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Regulatory framework

1. Codes:

- Civil Code of Ukraine dated 16.01.2003 No. 435-IV (as amended and supplemented);
- Economic Code of Ukraine dated 16.01.2003 No. 436-IV (as amended and supplemented).

2. Laws of Ukraine:

- “On Banks and Banking Activity” dated 07.12.2000 No. 2121-III (as amended and supplemented);
- “On Financial Services and State Regulation of Financial Services Market” dated 12.07.2001 No. 2664-III;
- “On Pledge” dated 02.10.1992 No. 2654-XII;
- “On Mortgage” dated 05.06.2003 No. 898-IV;
- “On Mortgage Lending, Consolidated Mortgage Debt Operations and Mortgage Certificates” dated 19.06.2003 No. 979-IV;
- “On Securing Creditors' Claims and Registration of Encumbrances” dated 18.11.2003 No. 1255-IV;

3. Resolutions of the Board of the National Bank of Ukraine:

- Resolution No. 351 dated 30.06.2016 “Regulation on Provisions to Refund Possible Losses under Active Banking Transactions by Ukrainian Banks”;
- Resolution No. 368 dated 28.08.2001 “Instruction on the Procedure for Regulation of the Bank Activities in Ukraine” (as amended and supplemented).
- Resolution No. 601 dated 08.12.2004 “List of Documents Prepared at the National Bank of Ukraine and Banks of Ukraine Indicating the Retention Period”;
- Resolution No. 168 dated 10.05.2007"Rules for Provision of Information to Consumer by Banks of Ukraine on the Loan Conditions and Total Loan Value”.
- Resolution No. 64 dated 11.06.2018 "Rules for on organization of risk management system in Ukrainian banks and banking groups”.

1. SCOPE AND STRUCTURE OF THE LOAN POLICY

1.1 GENERAL PROVISIONS

Loan Policy Regulation of JSC CB “PRIVATBANK” (hereinafter referred to as the Loan policy) was prepared to monitor risks arising during allocation of lending resources of JSC CB "PRIVATBANK" (hereinafter referred to as the Bank). Lending is an important source of income of the Bank and an important element of Bank’s relationship with the clients.

The Loan policy is an internal regulatory document of the Bank binding on all employees of the Bank involved in the lending process.

Obtaining success in the banking business requires a high quality and efficiency in identifying, assessing and monitoring risks related to the lending. The Loan policy of the Bank and uniform standards implemented in all departments of the Bank are intended to ensure proper environment for the effective credit risk management.

The Loan policy objective is to define the main principles of the lending process and credit risk management in the Bank.

The Loan policy establishes a general approach of the Bank to the credit risk acceptance. It defines the main principles and standards of lending activity, responsibilities and powers of the Bank's employees at every stage of the lending process and provides for a comprehensive approach to the risk management, which ultimately ensures the most efficient use of the Bank resources.

The Loan policy contributes to harmonization of the Bank’s credit culture. By establishing a clear link between the Loan policy and business strategy, the Bank lays the foundation for a continued success in the banking business.

The Bank sets high standards for its employees. In particular, in regard to the credit risk acceptance a high level of personal effort and honesty is required of the employees.

Using these principles, the Bank creates a basis for conscious and effective risk management in the lending process.

The Loan policy of the Bank consists of this general loan policy and special loan policies (if any) of the Bank.

Provisions, procedures and other documents serve for implementation and clarifying the lending rules and standards stipulated in the Loan policy.

The Loan policy is developed in accordance with the current legislation and provisions of Clauses 38, 40, 41, 42, 9.3 of Article 9, Articles 17 and 18 of the Charter of the Bank.

This Loan policy applies to all loan transactions of the Bank and is annually reviewed by the Bank.

In case of any ambiguity related to the loan policy and lending process it is necessary to get clarification from Chief Risk Officer before entering any commitments or transactions.

Chief Risk Officer is the responsible entity to give approval for any deviations, exceptions to the policy and will inform Credit Committee, Board and Supervisory Board of the Bank about the exceptions.

1.1.1 INTERNAL AND EXTERNAL CONDITIONS INFLUENCED ON FORMATION OF THIS POLICY

Market position

In accordance with Strategic Plan of development the Bank by 2022 year shall take significant share in the following segments of lending: 35% in lending to private individuals, 13% in lending to SME, 4% in lending to corporate customers. Strategic options of Bank's development in credit operations are defined as follows:

- Further maintenance and increase of lending to individuals
- Development of corporate sector
- Stirring up of SME lending
- Improvement of risk management and skills of the staff

Macroeconomic environment

It is expected that over the next three years (2019-2022), the growth rate of Ukraine's economy could accelerate to 3-4% in real terms. Growth will depend on and be determined mainly by the situation on the external commodity markets, by the level of cooperation with the International Monetary Fund, which is primary defined by further acceleration of structural reforms in Ukraine.

The following are the main risks that will affect the realization of long-term growth:

- The escalation of the conflict in the East of the country, which can lead to negative socio-economic consequences

- The deterioration of the shipping situation in the Azov and Black Seas, which will affect the export opportunities of ferrous metals and grain

- Slowing down of structural reforms, which may complicate the state's access to foreign capital markets. Particularly exacerbation of the situation is expected in 2019 due to the regular election and the peak load on public debt repayment.

- Labor migration, the growth of the outflow of labor from Ukraine, will lead to further need for increased labor costs and correspondingly acceleration of inflation.

The Bank's credit policy considers into account factors that have a significant impact on macroeconomic scenarios of economic development.

Operating environment

In 2018, there was a strengthening of the requirements of the National Bank of Ukraine regarding the risk management system and corporate governance in banking institutions. Adoption of the relevant regulations will help to stabilize the banking system as a whole and ensure its proper development in future.

The Bank pays special attention to compliance with the norms and the requirements of the legislation, the Bank's Anti-corruption Program and other internal regulations while conducting credit operations.

The adequate staffing, its qualification, development and incentive programms are the guarantee of strict compliance with the requirements set by this Policy.

Available technologies and level of information support.

The Bank will strive to stay high-tech and to use the latest technology in the processes of providing credit services. It concerns the development and usage of statistical models for the purpose of efficient credit decisions, making in retail and SME segment, accumulation and storage of information, preparation of reporting, both regulatory and managerial.

1.1.2 RISK APPETITE AND CREDIT RISK LIMITS.

With the aim to achieve the Bank’s strategic goals, fulfillment of the business plan, formation of a diversified and high-quality loan portfolio, the Bank sets targeted indicators of risk appetite and limits on credit risk. The list of indicators of risk appetite and risk limits as well as the procedure for escalating of violations of risk limits is approved by the Supervisory Board of the Bank. Targeted segment of clients, lending products, currencies etc. are determined taking into account the Bank’s strategy and the approved risk appetite of the Bank.

1.1.3 CLIENTS AND PRODUCTS

Target markets for active operations

The Bank identified the following target markets for its credit services:

- Lending to individuals, including consumer lending
- Active operations for small and medium businesses, including leasing
- Financing corporate business on a selective basis through providing loans and leasing

Target clients:

The target clients of the Bank are legal entities and individuals (and/or groups of persons as defined in Clause 1.3.2. of the Loan policy), whom the Bank offers the loan products as follows:

Client group	Sub segment	Definition and requirements for customers	Responsible business units
Legal entities and/or individual entrepreneurs	SMEs	IE/LE with annual sales up to 40 million UAH	SME Business Unit
	Corporate clients	LE with annual sales 40 million UAH and more	Corporate Business Unit
Individuals	Mass clients	Individual using primarily retail products, has a regular income sufficient to service the debt.	Retail Business Unit
	VIP-clients	<u>Mass affluent</u> - wealthy clients with a monthly income of UAH 30-90 th, using primarily retail products, but can qualify for additional services and services that allocate their status. Need special status determination and attention to maintain. <u>Affluent</u> - the fastest growing segment of affluent clients with a monthly income of UAH90-150 th, who qualify for special banking services but do not have a sufficient condition to qualify for private banking. <u>High Net Worth</u> - highly affluent clients with assets of UAH 30 million in need of personalized service and support in operations and various fields (banks, legal services, taxes, concierge, working with support staff, etc.). Possess sufficient condition to qualify for private banking. Consumers of services of the highest category for their important status. Privacy interaction at the Bank's top management.	

Main loan products:

Legal entities and/or individual entrepreneurs		Individuals	
Loan type	Maximum acceptable tenor, years	Loan type	Maximum acceptable tenor, years
1. Loans for the current activities		1. Unsecured loans	
• current account overdraft	1 (2 for documentary operations)	• credit cards	UFN[1], with scheduled monthly repayment

[1] UFN – until further notice

• working capital loan		• consumer loans	2
• guarantees, avals		2. Secured loans	
• trade financing (post import financing)		• mortgage	20
		• auto financing, including on lease	7
2. Investment financing		• deposit-secured loan	1
• financial leasing	5 (up to 7 years for insulation purposes and modernization of the use of resources)	• Loan secured by residential real estate	5
• investment loan (including post-import financing)			

In exceptional cases, the Bank may finance legal entities through the purchase of securities. Repayment of such securities must be guaranteed by the Government of Ukraine, or by an entity which external credit rating is not lower than the investment grade. The term of such financing cannot exceed 1 year.

The Bank can refinance loans provided by other lenders under the following conditions:

- Available documentary evidence of the purchase of the asset being the object of financing
- The loan is not classified as a non-performing by existing lender and there is an evidence of a positive credit history.

Lending related to some specific financing types, i.e. project finance, syndicated loans, margin lending and speculative loans to professionals are not the target products for the Bank and not a subject of this Loan Policy. In case such specific loan types are requested by Business units, development of specific policies is necessary.

Financing currency:

Legal entities	Individuals
UAH	UAH
USD	
EUR	

The targeted currency of lending shall be UAH. Loans in foreign currency can be given to the borrowers that have income in USD or EUR sufficient to serve the obligations in foreign currency.

Targeted Industry sectors and products:

Agricultural sectors considered to be a core industry sector for approaching with full range of Bank`s products, including (but not limited):

- Growing of cereals, trading with grains
- Cattle farming with focus on poultry/pig production
- Manufacturing of sugar

- Trade with fertilizers, crop protection products, seeds, supply of agricultural techniques

Retail trade with focus on providing of overdrafts/short term working capital loans, including:
- Food retail networks
- Pharma retail networks
- Household and other consumer goods sellers

Investment financing can be considered for eligible counterparties with acceptable financial standing.

Wholesale trade with focus on working capital/overdraft financing:
- Trading with fuels
- Wholesale trade with consumer goods

Reasonably grounded investment loans/leasing can be provided for customers with excellent financial position.

FMCG is considered for approaching with full scope of financing products and refinancing of existing exposures in other banks for the following sectors:
- Production of packaged food
- Production of medicines
- Manufacture of finished wood products
- Production of detergents and cosmetics, personal hygiene products
- Production of paper and plastic products
- Production of packaging
- Manufacturing of other consumer goods.

Infrastructure and transportation can be considered for providing preferably investment loans on construction and modernization:
- Port facilities enhancement, transshipment facilities construction and modernization
- Railway carriages park renewal for State owned and private operators
- Automobile transportation.

Other industry sectors can be considered on a selective approach with attention to acceptable structure of the transaction and quality of a counterpart.

The Bank shall not provide financing to the following industry sectors:

- Production or trade with any product or activity deemed illegal under Ukrainian laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under CITES.
- Production or trade in weapons and munitions.
- Production and processing of tobacco.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where Bank considers the radioactive source to be trivial and/or adequately shielded and financing of entities which are controlled by government.

- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
- Financial companies, namely: credit unions, leasing companies, companies providing consumer finance services.
- Construction of boats, aircraft production and automotive (excluding manufacturing of components, spare parts for mentioned industries).
- Production of chemical fertilizers.

In addition, the Bank shall not finance certain products or processes due to their environmentally harmful nature or if adverse impact cannot be adequately mitigated.

In the process of lending a prerequisite is understanding of the client, his needs and his business before lending and identification of all related parties affecting/able to affect the financial and business operations of a potential borrower.

GEOGRAFICAL CONCENTRATION

In view of the fact that the Bank has wide network of branches covering all the territory of Ukraine there is no limitation on georgrafical direction of lending activity. The Bank has set a limit for the portfolio of its Eastern regional branch (as a percentage of total portfolio) considering its location that is close to the zone of possible escalation of military conflict.

Approach to financing of clients with state/municipalities’ ownership.

In order to determine the Bank’s fundamental principles to financing of clients with state or municipalities’ ownership, the customers are segmented as follows:

The municipality - a local self-government body, namely a city council, through which the territorial community exercises its right to local public authority. Bodies of local self-government are subjects of governance, but not management in terms of operational activities. They are part of the mechanism of public authority in the state.

A municipal enterprise - based on the 100% ownership of the respective territorial community (or several territorial communities) or with participation of other shareholders but with municipality keeping a decisive influence on the economic activity of this entity; local self-government bodies may form, reorganize and liquidate utility companies.

State-owned enterprise - is based on state ownership, including wholly state-owned enterprises. The Commercial Code of Ukraine provides for two groups of economic entities of the state sector of the economy:

- enterprises operating on the basis of state-owned property (state-owned commercial enterprises, state-owned enterprises, state-owned joint-stock companies, 100% of which are directly or indirectly state-owned);
- other entities of the state sector of the economy, having, the state as shareholder, as well as other shareholders (participants), but the state provides a decisive influence on the economic activity of these entities.

Taking into account the current level of credit expertise, the Bank does not finance municipalities.

Among the state and municipality enterprises, the Bank considers as potential borrowers only commercial enterprises, namely those that are subjects of entrepreneurial activity, acting on the basis of the charter on the principles of entrepreneurship and that are responsible for the consequences of their activities with all property provided for economic management. To achieve synergic effect, the Bank provides these clients with a full range of banking products.

The Bank does not provide financing to non-commercial companies, i.e. those that conduct operational activity without purpose of generating profit and which activities shall be financed by respective state or municipality budget (medical and educational institutions, other enterprises created for execution of social functions of the state/municipality).

Target segment for the Bank in such category of clients are small and medium enterprises.

The following financing principles apply for these clients:

- The assessment of the creditworthiness of state or municipalities' ownership borrowers is based on the fundamental rules and values of financing specified in this Policy and under the terms of credit products.
- Taking into account restrictions on the enforcement of the property of enterprises, the state share in the authorized capital of which is equal to and exceeds 25%, the key product offered by the Bank to such borrowers is short-term financing of working capital. The Bank mainly provides such financing on pari passu principles with other lenders. Only companies with a stable financial standing and sufficient creditworthiness are considered thereof. However, the Bank may consider financing companies with worsened financial condition, provided that such a client is highly profitable for the Bank and provided that the amount of risk accepted by the Bank for such a client shall not exceed UAH 1 million.
- In the case of financing the investment needs of such clients, the key product offered by the Bank shall be financial leasing. In this case, the assets provided by the Bank in a lease shall be liquid (mainly transport means and movable equipment). As risk mitigation for such transactions, as a rule, the Bank requires buy-back obligations of lease object suppliers.
- Additional risk mitigation instrument accepted in financing of public sector companies is a state guarantee and/or guaranty of municipalities, subject to confirmation of funding in the budget of the respective municipality / state and availability of targeted development programs that are appropriately approved.
- Decisions on such loans shall be taken by the Management Board up to the amount of UAH 150 million. All the transactions exceeding this amount shall be presented for consideration to the Supervisory Board of the Bank.

  The only exception from this rule is credit decisions on short-term financing in a form of overdraft up to the amount UAH 2 million. The limits for overdraft is calculated, set and monitored based on centralized automatical procedure that evaluates scoring, financial standing, turnover behavior, fact of overdue etc. on a daily basis. In such cases decision making process shall be conducted in accordance with the structure of credit authorities, described in Section 3.3 of this Policy.

- The Bank may provide underwriting services for the placement of securities (bonds) of state-owned companies and purchase such instruments in a portfolio. In case of the purchase of securities (bonds) of such issuers, such securities should be unconditionally accepted by NBU as collateral in order to receive refinancing or Bank provide other asset backed products for the issuer simultaneously acting as holder of such securities. In order to strengthen Bank's position in negotiations, the Bank shall avoid the only placement of liquidity in securities not refinanced by NBU without any other business opportunities.
- The maximum amount of financing that can be provided to one borrower with state or municipalities' ownership shall not exceed UAH 50 million in bianco, or UAH 150 million for collateralized loans/ financial leasing transactions. In exceptional cases, the Bank may consider financing in larger amounts subject to prior consent of the Bank's Management Board and Supervisory Board.

The Bank participates in target state and regional compensation programs for support and development of the economy and its separate sectors that are implemented through compensating mechanisms of lending costs of the borrowers. The Bank's participation in such programs allows offering convenient and economically attractive financial solutions for customers and significantly reduces credit risk for the Bank. At the same time, the Bank, using a conservative approach, assesses the creditworthiness of potential borrowers without taking into account compensations under such government programs, if such programs do not anticipate control instruments of use of such compensations for the Bank.

1.1.4 CREDIT RISKS

Credit risks can be classified according to the following main types:

- Insolvency risk is a risk related to lack of cash assets of the client (cash and cash equivalents) and results in losing financial stability. The main factors affecting the insolvency risk are the company's ability to generate cash flow or, if necessary, to raise the loan funds.
- Business risk is related to the situation in the industry, where the client operates, such as high competition, monopoly, drop in sales, lower industry profitability, rapid technological changes that require significant investments, etc.
- Client risk is a risk related to lack of experience of the owners and/or management of the client in business, lack of strategy, risk market or investment policy conducted by the client, lack of qualified personnel, etc.
- Production risk is a lack of own production capacities, high share of obsolete production facilities, unique equipment, unforeseen increase of production expenses, etc.
- Sale risk (market risk) is a risk related to failure to sell the goods and services due to changes in the market factors resulted in decrease (lack) of demand.
- Third party risk is a risk of losses due to failure to fulfill by the third party of its obligations to the borrower.
- Enforceability risk is a risk of losses due to failure to exercise the security under the lending transaction.

- Interest rate risk: Complication (or inability) risk of debt servicing by the borrower due to unfavorable interest rate fluctuations, which resulted in the increased interest charges.
- Currency risk is a risk related to the uncertainty of the foreign currency value against the national currency in the future, which may result in the losses in the event of unfavorable fluctuations of such value.
- Regulatory risk is a risk of losses due to changes in legislation that adversely affect operating and/or market viability of the borrower.
- Environmental risk — ref. to Clause 2.1.8 of the Loan policy.
- Reputation risk can be defined as the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect a bank’s ability to maintain existing, or establish new business relationships and continued access to sources of funding.

Each individual loan transaction may further include other specific risks. Such risks shall be mentioned and analyzed in the relevant loan application (including possible mitigation measures of their effects).

1.1.5 DEVELOPMENT AND INTERPRETATION OF THE LOAN POLICY

Lending rules set forth in the Loan policy may change over time. Changes and additions to the Loan policy may be implemented on the proposal of the Business units and/or proposal of Bank's risk management and shall be approved according to the appropriate level of competence in accordance with the Bank's internal regulations. Risk management (namely – units subordinated to CRO) is responsible for the interpretation and making the Loan policy available to all officers of the Business units. The Business unit shall mean all units related to servicing of the clients who use the loan services of the Bank (as of preparing this Policy these are employees of the retail business, small and medium business, trading companies business, retail lending business, corporate clients business, credit analyst department), as well as units that can be created in the future to perform the above functions.

Internal Audit, Compliance and Legal units can suggest changes, additions improvements, proposals in the Loan Policy in accordance with the changes in the environment, laws and regulations as well as result of their findings from internal audits, experienced losses, faced court cases or any kind of reputational risk exposed by the bank.

The Loan policy is developed as a stable long-term directive. Changes thereto are made after their careful consideration and with a clear understanding of their impact on the Bank's loan transactions.

1.1.6 RESPONSIBILITY FOR THE LOAN POLICY DEVELOPMENT

The Chief Risk Officer is responsible for the ongoing development and relevance of the Loan policy.

Responsibility for the relevance of the Loan policy covers the following objectives:

- ongoing review of the Loan policy acceptability, initiation of changes and additions, drafting of changes;
- coordination and approval of the Loan policy with other Bank units;

- execution and distribution of the Loan policy and changes thereto.

The Supervisory Board of the Bank:

- Approves the Bank's Loan Policy
- Establishes the cases of veto right application by Chief Risk Officer and Chief Compliance Officer
- Set the authority level of the Board for approval of credit operations
- Approves active operations that exceed the authority of the Board
- Sets risk appetite and credit risk limits

The Board of the Bank is responsible for implementation of the Loan policy, namely:

- coordination of implementation of the Loan policy including for development, approval and implementation of the procedures, required to implement the Loan policy;
- ensuring conditions required for the Policy implementation, granting of financial resources, recruitment of qualified employees, organization and review of the Policy implementation;
- familiarization of the Bank employees with the Policy and related procedures of the Bank;
- understanding and compliance by the Bank employees with the Loan policy;
- responsibility of the employees for failure to comply with the Policy and related procedures of the Bank;
- providing conditions for maintaining high-level technology / IT systems infrastructure, granting of financial resources, recruitment of qualified IT-employees in order to ensure the monitoring of risks through integrated systems and big data analysis.

1.1.7 APPROVAL OF INNOVATIONS AND CHANGES

New or changed loan products, changes in the procedures and methodology shall meet the Loan policy of the Bank. Departments proposing such changes shall ensure compliance of such changes with the Loan policy. For this purpose they shall cooperate with the Risk management that determines whether it is necessary to change the Loan policy or make a decision for a particular case. Decisions on the proposed changes or additions that are not compatible with the current Loan policy shall be made by the head of Risk management or he shall put a disputable issue before the Credit Committee of the Bank.

New loan products and procedures in the Bank are developed and launched according to internal documents of the Bank with necessary involvement of all relevant divisions (including business, risk, legal, IT, operations, security, compliance, and others). The work group ensures the new products / procedures are aligned with the Banking law and regulations, the Bank’s Credit Policy and all relevant procedures and internal documents. The work group ensures also defining target market, risk /reward expectations, necessary management information system reporting infrastructure, legal contracts and permissions are in place. The group will define the end-to-end process with responsible parties and make necessary testing to find out related risks, suggest and apply revisions to mitigate risks. The new product / service shall be signed off within a duly approval process estableshed in the Bank before the product/service becomes live for the clients.

In case as a result of group discussions an objective necessity to introduce changes to the Bank’s Credit Policy is perceived and fixed in decisions of corresponding work group, risk management prepares proposals on amending Bank’s Credit Policy and brings it to consideration of the Credit Committee of the Bank. The proposals shall include grounding business necessity as well as risk mitigation actions.

1.1.8 HANDLING OF THE EXCEPTION CASES

Risk management supports the employees involved in the lending process regarding interpretation of the Loan policy. Deviations from the Loan policy shall be documented in writing with a detailed justification.

Any employee of the Bank who finds out a deviation shall bring the issue for consideration of Chief Risk Officer by writing a memo/letter in PrivatDoc electronic workflow system or by e-mail. Risk Management is responsible for analysis of the situation and presenting respective risk opinion to the Credit Committee and Management Board. Decision of Credit Committee/Board shall be fixed in the minutes.

2. GENERAL DIRECTION OF THE LENDING PROCESS

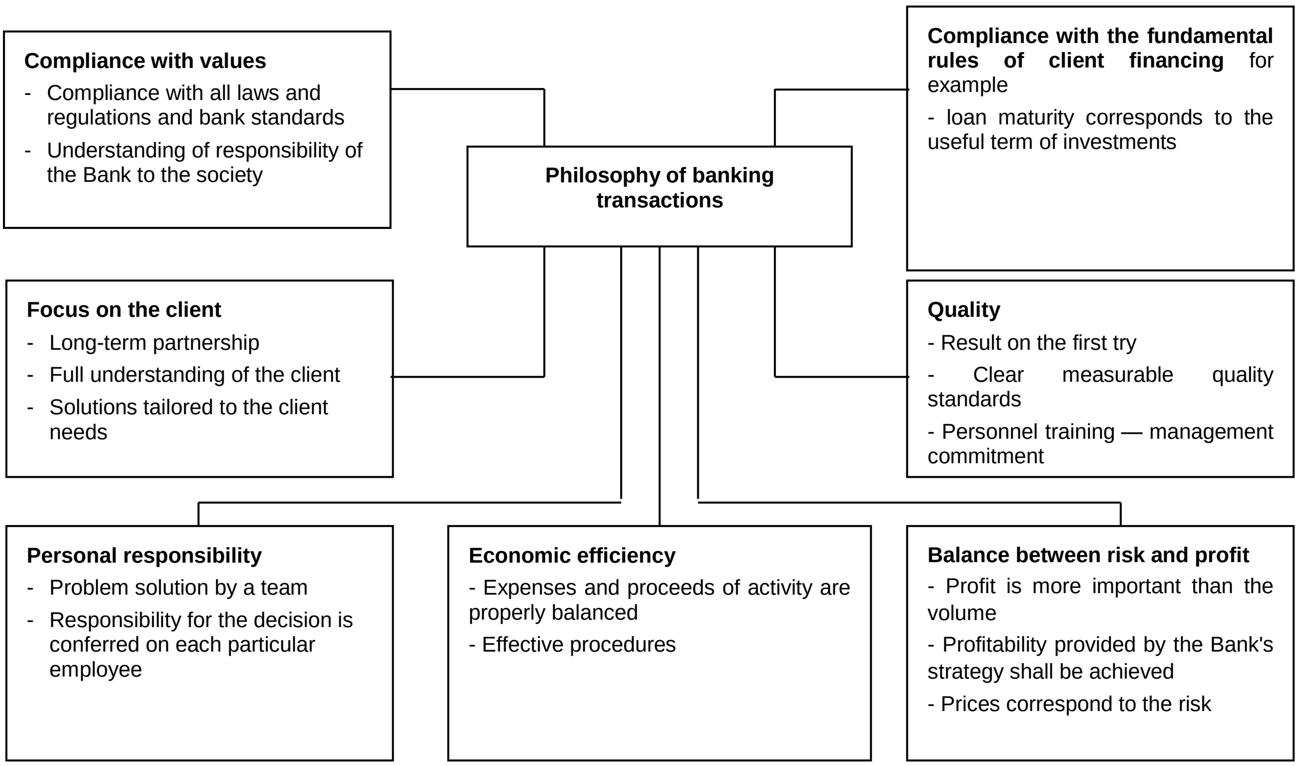
2.1 MAIN LENDING PRINCIPLES

Competitive advantages of the Bank are focusing on the client needs. Effectiveness criteria are speed, quality and up-to-datedness.

Business units of the Bank shall be governed by the following main principles:

- focus on clients;
- quality;
- balance between risk and profit;
- economic efficiency;
- personal responsibility;
- compliance with values;
- compliance with the fundamental rules of client financing.

Main lending principles



2.1.1 FOCUS ON THE CLIENT

The Bank seeks long-term, mutually beneficial relationship with clients and tries to be a reliable and consistent partner for them. The main prerequisite for this is a clear understanding of the client. Therefore, the Bank analyzes sources and stability of income of its clients and their business reputation. It continuously monitors development of the clients. Based on reasonable data the Bank determines their needs and develops solutions that best meet client needs. Knowing its clients and their markets, the Bank can properly assess the credit risks and set prices according to the risks being accepted.

By advising the clients, the Bank assures itself that they understand the Bank's products and related advantages as well as responsibilities and risks arising therefore. The Bank grants loans based on an assessment that the financial position of the client enables to service the loan timely and fully out of the operating cash flow without resort to the secondary repayment sources (sale of the security, refinancing, etc.). Some Bank's products, for example, a deposit-secured loan is an exception to this rule.

2.1.2 QUALITY

The Bank seeks a perfect result and avoids unnecessary double work from the very beginning. The Bank shall perform its operations in a professional manner in accordance with the internal policies and procedures subject to the specified standards and procedures. The Bank fulfills its promise of the client servicing and monitors compliance with the quality standards set forth in the "Corporate Governance Code".

The Bank achieves high quality standards due to professional, result-oriented Bank's employees, who use appropriate support systems. The Bank's employees are entitled to continue their vocational training according to their duties and responsibilities in the lending process. A key responsibility of the senior management is to ensure that all employees are duly qualified and constantly improve their qualification.

2.1.3 BALANCE BETWEEN RISK AND PROFIT

In business of the Bank profitability takes precedence over volume. In the lending process the Bank assumes risks that shall be compensated from the relevant revenues. To establish appropriate prices, we take into account only those risks that we can assess and which can be controlled. According to the general goal the Bank shall reach the balance between risk and profit each year, which was included in the budget for the relevant year. The lending activity shall help the Bank to achieve this goal by direct generating interest and fee income from loan transactions or by effective supporting of cross sales.

The bank must take into account the costs to maintain sufficient liquidity, credit risk, interest rate risk and market risks in the process of pricing its active products and conducting credit operations.

2.1.4 ECONOMIC EFFICIENCY

The Bank seeks to work quickly and not bureaucratic and responsibly use its own and borrowed resources.

Expenses arising out of the Bank's activities shall conform to the profit level. At all stages of the client servicing the banking activity intensity shall meet a potential client profitability for the Bank. The Bank shall compare the efforts to collect and analyze information with the contribution that these efforts can make in improving the quality of the decision-making process.

The lending process shall be organized so that every involved Bank’s employee significantly improves the quality of the risk assessment and lending decisions.

The Bank regularly reviews its lending procedures to determine the unused potential and to improve efficiency.

2.1.5 PERSONAL RESPONSIBILITY

The Bank operates in a team collaboration. Everyday interaction of the Bank’s employees is instantiated by openness, constructive cooperation and mutual respect. Every Bank’s employee involved in the lending decision is personally responsible in accordance with established duties. Operating procedures of the Bank are developed to encourage personal responsibility of the employees to avoid "public" responsibility.

2.1.6 COMPLIANCE WITH THE FUNDAMENTAL VALUES

The Bank complies with the legislation regulating the Bank activities and internal documents of the Bank. The Bank's employees adhere to the legislative acts related to the banking business in Ukraine, including (but not limited to): Law on banks and banking activity, Law on financial services and state regulation of financial services market; recommendations of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine on financial measures relating to proceeds of crime, terrorist financing, provisions of the National Bank of Ukraine (hereinafter referred to as NBU) on loans and other regulatory acts including tax legislation of Ukraine. In ambiguous situations or in case of doubt as to interpretation of the legislation or regulations the Bank's employees shall apply for the opinions and clarification to the legal department, compliance or Internal audit departments of the Bank in relevant cases.

The Bank's employees make well-considered decisions in order to avoid Bank and its reputation damage. The Bank's employees work on behalf of the Bank and for support of its values. The Bank's employees are not involved in transactions being incompatible with these fundamental values. In particular, they refrain from transactions involving the following:

- financing of individuals and companies headed by persons accused of serious violations related to property, or other infringements (e.g., bankruptcy due to fraud);
- financing of organizations pursuing radical political and religious objectives;
- financing of companies and projects inconsistent with the environmental standards (ref. to 2.1.8the Loan policy).

2.1.7 COMPLIANCE WITH THE FUNDAMENTAL RULES OF CLIENT FINANCING

When the Bank accepts the non-payment risk, the following basic rules shall be observed:

- The Bank accepts the credit risk only if relationship with the client is clear and shows a proper balance between profitability and risk;
- prerequisite for any financing is a detailed understanding of the economic basis of the transactions;
- The Bank enters into credit relations only after obtaining a sufficiently detailed information on the creditworthiness of the borrower. If the borrower (existing or

potential) does not wish to provide sufficiently detailed information on its financial position, the Bank will refrain from approving a new transaction or increasing an extent of the existing transaction with this borrower*;

- The Bank does not perform so-called remote transactions, i.e. transactions with clients or financing of projects outside the territory of Ukraine. Exceptions may be financing with the security in Ukraine or if there is a sufficient control over the ability to repay the loan;
- refinancing or risk acceptance from other banks requires careful analysis of the situation and shall be explained. Generally, this type of transactions shall be considered especially carefully, particularly if the financial position of the borrower is weak;
- Usually the financing period of the capital investment, i.e. period until full repayment of the investment loan shall not exceed the usual period of depreciation of the investment assets or, if there is an appropriate expert assessment of the potential economic and technical life of the investment assets;
- for financing in the foreign currency the client shall have a revenue in the relevant currency, or be able to service the interest and principal debt in that currency*;
- security is accepted only to support the loans, it cannot serve as a substitution for the ability of the client to fulfill his obligations[2];
- in case of deficiency of opportunities (e.g. temporary understaffing) control and management of the existing risks take precedence over generating a new business;
- foreign currency loans are possible for the purpose of currency risk insurance on the existing transactions of the client; "speculative" loans aimed from the perspective of the client at only getting a lower interest rate on the loan in another currency shall be avoided, or a "favorable" exchange rate without purchasing appropriate instruments of currency risk insurance notwithstanding lack of receipts in the currency of the loan (exceptions are possible for speculative transactions with the professional clients or if the transaction may reasonably be considered sufficiently profitable for the Bank).

2.1.8 ENVIRONMENTAL REQUIREMENTS

Environmental risk can be defined as a potential or probable risk of losses due to occurrence of the environmentally harmful event which can result in:

- charges and fines for environmental non-compliance;
- emergency state;
- adverse effect on the employees’ health;
- difficulties with the project approval;
- public resistance.

All these factors have an impact on the financial viability of the project, therefore to prevent them the Bank seeks to be governed by the environmental requirements.

The main environmental requirements are:

- performing activities with due attention to the environmental factors and principles of sound and consistent environmental development;

*special products such as cash transactions may be exceptions to this rule

- transactions supported out of the funds of the Bank shall meet at least health, safety and environmental provisions and standards applicable in Ukraine.

Compliance with the environmental requirements contributes to minimization of the adverse environmental impact (e.g. pollution) that may affect the obligations of clients to the Bank.

Compliance of the potential loan transaction with the environmental requirements shall be defined at the primary stage of the analysis of such transaction.

2.2 CREDIT APPROVAL AUTHORITIES AND ENTITIES OF THE LENDING PROCESS

There are the following rules of credit approval authority delegation.

Supervisory Board defines the maximum level of credit approval authority to the Board of the Bank.

The Board of the Bank may delegate the credit approval authority in accordance with the following:

- individual approval authority: is delegated to Risk management for making decisions in respect of the clients-individuals (Retail Business, Business of Consumer Finance, Business of cooperation with retail companies) for mass products within the framework of standard product conditions and provided that limit amount is calculated automatically in accordance with the methodology developed by Risk Management Unit and approved by Credit Committee of the Bank. Otherwise the decision shall be taken with dual signatures as described below;
- dual approval authorities: is delegated to Senior Risk managers together with Senior Business unit managers subject to their unanimous positive decision and within the framework of standard product conditions;
- collective approval authority: is delegated to Credit Committee subject to opinions (comments, recommendations) provided by Bank`s legal and security units, as well as opinion of the Risk management, that includes comments on the specific risks related to a potential lending, the list of negative and positive aspects of the transaction proposed for approval, and recommendations. The decision is made by majority votes of the Credit Committee members (in case of equal voting – vote of Committee’s Head is decisive). The positive decision can only be made under condition of a positive voting by Chief Risk Officer.
- In respect of lending to state- and municipality-owned companies additional limitation on credit authority levels shall apply (see section 1.1.3 hereto)

As for the mass products, namely:

for individuals – credit cards, consumer loans;

for legal entities of small and medium business – current account overdraft, KUB (the Country of Successful Business or 'Ukraine is a Country of Entrepreneurs' program), product Guaranteed payments, low risk guarantees;

for legal entities of corporate business – current account overdraft, product Guaranteed payments, low risk guarantees,

decisions on setting and review of limits can be made in automated centralized manner using the scoring systems and models in accordance with the methodology developed by the Risk Management Units and approved by the Credit Committee of the Bank.

Chef Risk Officer has the right to impose a prohibition (veto) on the decision on credit operations, if the implementation of such decisions would violate this Policy, the established risk appetite and / or approved limits of risk, and inform the Supervisory Board of the Bank and the Committee on Risk management of the Supervisory Board about such decisions.

Chief Compliance Officer has the right to impose a prohibition (veto) on the decision on credit operations, if the implementation of such decisions would violate the requirements of the legislation, including legislation on prevention and legalization of anti money laundering, terrorist financing and financing of the distribution of weapons of mass destruction, the relevant standards of professional associations, which are applicable to the bank, conflict of interest, as well as in other cases, and inform the Supervisory Board of the Bank and the Supervisory Board's risk management committee about such decisions.

Structural subdivisions of the Bank involved in the lending process perform major and auxiliary tasks. Their powers, duties and responsibilities are allocated to ensure efficiency and proper performance of all stages of the lending process.

The main entities of the lending process are Business units and Risk management.

Other entities that take part in lending process are the Legal, Security, Credit collection units, Back office and Compliance unit (as prescribed in article 2.2.3 of this Policy).

2.2.1 BUSINESS UNITS

Business units accompany the entire lending process. Therefore they play a key role in the lending business. They participate in all lending decisions and their implementation by initiating and approval of parameters of the loan products. Furthermore, all individual loan requests require primarily support of the Business unit.

The Business units shall be governed by the following main principles:

- principle of a clear assignment of clients (except for the volume business segment): Each particular client is assigned individually to the officer of the Business unit;
- principle of "dual control" when making a particular lending decision: each lending decision before submitting to the credit committee requires a careful study by the employee of the Business unit and analysis conducted by the officer of the Risk management. Relevant officers of the Business unit and Risk management shall be responsible for the accurate implementation of the lending process considering the credit risk.

2.2.2 RISK MANAGEMENT

Officers of the Risk management are responsible for the Risk management of the Bank on all loan products. They support the Business units in development of parameters of the loan products, in development of structure of the loan transactions, in determination and use of the commercial potential of the clients and make every possible effort to ensure compliance of the Bank's loan transactions with the current legislation of Ukraine and internal procedures.

The Risk management is involved in development of strategic parameters of the Bank's loan portfolio, qualitative objectives and benchmarks for the Business unit, which may take the form of recommendations or binding directives. This department gives advice and support to the Business units, considers loan offers of the Business units and provides its opinions and recommendations to the Credit Committee of the Bank, participates in making lending decisions according to the Loan policy.

The key Risk Management responsibilities are the following:

- conducting of quantitative, qualitative analysis and evaluation of the risks to which the bank is exposed or that may subsequently arise in the course of conducting credit operations;
- control over the adequacy of provisions for credit operations of the bank;
- assessment of creditworthiness and confirmation of the financial status of the borrower (guarantor);
- checking the completeness of the package of documents for the credit operation;
- consideration of the forecast data (cash flow forecasts, profits and losses, loan repayment plan) if financing needs a deep analysis focused on the future;
- preparing a conclusion on the full range of risks related to a potential lending, the list of negative and positive aspects of the transaction proposed to approval, and recommendations for each loan application for consideration by the Credit Committee or authorized bodies;
- arrangements for credit monitoring in accordance with Clause 3.2.6.3 of this policy;
- development and maintenance in up-to-date state of the scoring systems, models, methods, procedures for assessing credit risks and making the lending decisions.

2.2.3 OTHER UNITS INVOLVED IN LENDING PROCESS

<u>The Legal department (Direction on Legal Support)</u> is responsible for validity and enforceability of legal documentation, with this purpose legal department shall review the legal statute documentation of the company: ownership, registration documents, Charter, list of founders, date of registration, amount of authorized capital, authorized activities, directors’ authority limits, shares, subsidiaries, past and current litigation etc. Also, the Direction informs about the presence of arrests of movable and immovable property of the borrower and the existence of other encumbrances on his property according to available data of public registers;

<u>The Security unit</u> is responsible for analysis of business reputation of the client and, in cases when the Bank accepts significant risks (as determined by the specific Bank documents) of the business reputation of the client related persons. With this purpose it analyses:

- criminal cases against company officials, business owners, guarantors or mortgagor;
- loans outstanding and active accounts in other banks;
- restrictions in banking services to the borrower, its officers and owners;
- existing lawsuits and enforcement against the borrower and related parties
- debts to third parties to the borrower;
- other information that affects the credit decision.

Direction on Operational Services (or the Back office) of the Bank shall ensure that all terms of the approved loan are properly reflected in the contractual documents and in the information systems of the Bank and transparency of ownership structures in accordance with internal regulations.

The Credit collection unit is responsible for:

- monitoring of unpaid debts;
- acting as the liaison between bank and customers and managing overdue accounts to increase recoveries and collect the unpaid balance;
- carrying out, together with the executive service organizational and practical measures for sale of the arrested property;
- organizing search of buyers for property of debtors;
- implementation of other measures for the repayment of non-performing loans.
- monitoring and initial inspection of collateral

Compliance unit is responsible for:

- organization of monitoring of compliance with norms and procedures for active operations with related persons of the Bank
- control over the Bank's relations with clients and counterparties by analyzing documents on bank products
- establishing the fact of ownership structures transparency of clients who have a complex (multilevel) ownership structure with the participation of non-residents.

Also, the "Compliance" may be engaged to prepare a conclusion on the presence / absence of reputational risk of the Borrower in accordance with the requirements of the Bank's internal documents.

2.3 LOAN PORTFOLIO MANAGEMENT

The main goal of the loan portfolio management of the Bank is to achieve the planned profit level by the Bank. This main goal is divided into separate sub goals aimed at:

- attracting new clients;
- maximizing the potential of relationship with each existing client;
- drawing income adequate to the accepted risks.

However, an independent analysis and monitoring of loan transactions lacks consideration of interrelations that can result in the risk concentration. The goal of the loan portfolio management is to stabilize the portfolio by diversifying the risks.

Thus, the loan portfolio management has a dual approach:

- management at the transaction level considering a risk related thereto;

- management of the general characteristics with the purpose of avoidance of concentration risk of the loan portfolio using limits of particular segments, namely: setting limits for sectors or spheres (it is of particular relevance during active increasing the loan portfolio size), limits on lending product, group of clients, tenor of the portfolio.

3. ORGANIZATION OF LENDING PROCESS AND LENDING RULES

3.1 PREREQUISITE FOR AN APPROPRIATE CREDIT RISK MANAGEMENT

The main prerequisite for a proper credit risk management includes:

3.1.1 PROPER CREDIT RISK ENVIRONMENT

Proper credit risk environment is ensured by applying a number of approaches to the lending process, namely:

- regular review and updating of the Loan policy and procedures for identification, assessment, monitoring and control of the credit risks and consistency of the above documents;
- clear assignment of responsibility for development and implementation of the Loan policy and procedures for identification, assessment, monitoring and control of the credit risks to the Head of the Risk management;
- development of new appropriate procedures for control of the credit risks specific to new products or types of the Bank activity before introduction of such products and activities.

3.1.2 WORK IN A STABLE LENDING PROCESS

Work in a stable lending process means:

- work with stable, well-defined criteria for the loan approval, including a clear definition of the target market of the Bank and full understanding of the borrowers or other persons involved, purpose and structure of the loan, sources of its repayment;
- a clearly defined process of approval of new loans as well as changes, renewals, refinancing and rescheduling of the loans;
- loan granting under the principle of avoiding conflicts of interest, particularly loan granting to the companies and individuals related to the Bank shall be approved with a special attention and monitored with an extreme vigilance.

3.1.3 SUPPORT OF A PROPER LOAN MANAGEMENT, ASSESSMENT AND MONITORING PROCESS

A proper loan management, assessment and monitoring process means:

- system of the current administration of transactions bearing the credit risk;
- system of monitoring of the conditions of each loan, including determination of the provisioning adequacy;
- developed internal system for determining of the financial position of the borrowers that shall comply with the nature, size and complexity of the Bank;
- existence of the information system and analytical methods which ensure provision of adequate information on the loan portfolio including any risk concentration, overall composition and quality of the portfolio;

- considering possible future changes in the economic conditions when assessing particular loans and loan portfolio of the Bank as a whole.

3.1.4 ENSURING OF AN APPROPRIATE CONTROL OF THE CREDIT RISKS

An appropriate control of the credit risks means:

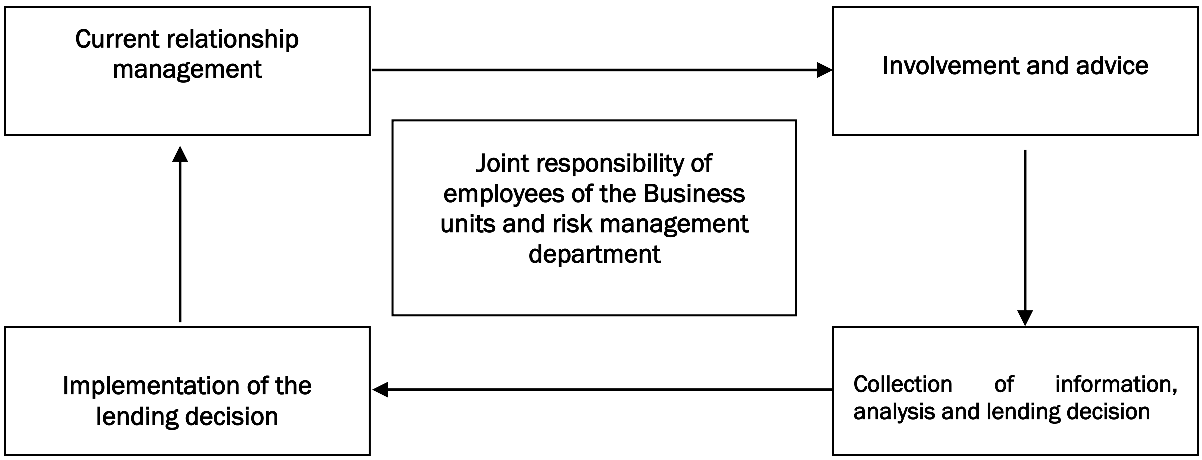
- a proper organization of the lending process (from the first contact with the client to the debt repayment under the loan transaction);
- ensuring compliance of the lending decisions with the current legislation of Ukraine and internal regulatory documents of the Bank;
- establishing a proper internal control over the decisions being exceptions to the Loan policy;
- system of measures aimed at non-performing loan management and loans which service quality is deteriorating;
- system of independent assessment of the credit risk management process of the Bank.

3.2 ORGANIZATION OF THE LENDING PROCESS

The lending process is divided into four stages:

- attracting a client and provision of information and advice to him;
- collecting the client information and its analysis and making the lending decision;
- implementation of the lending decision (registration, accounting, etc.);
- current relationship management between the client and the Bank.

Loans bearing signs of increased non-payment risk are removed from the normal process and are processed on the principles of the non-performing loan management (ref. to Clause 3.4 of the Loan policy).



3.2.1 ATTRACTING A CLIENT AND PROVISION OF INFORMATION AND ADVICE TO HIM

In order to increase profitability of the Bank the employee of the Business unit identifies business opportunities of the client and with the help of the employee of the Risk management (if necessary) determines the client relationship strategy. Detailed description of the requirements as to the client relationship strategy is shown in Clause 3.2.2.2.4. of the Loan policy.

3.2.2 COLLECTION OF CLIENT INFORMATION, ITS ANALYSIS AND MAKING THE LENDING DECISION

Collection of information and its analysis are the key tasks of the Bank's lending process. They are key success factors in the loan activity as they form the basis for a long-range balanced assessment of the potential risks and profit from the relationship with the client.

Moreover, collection and analysis of the information enable to comply with the legislation of Ukraine and internal regulatory documents of the Bank.

The process of lending decision is organized by the Bank in compliance with the following principles:

- principle of "minimum standards": legal standards and internal standards of the Bank specifically established as mandatory shall be fulfilled without any exceptions (by approving the Bank authorities may deviate from the established minimum standards only in the exceptional cases that shall be properly documented, in any case, the mere reference to the competitors actions is not sufficient justification for the deviation from the minimum standards);
- principle of "interpretation of the standards depending on the case": collection of information and analysis shall always be careful enough to ensure a good basis for decision-making reasonably reflecting the risk and profit related to granting of the loan; if the loan is complex, it may be necessary to go beyond the minimum standards set forth above to obtain an adequate transparency.

Officers of the Business unit are responsible for obtaining the necessary information and carrying-out of a proper analysis based on this information (both in making a lending decision and in the monitoring process).

3.2.2.1. COLLECTION OF INFORMATION

First of all, information is collected about the client as to whom the Bank intends to accept the credit risk. Also information can be collected about the other parties which are the objects of lending decisions (this, in particular, can be a third party which is legally responsible).

The parties, as to which information shall be obtained and analyzed, include:

- borrower/group of related borrowers;
- owners of the borrower (provided that the borrower is a legal entity) - shareholders/members who actually manages the borrower's activity or if the

borrower's main activity is performed through its owners, or with their help, or if the owners have a significant impact on the borrower's activity;
- guarantors/sureties/mortgagors.

Where the loan transaction structure provides for a highly liquid security in the form of cash cover or bank guarantee, information collection can be performed in a limited format (if consistent with the current legislation and internal documents of the Bank).

The amount of necessary information and frequency with which it shall be renewed, depending on the nature of the transaction and creditworthiness of the client.

Business units receive and analyze information from various sources, namely:

- from documents received from the client (financial statements, certificates, reports of audit companies, etc.);
- from communications with the client (information obtained at the meetings, visits to the client, own observations of the officer of the Business unit);
- from interbank sources (from experts of the Bank: analysts, employees engaged in support and/or servicing of the client, employees responsible for the security issues of the Bank);
- from independent sources (media, market analysis reports, etc.).

The client is the main source of information during lending.

Financial statements are the primary documents to be received from the client. For existing borrowers such statements shall be submitted at least once a quarter (or on yearly basis as determined by accounting standards). The financial statements include: quarterly statements - balance sheet, income statement, annual statements - balance sheet, income statement (these two forms are mandatory) and the cash flow statement, statement of changes in equity and all appendices and notes (requested additionally, in case of making a decision on individually significant credit risk). In some cases, as defined by the current legislation, the borrowers shall also provide the auditors' report with comments[3]. The consolidated statement is required, if the Bank grants a loan to the company within a group of related companies, which under the legislation shall prepare a consolidated statement for the group, or if the borrower significantly depends on the activities of other companies of the group. This requirement can be waived in the event that the consolidated statement is obviously of no importance for assessing the creditworthiness of the client.

The borrowers belonging to the group of companies, which under the legislation is not obliged to prepare a consolidated statement, shall submit such statement, if the Bank deems it necessary.

Interim financial statements and forecasts may be required by the Bank for actual assessment of the financial position and for the analysis of a future-oriented business situation of the client.

Since the structure and amount of the existing debt is also critical for the lending decision, the Bank may require certificates of banking operations that show available loan facilities with banks and their use with maturities of these facilities and provided

[3]The need for such additional information is usually defined by the legislation or Risk management.

security. This requirement can be waived only if the amount of the existing bank debt is low enough to affect the lending decision of the Bank or if the Bank may reasonably rely on the information from the client not supported by the certificates.

All financial information (in hard copy or electronic form) provided to the Bank shall be certified according to the requirements of the current legislation, and if it is provided in the copies, such copies shall be authenticated according to the requirements of the current legislation (e.g. in case of the auditor’s report).

Proof of income and property: If a borrower, guarantor or major shareholder (whose financial information is to be disclosed) is an individual, the Bank may request for the analysis an income certificate of the borrower and/or other written proof of income and property of the individual. This requirement can not be fulfilled only for relevant Bank’s products for the mass segment of the clients. Provision of information on the financial position of individuals - major shareholders of the client is not mandatory if the borrower has a good creditworthiness and if the individual has no debts to the Bank on its own loans.

Visiting of the company: Analysis of the figures can not replace the first impression of a personal inspection of the company in accordance with existing internal bank regulations. Therefore besides documents visiting of the company to be financed is an important part of the process of obtaining information.

Internal sources: Information shall also be obtained from the internal sources of the Bank. They include such sources as account data, industry information and analytical reports, etc.

External sources: If necessary, the Business units supplement the information obtained from the client with the information from the external sources, such as industry publications, print media or news agencies, etc.

3.2.2.2. LOAN ANALYSIS

The loan analysis helps to assess the potential risks and profit qualitatively and quantitatively. A proper assessment of the potential risks is the basis for an adequate pricing. The loan analysis of the Bank is based on the following principles:

Focus on the future. The analysis shall be future oriented. If necessary, results of the analysis shall be supplemented by intermediate data to ensure relevance of the information.

Appropriate approaches to the risks. The greater risk, the more efforts shall be made on its analysis. Increased risk factors are low creditworthiness, complexity and amount of the loans granted, difficulties in the industry sector.

Increased risk is also usually associated with the clients who moved to the other bank. In such cases, the Business units shall identify the validity of motivation of such transition[4].

[4]Ref. to Clause 2.1.7 (Compliance with the fundamental rules of client financing)

Focus on the commercial potential. The analysis serves not only to assess the risk for the purpose of determining the price but also to advise the clients and identify the potential of using other bank products in the future.

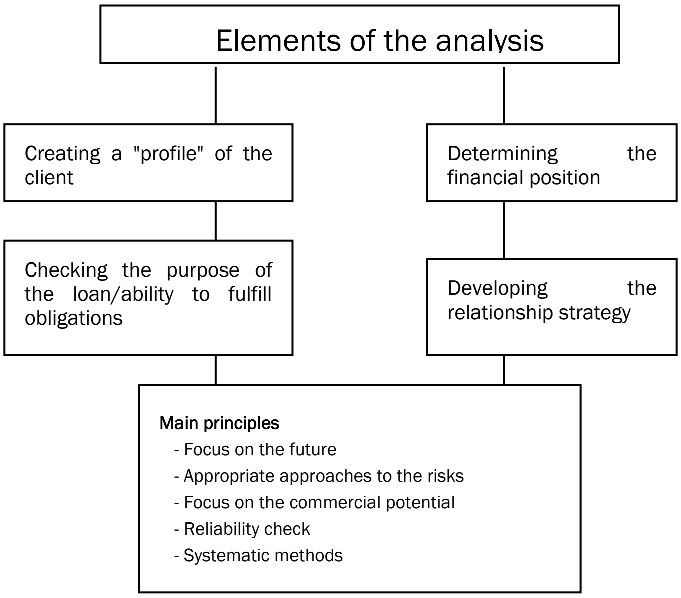
Reliability check: All information and data of the analysis shall be checked by the Business unit for reliability before making the lending decision. Information provided by the client is compared to the information from other sources. The quality of the information provided by the client shall be assessed based on the previous experience of work with the client. Interim financial information shall comply with the annual financial statements. The assumptions whereon the forecasts are based shall be checked and corrected in case of doubt.

The loan analysis consists of four elements:

- client profile;
- purpose of the loan and ability to fulfill obligations;
- financial position of the client;
- strategy of relationship with the client.

The analysis shall always be sufficient to provide a reliable basis to make the lending decision. While the analysis is not complete, the approving collective body of the Bank does not make any decision.

Main principles and elements of the analysis



3.2.2.3. GROUP OF CLIENTS

Clients who have close economic and legal ties and can be treated as one source of risk and considered as one group of clients.

The group of clients consists of the client himself and the following entities:

- client-related persons as defined in accordance with the current legislation of Ukraine;

- other persons (individuals or legal entities) — persons who have close economic ties with the client and have a potential influence on the financial and economic operations of the client-borrower.

The group of clients is a significant risk unit for the interbank assessment of loans and procedure for their approval. In order to regulate and/or limit the risks of the Bank a group approach to the analysis of the potential borrower's business is applied.

Borrowers under control or significant influence of one person can not be treated as a group of related persons for the purposes of the loan analysis provided they operate in different sectors of the economy and change of the financial condition of one of them does not affect the economic activity of the other.

3.2.2.3.1 CLIENT PROFILE

The main prerequisites for every lending decision are a comprehensive information about the client, his activities and the industry conditions.

In particular the Business units shall understand the following information about the client:

a) individual:

- social stability;
- financial position;
- credit history;

b) legal entity or individual entrepreneur:

- key products and services of the client and substitute products;
- main counterparties - suppliers and buyers and competitors on the market;
- economic sector of the client and industry trends, key success factors, particular risks;
- level of business reputation of the client;
- organization structure of the client.

If the client is a part of a group of affiliated companies, the client profile includes understanding of the structure of the group and current financial liabilities within the group, and commercial cooperation and relationship between the individual companies. This is particularly important in cases where the loan is granted to holding companies. In such cases, it is important to enable imposing requirements to the subsidiaries, if necessary.

Profile of the target potential borrower shall meet the following minimum requirements:

<u>Debtor — legal entity or individual entrepreneur</u>:

- registered and/or conducts activity for more than 1 year, except loan operations fully covered by cash and loan to SPV in perimeter of group;
- submitted all the necessary documents for identification by the Bank in accordance with the current legislation;

- has an excellent reputation, as evidenced by highly-qualified management, observance of the business ethics, contractual and payment discipline;
- products (services) produced by the client have a competitive position on the domestic/foreign markets;
- has a current account with the Bank;
- uses the banking product line;
- has a transparent ownership structure;
- no action of solvency is brought against the client or the client did not declare a bankruptcy or liquidation, liquidation proceeding is not initiated;
- is located at the specified place of business address;
- has personnel necessary to carry out operating activities;
- has own/leased fixed assets or other property necessary for the activity;
- submitted up-to-date financial statements to the Bank;
- class of the financial position meets lending requirements of NBU;
- there is no negative credit history of the borrower.

Debtor — individual:

- submitted all the necessary documents for identification by the Bank in accordance with the current legislation;
- has a regular income sufficient to service the debt;
- meets the age limits set by the Bank;
- there is no negative credit history;
- there is no adverse information.

3.2.2.3.2 PURPOSE OF THE LOAN AND THE CLIENT'S ABILITY TO FULFILL OBLIGATIONS

Each lending decision shall be based on the analysis of the purpose to obtain the loan[5] and the client's ability to service the debt from future cash flows. Understanding of the purpose of the loan simplifies the process of advising the client as to the proper financing.

The main purpose to grant the loan is the economic feasibility of the measures to be financed. The Business unit shall check whether a potential loan complies with the current and estimated volumes of the client business.

The Business unit shall take into account the rules of the analysis based on the creditworthiness of the borrower and the product type:

- working capital financing: for the borrowers with a satisfactory financial position, namely: whose financial class is determined according to NBU Resolution No. 351 dated 30.06.2016, is at least equal to 5, a standard analysis is performed; to make a decide as to the borrowers with the lower financial class, and in the event of a credit risk significant in the amount, the Risk management may additionally require the Business unit to plan the cash flows of the borrower for a lending period;
- financing of investments: the debt servicing is calculated with a focus on the future, projected financial statements and cash flow analysis, profitability analysis

[5]Ref. to Clause 2.1.7 (Compliance with the fundamental rules of client financing)

(such as calculation of the planned break-even point, sensitivity analysis and stress tests with downside scenarios, application of covenants and triggers;

- financing of foreign trade: standard analysis of creditworthiness of the borrower is conducted and base operation analysis being fundamental for financing. Hedging policy and open position, foreign exchange position analysis of the client need to be part of the analysis content for such clients.

3.2.2.3.3 FINANCIAL POSITION OF THE BORROWER

Creditworthiness of the borrower is assessed on a regular basis. Financial position of each borrower is assessed using the internal system. Assessment of the financial position of the client determines the standard cost of risks and is a significant parameter for the loan portfolio management.

Assessment of the financial position is conducted (reviewed) in cases and with regularity specified by the relevant interbank regulatory documents.

Assessment of the financial position of the borrower is based on two main modules:

1. Quantitative analysis: shows client creditworthiness according to the financial information for prior periods;
2. Qualitative analysis: include non-financial information as to the current and future development of the client.

Combination of these two modules determines the assessment of the financial position of the client.

For assessment of the borrower’s creditworthiness, the Bank uses credit risk rating system developed on the basis of NBU regulatory documents for evaluation of the financial performance of borrowers.

Availability of the Bank`s products to the particular client depends on the client`s rating; respective requirements are described in the product documentation.

Assessment process regarding creditworthiness of all types of borrowers and the current credit risk rating system is described in special internal regulatory documents.

As an important supplement to the internal assessments of creditworthiness, the Bank can apply external ratings (such as ratings of Standard&Poor's, Moody's, etc.).

In addition to the assessment of creditworthiness of the financial position of the borrower, each lending decisions also requires analysis of the client’s ability to service the loan without violations. Generally loan transactions are structured so as to allow repayment out of the operating cash flows. Herewith the client’s ability to service the debt based on the financial statements and ratio analysis is assessed. If necessary, possibilities of debt repayment out of the client’s assets are checked. If financing concerns foreign exchange transactions an additional analysis shall be conducted including analysis of risks related to the exchange rates.

Because of some specifics for certain types of transactions (such as trade, project financing, financing of real estate transactions, etc.) the transaction itself can be assessed in addition to the client assessment. These specific cases shall be described in the relevant internal regulatory documents, which introduced such specific assessment system.

3.2.2.3.4 CLIENT RELATIONSHIP STRATEGY

Based on full understanding of the client the Business unit develops a strategy of relationship with him. The strategy shall proceed from the most efficient commercial potential and the balance of risks and profits of a particular client. Decisions on granting loans are made considering a clear and developed strategy of relationship of the Bank with the client.

The strategy of relationship with the client shall be based on the analysis of the following aspects:

- achieving an equal status (“pari passu”) relative to other creditors;
- offering the client the most complete list of services available in the Bank;
- focus on the level of expected revenue from relationship with the client.

The Bank sets a high value on ensuring of at least equal conditions with other creditors as to the loan security, financing schedule and other essential conditions for the risk level. Generally, the client relationship strategy shall also include measures to permanently stabilize or reduce the risk to the Bank.

The client relationship strategy includes measures required to achieve the expected revenue, including an understanding of the financial needs of the client, and the maximum range of services and products which the Bank has to offer him.

3.2.2.3.5 EXPECTED PROFITABILITY

Expected profitability in terms of a particular transaction and/or in terms of a particular client is an important aspect in accepting the credit risk.

In determining the expected profitability information about the future (or actual) efficiency is taken into account less:

- cost of resources for the transaction (including provisioning for it);
- administrative expenses (may not be included in the calculation in the absence of a reasonable methodology for determining the expenses for each particular transaction).

Profitability at the level of individual client (in terms of amount of operational profit) is assessed during preparation of credit application.

Business units are responsible for attaining minimal required (budgeted) level of profitability.

3.2.2.4. LOAN OFFER AND REQUIREMENTS TO THE INTERNAL DOCUMENTATION (APPLIED TO MAKING DECISIONS FOR LENDING OF LEGAL ENTITIES AND INDIVIDUALS, EXCEPT FOR THE MASS SEGMENT OF THE CLIENTS AND/OR MASS PRODUCTS).

3.2.2.4.1 LOAN OFFER

The loan offer documents all information that is material to the lending decision.

The loan offer shall be prepared by the Business units according to the standard form, developed by the Risk management and approved by the relevant regulatory document of the Bank. An officer of the Business unit is personally responsible for the content and quality of the prepared loan offer (and in particular information used to prepare such offer).

The loan offer shall contain the following information:

- purpose of loan funds, source of repayment;
- description of the client (ownership structure, information on the activities, products, management, the sufficiency of competence and resources to implement a business model, market situation - for legal entities, information on the type of activity and social status — for individuals);
- Credit history of the Borrower and related parties
- financial information (data of the financial statements — for legal entities, proof of income — for individuals, comment and explanations thereto, assessment of the financial position, current solvency of the Borrower and related parties, information on the debt service quality, account data analysis, information about indebtedness of the client under the loans from other creditors, etc.);
- information about the owners and their business reputation — for legal entities (if the owners of the client plays a key role in its activities or is a borrower of the Bank);
- forecast data (cash flow forecasts, including stress test scenarios, profits and losses, loan repayment plan) if financing requires a deep analysis focused on the future.
- Information about acceptability and sufficiency of proposed collateral, enforceability of collateral and its monitoring
- Coventants of loan agreement, which limits credit risk, compliance with existing conditions of agreement (if applicable)

Although briefness is the main requirement for such applications but the offer shall contain sufficient data to make decisions and all information that may influence the decision.

Prepared loan offer before submitting to the Credit Committee of the Bank is supplemented by opinions (comments, recommendations) of the Bank structural subdivisions responsible for legal and security issues, as well as opinion of the Risk management, which shall include comments on the specific risks related to a potential lending, the list of negative and positive aspects of the transaction proposed to approval, and recommendations. Opinions of the Bank structural subdivisions may be summarized as relevant sections of the loan application or separate documents (depending on the form approved by the interbank regulatory documents); in any case, such opinions shall include the date of preparation, name and position of the responsible officers of all involved subdivisions and their managers.

The loan offer after approval or rejection shall be deemed a processed loan offer and serves for internal documenting for making a lending decision.

3.2.2.4.2 REQUIREMENTS TO THE INTERNAL LOAN DOCUMENTS ON LOAN TRANSACTIONS

Internal loan documents are the basis for the effective risk management and income from the loans granted.

The major internal loan documents (without limitation) are:

- loan offer;
- constituent and registration documents (for legal entities);
- copies of the relevant pages of the passport and tax payer identification number (for individuals) or series and number of passport for individuals who refused to accept the tax payer identification number and notified an appropriate state tax service thereon and have a mark in the passport;
- information about the legal structure of the debtor/group (if applicable) indicating the ownership shares (companies are indicated that are not related legally but are included in the group related to the business model and/or controlled by the ultimate beneficiary; the role of each group member, the commodity cash flow scheme is specified; the real owner(s), the role of the debtor in the group and in the commodity cash flow scheme is specified);
- information about the debtor management (for legal entities);
- written request (application) of the debtor for the loan;
- business plan, feasibility study of the loan needs for the relevant purposes, impact factor of seasonality or cyclicity (for legal entities);
- information provided by the debtor and documented by other banks of: the debtor debt specifying the principal conditions of lending (the amount of the contract, term, remaining debt, type of security, etc.); overdue debt;
- information on the state of fulfillment of obligations by the debtor to the bank under previous agreements, credit history (if any);
- auditors' report on the financial position of the debtor (if any);
- Opinion of the authorized officers of the bank as to assessment of creditworthiness of the debtor;
- decision of the collective body/certain person of the bank as to possibility to grant the loan; decision of the collective body to authorize the certain person of the bank to decide on the possibility of lending, amend the existing terms of the loan;
- loan agreement and additional agreements thereto;
- documents confirming the authority of the person to sign the loan agreement and additional agreements thereto on behalf of the debtor/counterparty of the bank;
- pledge (mortgage) agreement and additional contracts to thereto, letters of guarantee;
- documents confirming the authority of the person to sign pledge (mortgage) agreement and additional contracts to thereto on behalf of the debtor/counterparty of the bank;
- legal documents of the mortgagor/guarantor;

- copies of the title documents to the property (property rights) to be provided as a security;
- documents confirming the market value of the security;
- documents proving the existence and quality of the secured property (acts, certificates, materials of inspection);
- documents proving encumbrance of the property and its state registration according to the requirements of legislation of Ukraine;
- insurance agreements of the secured property and documents confirming the insurance payment (if any);
- information about check of directing the loan funds;
- purchase and sale contracts and/or agreements (if any);
- financial statements and interpretation of data of form No. 2 (2-m, 2-mc) "Income Statement" (column 2000) of annual financial statements of the debtor for the last financial year as to the income structure (for legal entities) in accordance with the Accounting Regulations (Standards) 1 or 25; income information (for individuals, which class is determined based on the assessment of the financial position) of the debtor; financial and budgetary reporting (for budgetary institution);
- information about the cash flow on the current accounts in the bank and other banks for at least last six full months (available on request)
- supporting documents (balance and off-balance account statements, payment orders, etc.) providing evidence of granting and repayment of the loan, existing financial obligations, recognition of the secured property, etc. (available on request)
- information on determining and adjusting the debtor's class;
- information about measures taken by the bank to repay the debt (documents certifying the process of repayment or recovery of the debt), conducting claim-related work;
- general information on the loan from the date of its granting in accordance with the table in Annex 2 to the Regulation on specifying by the banks in Ukraine of the credit risk exposure under active banking transactions (Clause 8 of Section I).

Minimum list of documents under the loan transactions shall comply with the current legislation and internal bank regulations on loans granting and formation of loan files.

All information on the risks and income and all main stages of the lending process shall be documented, as defined in this Loan policy and other internal regulatory documents.

Internal loan documents shall be complete, up-to-date, user-friendly and shall ensure compliance with the internal regulations. Access to the information is available to the authorized employees for the purpose of making a decision if legal provisions allowing distribution of such information. Access to the internal documents depends on the tasks of the employee, his responsibility and particular confidentiality rules.

Internal loan documents are characterized by briefness and relevance. The Business units are responsible for the quality of the internal documents.

Given the importance of quality of the internal loan documents for effective management and enforcement of legislation, entities of the lending process responsible for execution and content of such documents shall regularly check and replenish it with due diligence.

Documents generated in the bank in accordance with this Regulation shall be kept according to the requirements of Resolution No. 601 dated 08.12.2004 “List of Documents Prepared at the National Bank of Ukraine and Banks of Ukraine Indicating the Retention Period”. Ukrainian and Russian are used in the internal loan documents.

3.2.2.5. LENDING DECISION

The work on loan granting begins by the initiating officer of the Business unit (officer responsible for sale of the product) when he starts negotiations with the client as to granting the loan (if necessary with the involvement of the Risk management). Such decision on cooperation with Customer is made based on the collected information and loan analysis.

The initiating officer of the Business unit discusses with the client structure, parameters and terms of the loan transaction and transfer the transaction for further analysis, processing and preparation of the loan offer to the officer of the Business unit responsible for analyzing and supporting this transaction. The loan offer and/or other documents received from the client is transferred to the departments of the Bank responsible for legal and security issues (together with the documents necessary for the analysis) as well as to the Risk management. These departments study the offer (and/or documents) and ask clarification questions and draw their own conclusions, whereafter the loan offer is submitted by the officer of the Business unit to the officials or collective bodies of the Bank authorized to make lending decisions.

3.2.3 FEATURES OF MAKING DECISION ON MASS LOAN PRODUCTS AND/OR FOR THE CLIENT OF THE MASS RETAIL SEGMENT

As for the mass products, such as credit card, consumer loans, etc. loan analysis, lending decision, determining the loan limit amount and its regular review is automated according to the appropriate procedures and regulations duly approved by the Bank. Assessment of creditworthiness of the client is determined herewith using statistical methods and scoring models based on the analysis of information from the loan offices, analysis of turnovers on the borrower's accounts with the Bank and other information provided by the client and/or available at the Bank.

In order to achieve efficient and fast lending decision-making process the Bank uses the best IT solutions, centralized and maneuvering decision-making process depending on the credit risk level, statistical and mathematical models, fraud management methods.

For the portfolio management the Bank monitors product efficiency and scoring models and decision-making strategies on a regular basis.

Responsibility for development and implementing and updating the decision-making methods and tools and for monitoring of the regulations is vest in the Risk management unit. It is also responsible for regular reporting on development and quality of retail credit portfolio.

Business unit is responsible for gathering of information related to the client. It plays leading role in proposing of new products and services to the clients that further shall be approved by respective involved units of the Bank including Risk Management, Legal and Compliance units.

IT unit is responsible for warehousing and availability of all clients` data that is further used by Risk Management for modeling and development of assessment/monitoring instruments.

3.2.4 FEATURES OF MAKING DECISION ON LENDING OF THE BANK RELATED PERSONS

Lending of persons related to the Bank is performed subject to the Charter of the Bank, regulatory legal acts of the National Bank of Ukraine and the individual decisions of the National Bank of Ukraine, if any.

Information on the loans granted to the persons related to the bank is provided to the National Bank of Ukraine according to the requirements of the regulatory legal acts.

The Bank does not provide loans to persons who were ultimate beneficiaries and management of the Bank as well as to their associated persons, other persons recognized as related to the Bank immediately prior to the date of acquisition by the State of the property rights to the Bank's shares constituting 100 % of its authorized capital in accordance with the Resolution of the Cabinet of Ministers of Ukraine No. 961, including companies, related to the aforementioned persons and their associated persons.

Exceptions are the Bank’s employees who are currently in an employment relationship with the Bank and their associated persons, whose lending is made in accordance with paragraphs 1, 2 and 3 of this section.

The Bank does not provide loans to any person for repayment by this person of any obligations to a bank related person; for acquisition of assets by the bank from related person, except for the products produced by this person; for acquisition of securities placed or signed by the bank related person.

The Bank does not perform indirect loan transactions with the bank related persons, including it does not place funds in another bank for lending by this bank to the bank related persons.

Decision on granting a loan, credit, guarantee or surety by the Bank to the bank related persons (except for banks) in the amount exceeding the least of:

- UAH 10 million;
- 1 per cent of the regulatory capital of the Bank,

is made by the Board of the Bank by ballot voting by a majority of 2/3 of the votes in the presence of at least half of the members of this body without participation of the interested person.

Decision on granting a loan, credit, guarantee or surety by the Bank to the bank related persons (except for banks) in the amount exceeding the least of 1 per cent of the regulatory capital of the Bank is made by the Supervisory Board of the Bank by ballot voting by a majority of 2/3 of the votes in the presence of at least half of the members of this body without participation of the interested person.

Agreements with the bank related persons, as well as agreements with other clients of the Bank, cannot provide for the conditions that are not current market conditions, which must be confirmed by the conclusion of the Compliance unit.

3.2.5 IMPLEMENTATION OF THE LENDING DECISIONS

The Business unit coordinates implementation of the lending decisions properly and without delay. The lending decisions are implemented by signing a package of agreements executing the active transactions.

The package of agreements determines the legal relations between the Bank and the client. Therefore the terms contained in the approved credit decision shall be carefully and fully included in the package of agreements to ensure that they are legally valid. The terms that are not documented in the package of agreements can not be binding on the client.

The package of documents includes the loan agreement, security agreements and other documents depending on the conditions of a particular transaction. All documents are prepared in Ukrainian (if the documents are prepared with a person not speaking Ukrainian — the documents are drawn up in two languages: along with Ukrainian — in a language of other parties to the agreement, herewith the other languages of the parties to the agreement may be any of the following languages at the client's discretion: English, Russian.

Standard templates of contractual documents (if otherwise is stated in respective credit decision) shall be used for preparation of a package of documents for a particular loan transaction.

Responsibility for the contents and legal validity of the contractual documents is vest in the department of the Bank responsible for legal issues. Any deviations from the approved standard documents shall be agreed with this department.

Back office of the Bank monitors that all terms of the approved loan are properly shown in the contractual documents and Bank’s information systems.

3.2.5.1. MINIMUM STANDARDS OF THE LOAN AGREEMENT

The loan agreement shall contain all information necessary to determine the credit relations.

It includes (but not limited to the following Clauses):

- the subject of the agreement, which specifies the main features of the loan including: the loan amount, the loan period, the interest rate, the amount of commission;
- purpose of the loan;
- terms and conditions of the loan;
- procedure for the loan granting;
- terms and conditions of repayment (or extension) of the loan;

- terms and procedure for loan interest payment;
- terms and procedure for payment of commission, penalties and other payments;
- representations, warranties, conditions and additional mutual obligations of the parties;
- list of information required of the client in accordance with the legal and regulatory requirements;
- reference to the list of security, if any;
- list of events in case of which occurrence the Bank may decide to terminate lending, early repayment of the loan, exercise the security and other penalties;
- jurisdiction and dispute settlement procedure;
- details of the parties.

Funds shall not be granted until all prior conditions specified in the credit decision are fulfilled.

3.2.5.2. IMPORTANCE OF SECURITY FOR THE BANK

Bank lending decision is based on the assumption that the client has to meet his obligations on time, in full and out of his cash flows, Bank has evidences of cash coverage. Therefore, the Bank rejects the loan applications that include the possibility of repayment of the loan by selling the security; availability of the security does not waive responsibility from the Business unit for understanding the client's business and transactions to be financed.

Management, storage and sale of the security entails expenses, uncertainty about the potential value of the security during its sale, legal risks and potential threat to the reputation of the Bank. The security may not be subject to sale and may also include additional risks to the Bank, especially if it was provided during the difficult financial position of the client.

The main purpose of the security is to reduce potential losses related to the loans in case of failure to fulfill by the client of his obligations. Therefore the security is an essential element of the loan agreement, especially for the long-term loan agreements.

The security is important not only because of its direct material value. It can encourage the client to clearly fulfill his contractual obligations, serve to strengthen the Bank's positions relative to other creditors and persons realizing the assets of the bankrupt, or to prevent transfer of the security to other creditors. Mainly when lending of legal entities guarantees shall be obtained from the owner of the principal share in the authorized capital. Such cases are determined depending on how the borrower's business depends on the activity/conduct of the founder.

Agreed security shall be balanced in terms of its value and value of its management compared to the potential profits that the Bank may receive from this client.

The Credit Committee approves the security structure, coverage ratios and other parameters of the security contained in the loan application.

3.2.5.3. CHECK OF THE SECURITY

All kinds of security shall be regularly checked. Frequency of checks and responsible employees shall be determined by the interbank documents in compliance with the requirements of NBU.

In certain situations, if for some reason the check using its own resources or by the borrower's efforts does not satisfy the Bank, the latter may require check of the security by any third party such as an auditor, appraisal or any other company. Eligibility of such company and reporting form shall be agreed with the Risk management of the Bank.

Check results shall be documented to ensure compliance with the NBU requirements and the internal procedures of the Bank.

3.2.5.4. TYPES AND ASSESSMENT OF THE SECURITY. MINIMAL COVERAGE RATIOS

In order to minimize credit risks, the Bank uses the following types of collateral depending on its solidity:

- Type 1- unconditional collateral: the cash-deposit placed in the Bank (also in the form of assignment of property rights on deposit), guarantees of the Government, guarantees of the companies and financial institutions with rating not lower than the investment grade and meet the requirements of the NBU. The market value appraisal of such collateral is not required (if otherwise is stated in internal Bank regulations).
- Type 2 - mortgage of non-residential and residential premises, land plots, pledge of vehicles, machinery, equipment.
- Type 3 - other collateral: goods in turnover, property rights, shureties or guarantees of individuals or legal entities, other types of security that are not categorized as unconditional and / or solid.

The Bank usually assesses the security at the market value. However, it should be considered that the market value is usually higher than the amount that can be obtained in case of forced sale of the security (residual value). It is therefore necessary that the market value the limit on the loan transaction. The ratio of the market value to the limit amount on the loan transaction is known as the coverage ratio.

When structuring the loan transactions the following conditions shall be considered:

- The loan may be provided either on unsecured or secured basis. The Bank provides secured credit products with coverage ratio in accordance with approved passports of products.
- In exceptional cases lower coverage ratios (up to 15% below those prescribed by the passport) can be applied to borrowers with excellent financial condition (NBU class for legal entities - 1-3, for individuals - 1-2) and in respect to the high-liquid security.
- Agreements with collateral of Type 3 of security shall be of short-term only.
- Lower coverage ratios are applied to the security, receipts from the sales of which, most likely, are stable and high, for example — cash cover

- higher coverage ratios are applied to the security, receipts from the sales of which are low relative to the market value and volatile, such as assignment of receivables;
- Security that usually has no material value or has a little value for the Bank and serves as a means of providing additional comfort, such as guarantee of owners shall be supported by other types of security; the same applies to the security in respect of which no regular administration and monitoring is conducted because of a low benefit as compared to the expenses.

Assessment of the security is also used for calculation of the net credit risk (i.e. difference between the total amount of the outstanding loan and the weighted value of the security) and forecasting of the future amount of provision for each loan transaction.

All kinds of collateral shall be regularly revaluated. Frequency of revaluations and responsible employees shall be determined by separate internal Bank’s documents in compliance with the requirements of NBU.

3.2.5.5. SECURITY AGREEMENTS

Security specified in the credit decision shall be provided according to separate agreements based on the relevant standard templates of the Bank agreements (if otherwise is stated in credit decision).

The Risk management considers the security economically, and the officers of the legal department are responsible for ensuring that the security is provided in compliance with the requirements of legislation of Ukraine, has the highest priority of encumbrances in favor of the Bank in the relevant register for a period of not less than the term of the loan agreement and has no restrictions on levying of execution by the Bank and its subsequent sale in case of breach of obligations by the borrower under the loan agreement.

3.2.5.6. ENCUMBRANCE RELIEF AND SALE OF THE SECURITY

Any relief of encumbrance from the security before repayment of the loan shall be preliminary approved by the credit committee, except where such relief of encumbrance does not violate the security parameters specified in the approved credit decision.

Forced sale of the security shall be permitted under the law only in case of the relevant loan maturity, or if it was terminated due to non-fulfillment of loan covenants and the client received a reasonable notice as to sale of the security.

3.2.6 MONITORING

Continuous monitoring of the loans granted to ensure timely detection of changes in the creditworthiness and increase in the risk level shall be conducted in the context of analysis of the financial position of the client, compliance with the loan agreements and other contracts. Careful monitoring of what is going on according to the internal documents of the Bank which govern it, promote early detection of non-performing loans for which appropriate measures shall be immediately developed and taken.

The main purpose of monitoring is to ensure continuous and proper control of borrowers and the main parameters of agreements concluded with them. Such control is usually primarily means control over the financial position of the client and over compliance with the conditions specified in the loan documents.

3.2.6.1. MONITORING DIRECTIONS

There are such monitoring directions:

- Monitoring of the financial position of the client — analysis of the key indicators of the balance sheet and income statement, which in particular includes the outstanding debt analysis and debtors, ratio analysis (correlation of different positions), trend determination, measurement of the financial position;
- monitoring of turnover of accounts — analysis of cash assets turnover held on the accounts in the Bank as compared to previous periods and forecasts of the client as well as income and expense structure analysis and information on the counterparties (suppliers and buyers) of the borrower;
- monitoring of the security — analysis of the collateral provided to the Bank to meet borrower's obligations to the Bank (includes periodic checks of condition and value of the security);
- monitoring of the business and reputation of the client — collection of information about the client’s management, its business reputation, about the market situation, etc;
- monitoring of limits — control of the statutory standards of credit risk and internal limits approved by the Bank;
- monitoring of time schedule — control of interest and commission payment dates, debt repayment, review of limits.

3.2.6.2. MONITORING METHODS

- check of documents (financial statements, etc.) periodically provided by the client;
- collection and analysis of information obtained from other sources, such as print media, internal bank information, information from third parties — business partners, competitors, etc.
- periodic meetings with management and/or client representatives;
- regular visits to the premises of the client and/or guarantor (surety) to check the assets they own (including assets pledged).

3.2.6.3. PARTICIPATION OF THE PARTIES INVOLVED IN THE MONITORING

The monitoring system has two levels: level of direct contact with the client and level of interbank independent control, performed respectively by: officers of the Business units and officers of the Risk management. The main principle of this scheme is that only officers of the Business units have to communicate directly with the client. Officers of the Risk management shall contact the client only in exceptional cases.

Responsibility of the parties involved can be defined as follows:

The Business unit is responsible for:

- control of the project implementation (a project financed by the Bank) as compared with the client’s plans (as to which the decision on financing by the Bank was make);
- relationship with the clients on various issues (including issues of timely submission of information required for analysis);
- regular collection and systematization of information from the media about the client’s activities as a whole;
- monitoring of business reputation of the client;
- timely preparation of the loan reviews (ref. to Clause 3.2.4.4.2 of the Loan policy).

The Risk management is responsible for:

- accuracy of the analysis of the financial position of the borrowers;
- detection of possible risks related to the client's business and, in particular, loan transaction financed by the Bank;
- organization of monitoring system, including monitoring of turnover on accounts of the borrower;
- preparation of opinions for further cooperation with the client and, if necessary, measures to protect the position of the Bank and to ensure timely repayment of the loan;
- development of recommendations and possible measures to be applied in work with the client;
- check of the security (economically) proposed to the Bank as a collateral;
- determination of provisions for possible losses on each loan according to the current legislation;
- preparation of the loan portfolio reports (and other reports — if necessary).

3.2.6.4. TYPES OF MONITORING

For the loans granted the officers of the Business units conduct monitoring of two types:

- current monitoring;
- preparation of loan reviews.

Apart from regular monitoring conducted in accordance of rules hereof, an Internal audit shall be used as a good source to give an independent view and a different perspective on the issues. It plays supportive role in the monitoring process with their suggestions for improvements and controls in the form of official or ad hoc audits to assess the overall reliability of the process and lending system, responsibilities and accountability of related parties involved, alignment of the lending process and loan portfolio with the regulations and banking law as well as lessons learned from their earlier cases, experiences.

3.2.6.4.1 CURRENT MONITORING

The Risk management is responsible for the early detection of changes in the creditworthiness of the client (by monitoring of the loans granted) and initiates appropriate actions in the event of changes in the risk level. The Risk management can also detect changes that concern the borrower's business (e.g. negative trends in the industry), which may cause a change in the financial position and, therefore, provide recommendations to the Business unit on the appropriate actions (to preparation of the loan review to the credit committee). Current monitoring primarily represents the analysis of financial statements of the client, check of compliance of actual financial indicators with the forecast data (if the lending decision was based on the analysis of a future-oriented business situation of the client) and analysis of the turnovers of accounts.

The Bank conducts regular and continuous monitoring of credit operations of clients. In order to comply with the principle of materiality, the process of credit monitoring is conducted on an individual level for clients with more than UAH 2,000,000. credit limit for the group and on portfolio level for all other clients.

The Client's status - determines the level of risk of credit operations with the client in accordance with the approved methodology of credit monitoring in the Bank. According to the results of the monitoring of credit operations, the Client's status can be defined as:

- Performing (Standard),
- Potentially non-performing (Watch List);
- Non-performing (Problem).

For clients that are individually assessed, an internal environment analysis and a relationship with counterparties are conducted. As part of this process, Bank performs:

• monitoring of compliance with debt repayment dates, account turnover dynamics, arrests on accounts, compliance with the covenants, established by loan agreements and requirements of the Bank's products, information on possible bankruptcy, termination or death of the borrower, negative information on the borrower's economic and financial condition;

• Dynamic analysis of risk indicators according to financial reports data. Regular analysis of these indicators and the reasons for their changes are conducted quarterly. According to the results of the analysis, the "high" or "moderate" level of risk is defined;

• analysis of the condition and value of security.

Under credit monitoring at portfolio level:

• analysis of the results of applied scoring models and stop factors used for further management of credit limits, which include analysis of internal and external factors.

• level of collateral coverage.

• analysis of compliance with internal risk limits (including by industry).

Depending on the revealed indicators of high credit risk and the reasons for their occurrence, plans of measures to minimize the level of credit risk with clear terms of execution, are established and maintained. In case of absence of results from the implementation of these actions and further deterioration of the situation - the client is transferred to the work out unit in accordance with the approved procedures in the Bank.

3.2.6.4.2 LOAN REVIEWS

The loan review is a document prepared by the Business unit on a particular borrower to monitor the financial position, business environment of the borrower, and fulfillment of the requirements set by the loan documents.

The loan review is prepared on transactions for which the following conditions are met:

- borrower is a legal entity;
- term of the loan transaction is more than 12 months;
- at least 12 months from the date of consideration of the loan offer on this transaction by the Credit Committee passed as of the date of the review;
- the loan transaction structure provides for limit decrease schedule with provision of "repayment holiday" or whereby repayment is made at the end in a lump sum; or in case of adverse information (warning signs) as to the borrower's business.

The loan review is prepared as a loan offer and/or in other, more condensed form. In addition to the standard information that is normally specified in the loan application shall also include information on the current loans as follows:

- approved conditions;
- fulfillment of preliminary conditions for granting a loan;
- compliance with the obligations of the client under the loan documents;
- information about the security (results of checks, revaluations).

The loan review, if necessary, shall include comments on the reasons for non-compliance with conditions or failure to fulfill obligations, recommendations and a list of possible measures to eliminate the cases of non-compliance.

An unscheduled loan review is necessary for the clients of the Bank, who have critical values of the indicators of increased credit risk in accordance with results of monitoring of transactions and activities.

3.3 APPROVAL OF LENDING DECISIONS AND AUTHORITY LEVELS

The lending decision is made by submitting the loan offer (first stage) and approval of the decision (second stage).

Rules of approval of the lending decisions are based on the following principles:

- principle of "dual control": each transaction shall be verified by two persons, usually by an officer of the Business unit and officer of the Risk management;
- principle of "responsibility" for risk and profit: every person involved in making the lending decision is responsible for both aspects — for the risk level and profit level on the loan transactions, even if the decision was made by the supreme authority.

3.3.1 EVENTS TO BE APPROVED

Approval (credit decision granting) is required for each new loan transaction and/or review of the material terms of the existing loan transaction as well as of changes that may influence the risk of the Bank:

- New or additional loan transaction: The result of assessment of the financial position of the borrower, the amount (limit) of the transaction, loan conditions (such as loan transaction parameters — terms, interest and commission rates, repayment schedule, specific preliminary conditions, the security structure, requirements for information) and other limits are subject to approval. New tranches within the approved limits are not subject to a separate approval, unless otherwise specified when making the decision to set the limit.
- Changes to the approved credit decision: All changes (deviations) to the approved credit decision that increase the risk or reduce the profit of the Bank shall be additionally approved by the relevant approval authority. If there are disagreements whether changes or deviations from the approved credit decision increase the Bank risk (and thus reduce the potential profits), the final decision on the need to obtain additional approval shall be made by the Risk management.
- Review: All loan transactions are approved for a definite, limited time and shall be reviewed on a regular basis.
- Change of the financial position of the client: If monitoring results show changes in the financial position of the client, such changes are subject to approval.

3.4 MANAGEMENT OF LOANS WITH SIGNS OF A POTENTIAL PROBLEM

With monitoring the loans it is essential to recognize adverse trends in the dynamics of the borrower's creditworthiness at an early stage. Recognizing of such adverse trends after receipt of officially published negative performance results of the clients is usually late. Considering such potential risks prompt obtaining and careful analysis of the information is of particular importance.

The following criteria are used for early recognition of signs of potential problems:

Excessive sales growth

Excessive growth of turnover of the borrowing company relative to its financial capacity (i.e. when a significant expansion of the company's operations is not supported by increase in its own working capital). This situation results in the need for more and more borrowing, leading to increasingly higher interest expenses. If the equity can not be additionally involved and the activity increases uncontrolled, there is a situation where further borrowings are impossible, and liquidity is reduced. Requirements of the creditors together with increase in the interest expenses led to a situation where the company's obligations can not be met on time. Therefore, creditors often face a situation where they shall make a choice between providing additional financing to the company or observing collapse of the company and loss of previously granted funds. In cases where such situation is observed or forecasted, strict control is necessary.

The bank shall check the financial statements and accounts of the client for all or some of the following parameters (if due explanations are not provided, more detailed analysis is necessary):

- quick growth of turnover;
- a significant increase in the accounts payable or reduction of the accounts payable combined with a significant increase in the bank borrowings, reduction of the accounts payable turnover;
- disproportionate increase or reduction of the accounts receivable with increase in the accounts payable (indicator of a strong pressure on liquidity);
- increase in the overhead costs;
- reduction of the cash resources, negative working capital;
- excessively large stocks;
- bills in the balance issued to a significant amount;
- reduction of the current liquidity ratio, reduction of profitability, reduction of the liquid assets amount;
- necessity to raise additional capital to maintain the development rate;
- a sharp change in the depreciation rates;
- revaluation of assets;
- leverage deterioration (high indebtedness relative to the equity);
- client's operations are unprofitable.

Accounting problems

The client is unable to properly monitor and assess the results of his operations and financial position without accurate and timely financial information. Perhaps these problems mean shortcomings in the accounting and control system and procedures or attempts to conceal adverse information from the creditors.

The warning signs are:

- adverse auditor's report;
- delay in provision of the financial information to the Bank;
- changes in accounting procedures (inventory revaluation, depreciation rates, etc.).

Financial problems

Other signs of deterioration of the client's activity may be obtained using the financial parameters.

The warning signs can be:

- payment of dividends by the company bearing losses;
- early repayment of loans received from the founders;
- breach of the security interest agreements;
- diversification or expansion of the existing operations without own or raised necessary capital resources to finance the working capital and other expenses (often considerable);
- attempts of other banks to cancel or limit lending the company or receive additional security.

Management problems

Poor management of the company, lack of critical assessment of opportunities and weaknesses of the company:

- excessive reliance on one particular person, which can lead to collapse;
- management plans and sequence of their implementation should such person terminate to perform his duties;
- significant changes in the ownership structure of the company and/or management personnel;
- unwillingness of the management to negotiate with the Bank;
- bad reputation the company's management or deterioration of such reputation;
- no proper operating system of forming management information and/or nondisclosure of such information.

Thus, the Bank shall be certain that the company's management knows the business, capable and seeks to respond adequately to change of the conditions.

Problems that can be detected on the results of analysis of movement on the accounts

Are there the following transactions that raise questions:

- decline in turnover, lower account balances;
- large receipts from real estate agencies and stock brokers that could mean sale of assets;
- substantial receipts from previously unknown companies;
- substantial payments to other banks;
- substantial payments to the judicial bodies;
- large payments to suppliers of expensive capital equipment, that can mean obtaining new loans;
- withdrawal of large amounts of cash for incomprehensible (groundless) purposes.

General issues

Regard also must be paid to the following issues:

- be especially careful if the client interacts (i.e. operates, not only has accounts) with a large number of banks. A "multibank" company is often a source of problems in the event of difficulties, as it is usually difficult to agree on further action scheme among a large number of creditors;
- the quality of receivables shall be carefully monitored. It is important to receive periodically a list of receivables classified by the terms, especially in a situation where the client assigns receivables to the Bank;
- check the reputation and reliability of the client's counterparties. This enables to ensure that the client's business is not too dependent on a small number of suppliers or buyers;
- pay attention to any signs of potential problems in the field of the client's business or his major clients and suppliers;
- monitor debt dynamics of the companies related to the client;

- pay attention to any adverse information that may come from the media or other sources;
- pay special attention if the client initiates any legal claims or legal claims are filed against the client. Not only because it may mean financial problems but also because it can lead to heavy expenses (even if the client wins the case). It also results in a substantial time spending of the company management and its distraction from considering of other business issues;
- assess whether the company's products are up-to-date or expenditures for future development are reasonable and well planned, whether the company is able to innovate.

It does not mean that any of these issues is a particular sign for immediate measures but they all are signs not to be disregarded. If appearance of several of these signs provides a clear picture of availability of existing or potential problems, appropriate measures shall be taken immediately.

Should the above signs and/or other signs of potential problem of a transaction appear, the Business unit of the Bank promptly prepares and transfers analysis information about the situation with this borrower to the Credit Committee of the Bank.

By the decision of the Credit Committee the transaction returns to the normal process of the loan support or earns the status of bad asset and is processed in accordance with a certain interbank document specifying the procedure for working with bad assets (if there are certain signs listed in this document, the status of a bad asset may be earned automatically without a separate decision of the Credit Committee).

The main economic measures applied in work with the non-performing loans are:

- revision (change) of forecasts of the borrower's cash flow;
- protective measures to mitigate or minimize losses:
  - strengthening the security structure and positions of the Bank (additional collateral, guarantee of the founders, etc.);
  - additional capital raising (additional issue of shares to the existing or new shareholders, substitution of loans from the shareholders for the authorized capital, etc.);
  - subordination to other debts (loan from the founders and other parties related to the client);
  - debt restructuring (substitution of short-term debts for long-term, refinancing of loans granted by the Bank or other party, etc.).
- changes in policy and management of the client, which is expressed as follows:
  - review of the client's policy on administrative and non-operating expenses;
  - Improvement of the accounts receivable management (change of the client's partners, start of legal proceedings for repayment of outstanding debts, etc.);
  - business reorganization (change of the main characteristics of business, introduction of new products or services, closure of unprofitable projects, etc.);
  - replacement of key officials (chief accountant, financial director, business director and general director);
- restructuring of the loan transaction that can be performed in two ways:
  - speedup of loan repayment when there is an inevitable deterioration of the financial position and the Bank cannot influence the client's policy;

    - extension of a loan when difficulties seem to be temporary and the client is willing to cooperate for the mutual benefit of both parties;
- if restructuring cannot prevent the potential losses of the Bank, the Bank has to take measures to early termination of the loan transaction and implements some of these measures:
    - sale of the security;
    - issuing legal proceedings for early termination (if the client does not agree to early repayment);
- sale of other assets the client (by the court or by agreement with the client);
- initiating bankruptcy proceedings.

3.5 REPORTING

In order to exercise operating control over the loan portfolio of the Bank and perform supervisory functions required by NBU, the Risk management periodically analyzes and assesses the quality of the loan portfolio. The results of this analysis are examined at all levels of management with regulatory reporting to the Credit Committee, Assets and Liabilities Management Committee, Risk Management Committee and the Board of the Bank for making management decisions.

The Bank develops and approves at the Credit Committee of the Bank forms of analytical reports submitted to the Credit Committee, Assets and Liabilities Management Committee, Risk Management Committee, the Board of the Bank and the Supervisory Board, frequency of such reporting, departments responsible for such reporting.

4. FINAL PROVISIONS

Loan Policy Regulation of the Bank, and changes and additions thereto shall be approved by the Supervisory Board on presentation of the Board of the Bank.

This Regulation shall enter into force upon its approval by the Supervisory Board and is valid until revoked.

In case of non-compliance of any part of this Regulation with the current legislation of Ukraine or regulatory legal acts of NBU, it will apply only in the part not inconsistent with the current legislation of Ukraine and regulatory legal acts of NBU.

In case of non-compliance of any part of the Bank's internal regulations with this Loan Policy Regulation of JSC CB “PRIVATBANK” departments responsible for development of internal regulations shall bring them into compliance with current Loan policy within two months from the date of approval of the policy by the Supervisory Board of the Bank.

Letter of approval of the Loan Policy Regulation of JSC CB “PRIVATBANK”

Approved:

Chairman of the Board	___________________	Petr Krumhanzl
First Deputy Chairman of the Board	___________________	Pakhachuk G. D.
Member of the Board (CFO)	___________________	Samarina G.V.
Member of the Board (Head of Corporate and SME)	___________________	Segeev O.M.
Member of the Board (CCO)	___________________	Lebedinets I.A.
Member of the Board (Head of Corporate and SME)	___________________	Shaban O.V.
Member of the Board	___________________	Kharytych S. V.
Member of the Board	___________________	Dreling O.G.

Head of Legal Support Direction	___________________	Krasko I.V.
Head of Compliance Department	___________________	Luchaninov D. V.

Responsible for development:

Member of the Board (CRO)	___________________	Chernyshova L. P.