the exchange rate at the date of issue) at 8.5% per annum payable every six months with contractual maturity in September 2018.

In September 2013 the Group issued UAH denominated subordinated debts of UAH 1,300 million at contractual rate of 9% per annum payable monthly with contractual maturity in October 2018. Negotiations of attraction of this subordinated debt were carried with the involvement of the shareholders of the Group.

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debt issued in February 2006 with a par value of USD 150 million (UAH 758 million at par at the exchange rate at the date of issue) with contractual maturity in February 2016. In February 2011 in accordance with the terms and conditions of this subordinated debt the step-up interest rate was set at 5.799% per annum.

12 Share Capital

| <i>In millions of UAH except for number of shares</i> | Number of outstanding shares, in millions | Nominal amount |
|---|--|-----------------------|
| At 1 January 2013 | 64.64 | 14,897 |
| At 30 June 2013 | 64.64 | 14,897 |
| At 31 December 2013 | 64.64 | 16,352 |
| At 30 June 2014 | 64.64 | 16,352 |

The nominal registered amount of the Bank's issued share capital at 30 June 2014 is UAH 16,352 million (31 December 2013: UAH 16,352 million). The total authorised number of ordinary shares 64.64 million shares (31 December 2013: 64.64 million shares) with a par value of UAH 252.95 per share (31 December 2013: UAH 252.95 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote. Refer to Note 19.

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****13 Interest Income and Expense**

| <i>In millions of Ukrainian hryvnias</i> | Six months ended 30 June 2014 (unaudited) | Six months ended 30 June 2013 (unaudited) |
|---|---|---|
| Interest income | | |
| Loans and advances to legal entities | 8,206 | 6,393 |
| Loans and advances to individuals | 4,625 | 4,328 |
| Due from other banks | 228 | 148 |
| Other | 120 | 81 |
| Total interest income | 13,179 | 10,950 |
| Interest expense | | |
| Term deposits of individuals | 5,351 | 4,752 |
| Due to the NBU | 1,007 | 204 |
| Current/settlement accounts | 761 | 630 |
| Debt securities in issue | 731 | 517 |
| Term deposits of legal entities | 552 | 352 |
| Due to other banks and other financing institutions | 187 | 170 |
| Subordinated debt | 178 | 36 |
| Other | 5 | 15 |
| Total interest expense | 8,772 | 6,676 |
| Net interest income | 4,407 | 4,274 |

Information on interest income and expense from transactions with related parties is disclosed in Note 18.

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****14 Fee and Commission Income and Expense**

| <i>In millions of Ukrainian hryvnias</i> | Six months ended 30 June 2014 (unaudited) | Six months ended 30 June 2013 (unaudited) |
|--|---|---|
| Fee and commission income | | |
| Settlement transactions | 1,303 | 1,273 |
| Cash collection and cash transactions | 705 | 731 |
| Other | 103 | 84 |
| Total fee and commission income | 2,111 | 2,088 |
| Fee and commission expense | | |
| Cash and settlement transactions | 493 | 377 |
| Other | 10 | 10 |
| Total fee and commission expense | 503 | 387 |
| Net fee and commission income | 1,608 | 1,701 |

Information on fee and commission income from transactions with related parties is disclosed in Note 18.

15 Administrative and Other Operating Expenses

| <i>In millions of Ukrainian hryvnias</i> | Six months ended 30 June 2014 (unaudited) | Six months ended 30 June 2013 (unaudited) |
|---|---|---|
| Staff costs | 1,865 | 1,885 |
| Contributions to Individual Deposits Guarantee Fund | 483 | 259 |
| Rent | 268 | 324 |
| Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets | 306 | 242 |
| Mail and telecommunication | 228 | 205 |
| Utilities and household expenses | 222 | 189 |
| Maintenance of premises, leasehold improvements and equipment | 143 | 135 |
| Taxes other than on income | 60 | 128 |
| Security | 76 | 75 |
| Advertising and marketing | 43 | 54 |
| Transportation | 38 | 28 |
| Other | 279 | 184 |
| Total administrative and other operating expenses | 4,011 | 3,708 |

Included in staff costs is unified social contribution of UAH 471 million (30 June 2013: UAH 459 million). Social contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 18.

PRIVATBANK GROUP

Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)

16 Contingencies and Commitments

Capital expenditure commitments. At 30 June 2014 the Group has contractual capital expenditure commitments in respect of construction of premises, purchase of computers and furniture and equipment totalling UAH 84 million (31 December 2013: UAH 82 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|-------------------------------------|-----------------------------|
| Import letters of credit | 2,004 | 1,132 |
| Guarantees issued | 1,146 | 964 |
| Irrevocable commitments to extend credit | 138 | 77 |
| Less: Cash covered letters of credit | (18) | (20) |
| Less: Provision for credit related commitments | (46) | (22) |
| Total credit related commitments | 3,224 | 2,131 |

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as of 30 June 2014 and 31 December 2013 was insignificant.

As of 30 June 2014 the Group had undrawn credit limits on credit cards of UAH 28,494 million (31 December 2013: UAH 31,229 million) that are available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as of 30 June 2014 and 31 December 2013.

As of 30 June 2014 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount UAH 18 million (31 December 2013: UAH 20 million) are secured by customer accounts of UAH 18 million (31 December 2013: UAH 20 million). &".

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****16 Contingencies and Commitments (Continued)**

Fiduciary assets. These assets are not included in the Group's consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities. The fiduciary assets held by the Group on behalf of its customers fall into the following categories:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 Nominal value | 31 December 2013 Nominal value |
|--|-------------------------------|-----------------------------------|
| Shares of Ukrainian companies | 6,235 | 6,008 |
| Domestic corporate bonds | 1,943 | 2,733 |
| Investment certificates | 253 | 253 |

Funds under trust management. Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 30 June 2014 assets under trust management amounted to UAH 611 million (31 December 2013: UAH 321 million).

Assets pledged and restricted. The Group had assets pledged as collateral and reserved for spot transactions with the following carrying value:

| | Note | 30 June 2014 (unaudited) | | 31 December 2013 | |
|---|---------|----------------------------------|-------------------------------------|-------------------------------------|--|
| | | Asset pledged and reserved | Related liability/ commitment | Asset pledged and reserved | Related liability/ and commitment |
| <i>In millions of Ukrainian hryvnias</i> | | | | | |
| Gross receivables under swap, forward and spot agreements | | 32,617 | 32,573 | 29,795 | 29,837 |
| Loans and advances to customers | 6, 10 | 233 | 110 | 175 | 101 |
| Mandatory reserve balances with the NBU, premises | 5, 6, 8 | 28,899 | 18,096 | 2,230 | 3,473 |
| Total | | 61,749 | 50,779 | 32,200 | 33,411 |

As of 30 June 2014 for the purpose of UAH liquidity management the Group made USD denominated guarantee deposits with OECD banks in the amount of UAH 8,787 million (31 December 2013: UAH 11,567 million) that are pledged under loans issued by these banks to certain corporate clients. These funds were used for the purchase of bonds in the amount of UAH 8,787 million (31 December 2013: UAH 7,950 million and UAH 3,617 million were placed on the current accounts with the Group) issued by the Group.

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****17 Derivative Financial Instruments**

Foreign exchange and other derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables significantly from time to time.

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward contracts entered into by the Group and presented within other financial assets and other financial liabilities. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period. The contracts are short term in nature.

| | 30 June 2014 (unaudited) | | 31 December 2013 | |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Contracts with positive fair value | Contracts with negative fair value | Contracts with positive fair value | Contracts with negative fair value |
| <i>In millions of Ukrainian hryvnias</i> | | | | |
| Foreign exchange swaps, forwards and spots: fair values, at the end of the reporting period date, of | | | | |
| - USD receivable on settlement (+) | 1,682 | 10,285 | 415 | 10,998 |
| - USD payable on settlement (-) | (20,173) | (1,781) | (17,841) | (473) |
| - Euros receivable on settlement (+) | 20,198 | 436 | 17,909 | 467 |
| - Euros payable on settlement (-) | (10) | (10,170) | - | (8,763) |
| - UAH receivable on settlement (+) | - | 3,262 | - | - |
| - UAH payable on settlement (-) | (1,182) | - | - | (2,342) |
| - RUB receivable on settlement (+) | - | 1 | - | 3 |
| - RUB payable on settlement (-) | - | (1,901) | - | - |
| - Other currencies receivable on settlement (+) | 9 | 6 | - | 3 |
| - Other currencies payable on settlement (-) | (473) | (145) | (405) | (13) |
| Net fair value of foreign exchange swaps, forwards and spots | 51 | (7) | 78 | (120) |

At 30 June 2014, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 32,209 million (31 December 2013: UAH 26,595 million). These transactions are presented in consolidated statement of financial position on a net basis. The net fair value of unsettled spot transactions is insignificant.

For the six month period ended 30 June 2014 the Group received a gain of UAH 467 million (30 June 2013: a loss of UAH 221 million) resulting from foreign exchange swaps, forwards and spots that is accounted for in other gains less losses/(losses less gains) of the consolidated statement of comprehensive income.

As of 30 June 2014 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 5,591 million (31 December 2013: UAH 3,816 million). For the six month period ended 30 June 2014 the Group recognised a gain of UAH 1,939 million (30 June 2013: a loss of UAH 48 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against USD. This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.99 to UAH 12.98 per USD 1 (31 December 2013: UAH 7.99 to UAH 7.99 per USD 1).

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****18 Related Party Transactions**

Parties are generally considered to be related if the parties are under common control, joint control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 30 June 2014 and 31 December 2013, the outstanding balances with related parties were as follows:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | | | 31 December 2013 | | |
|--|-----------------------------|--------------|---|-----------------------------|--------------|---|
| | Significant share - holders | Manage- ment | Companies under control of major shareholders | Significant share - holders | Manage- ment | Companies under control of major shareholders |
| Gross amount of loans and advances to customers (contractual interest rate: 2014: UAH - 14%, USD - 11%, EUR - 13%; 2013: UAH - 13%, USD - 10%, EUR - 10%) | - | 2 | 9,213 | - | 10 | 9,617 |
| Loans and advances to customers written off as uncollectable | - | - | (91) | - | - | (546) |
| Financial derivatives | - | - | 1 | - | - | 34 |
| Other financial assets | - | - | 50 | - | - | 3 |
| Other assets | - | - | - | - | - | 95 |
| Customer accounts (contractual interest rate: 2014: UAH - 15%, USD - 3%, EUR - 3%; 2013: UAH - 15%, USD - 11%, EUR - 8%) | 838 | 121 | 2,362 | 791 | 108 | 2,674 |
| Subordinated debt (contractual interest rate: 2014: USD - 6%; 2013: USD - 6%, RUR - 1%) | - | - | 108 | - | - | 157 |

PRIVATBANK GROUP**Selected Explanatory Notes to the Interim Management Statement for the Six Month Period Ended 30 June 2014 (Unaudited)****18 Related Party Transactions (Continued)**

The income and expense items with related parties for the six month period ended 30 June 2014 and 30 June 2013 were as follows:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | | | 30 June 2013 (unaudited) | | |
|--|-----------------------------|------------|---|-----------------------------|------------|---|
| | Significant share - holders | Management | Companies under control of major shareholders | Significant share - holders | Management | Companies under control of major shareholders |
| Interest income | - | - | 590 | 6 | - | 656 |
| Interest expense | (53) | (8) | (173) | (7) | (6) | (112) |
| Provision for loan impairment | - | - | 678 | - | - | (436) |
| Fee and commission income | - | - | 21 | - | - | 26 |
| Losses less gains from financial derivatives | - | - | (104) | - | - | 52 |
| Foreign exchange translation (losses less gains)/gains less losses | - | - | 2,874 | - | - | - |
| Other operating income | - | - | 6 | - | - | 6 |
| Administrative and other operating expenses, excluding management remuneration | - | - | (70) | - | - | (33) |

At 30 June 2014 and 31 December 2013, other rights and obligations with related parties were as follows:

| <i>In millions of Ukrainian hryvnias</i> | 30 June 2014 (unaudited) | 31 December 2013 |
|--|---|---|
| | Companies under control of major shareholders | Companies under control of major shareholders |
| Guarantees issued | 63 | 63 |
| Irrevocable commitments to extend credit | 29 | - |
| Import letters of credit | 91 | 87 |
| Total credit related commitments | 183 | 150 |

The remuneration of members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 9 million for the six month period ended 30 June 2014 (30 June 2013: UAH 12 million).

19 Events After the End of the Reporting Period

In July 2014 the shareholders made a decision to increase the share capital of the Bank by UAH 1,749 million up to nominal value of UAH 18,101 million capitalising the dividends attributable to the shareholders of the Bank of the year ended 31 December 2013.