

PRIVATBANK GROUP

**Interim Management Statement for the Three Month Period
Ended 31 March 2012 (Unaudited)**

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INTERIM MANAGEMENT STATEMENT

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PrivatBank Group
Management Basis Statement of Financial Position (Unaudited)

<i>In millions of Ukrainian hryvnias</i>	Note	31 March 2012 (unaudited)	31 December 2011
ASSETS			
Cash and cash equivalents and mandatory reserves	4	22,155	21,363
Trading securities and other financial assets at fair value through profit or loss		2	-
Due from other banks		4,491	4,648
Loans and advances to customers	5	112,865	107,430
Embedded derivatives	14	1,521	1,484
Investment securities available-for-sale		698	780
Investment securities held to maturity		27	24
Current income tax prepayment		4	6
Deferred income tax asset		55	32
Goodwill		49	47
Premises, leasehold improvements and equipment and intangible assets		3,415	3,318
Other financial assets		1,081	1,144
Other assets		762	655
TOTAL ASSETS		147,125	140,931
LIABILITIES			
Due to the NBU	6	5,453	5,825
Due to other banks and other financing institutions		2,977	2,453
Customer accounts	7	112,965	104,209
Debt securities in issue	8	2,389	5,600
Current income tax liability		47	60
Deferred income tax liability		1,094	1,181
Provisions for liabilities and charges, other financial and non-financial liabilities		982	1,000
Subordinated debt	9	1,385	1,418
TOTAL LIABILITIES		127,292	121,746
EQUITY			
Share capital	10	13,545	13,545
Share premium		20	20
Revaluation reserve for premises		562	571
Currency translation reserve		316	329
Retained earnings and other reserves		5,050	4,570
Net assets attributable to the Bank's owners		19,493	19,035
Non-controlling interest		340	150
TOTAL EQUITY		19,833	19,185
TOTAL LIABILITIES AND EQUITY		147,125	140,931

Approved for issue and signed on behalf of the Management Board on _____

Olexandr V. Dubilet
Chairman of the Board

Lubov I. Korotina
Chief Accountant

PrivatBank Group
Management Basis Statement of Comprehensive Income (Unaudited)

<i>In millions of Ukrainian hryvnias</i>	Note	Three months ended 31 March 2012 (unaudited)	Three months ended 31 March 2011 (unaudited)
Interest income	11	4,625	4,344
Interest expense	11	(2,431)	(2,387)
Net interest income		2,194	1,957
Provision for impairment of loans and advances to customers	5	(1,379)	(1,252)
Net interest income after provision for impairment of loans and advances to customers		815	705
Fee and commission income	12	827	925
Fee and commission expense	12	(123)	(93)
Losses less gains from trading securities and other financial assets at fair value through profit or loss		-	(1)
Gains less losses from embedded derivatives		108	225
Gains less losses from trading in foreign currencies		106	249
Foreign exchange translation losses less gains		(171)	(167)
Reversal of impairment/(impairment) of investment securities available-for-sale		10	(2)
(Losses less gains)/gains less losses from disposals of investment securities available-for-sale		(5)	3
(Provision)/release of provision for credit related commitments	14	(1)	1
Other operating income		49	20
Other gains less losses		175	37
Administrative and other operating expenses	13	(1,450)	(1,411)
Profit before tax		340	491
Income tax expense		40	(22)
Profit for the period		380	469
Profit/(loss) is attributable to			
Owners of the Bank		390	484
Non-controlling interest		(10)	(16)
Profit for the period		380	469
Other comprehensive income:			
Exchange differences on translation to presentation currency		32	46
Other comprehensive income for the period		32	46
Total comprehensive income for the period		412	515
Total comprehensive income/(loss) is attributed to:			
Owners of the Bank		414	524
Non-controlling interest		(2)	(9)
Total comprehensive income for the period		412	515

PrivatBank Group
Management Basis Statement of Changes in Equity (Unaudited)

<i>In millions of Ukrainian hryvnias</i>	Attributable to Owners of the Bank					Total	Non-controlling interest	Total equity
	Share capital	Share premium	Revaluation reserve for premises	Currency translation reserve	Retained earnings and other reserves			
Balance at 1 January 2011	8,860	-	518	341	4,326	14,045	124	14,169
Profit for the period	-	-	-	-	484	484	(16)	469
Currency translation differences	-	-	-	37	-	37	9	46
Total comprehensive income for the period	-	-	-	37	484	522	(6)	515
Balance at 31 March 2011	8,860	-	518	378	4,810	14,566	118	14,684

<i>In millions of Ukrainian hryvnias</i>	Attributable to Owners of the Bank					Total	Non-controlling interest	Total equity
	Share capital	Share premium	Revaluation reserve for premises	Currency translation reserve	Retained earnings and other reserves			
Balance at 1 January 2012	13,545	20	571	329	4,570	19,035	150	19,185
Profit for the period	-	-	-	-	390	390	(10)	380
Currency translation differences	-	-	-	24	-	24	8	32
Total comprehensive income for the period	-	-	-	24	390	414	(2)	412
Other changes in interest attributable to owners of the Bank and non-controlling interest	-	-	(9)	(37)	90	44	192	236
Balance at 31 March 2012	13,545	20	562	316	5,050	19,493	340	19,833

The notes set out on pages 6 to 21 form an integral part of this interim management statement.

PrivatBank Group
Management Basis Statement of Cash Flows (Unaudited)

<i>In millions of Ukrainian hryvnias</i>	Note Three months ended 31 March 2012 (unaudited)	Three months ended 31 March 2011 (unaudited)
Cash flows from operating activities		
Interest received	4,502	4,426
Interest paid	(2,263)	(2,382)
Fees and commissions received	827	925
Fees and commissions paid	(123)	(93)
Incomes received from embedded derivatives	139	167
Incomes received from trading in foreign currencies	106	249
Other operating income received	49	20
Staff costs paid	(826)	(766)
Administrative and other operating expenses paid	(556)	(484)
Income tax paid	(62)	(72)
Cash flow from operating activities before changes in operating assets and liabilities	1,793	1,990
Changes in operating assets and liabilities		
Net decrease/(increase) in mandatory reserve balances	95	(103)
Net decrease in due from other banks	172	1,544
Net increase in loans and advances to customers	(6,619)	(8,189)
Net decrease/(increase) in other financial assets	63	(210)
Net increase in other assets	(112)	(58)
Net decrease in due to the NBU	(372)	(372)
Net increase/(decrease) in due to other banks and other financing institutions	478	(337)
Net increase in customer accounts	8,121	7,058
Net increase in provisions for liabilities and charges, other financial and non-financial liabilities	4	58
Net cash from operating activities	3,623	1,382
Cash flows from investing activities		
Proceeds/(acquisition) of investment securities available-for-sale	107	(532)
Acquisition from redemption of investment securities held to maturity	(3)	-
Proceeds from investment securities held to maturity	-	222
Acquisition of premises, leasehold improvements and equipment	(185)	(151)
Proceeds from disposal of premises, leasehold improvements and equipment	17	-
Net cash used in investing activities	(64)	(462)
Cash flows from financing activities		
Proceeds from subordinated debt	-	21
Cash inflow on transactions with non-controlling interest	245	-
Repayment of debt securities issued	(3,239)	(93)
Net cash used in in financing activities	(2,994)	(72)
Effect of exchange rate changes on cash and cash equivalents	322	(133)
Net increase in cash and cash equivalents	887	716
Cash and cash equivalents at the beginning of the year	18,590	17,491
Cash and cash equivalents at the end of the period	4	18,207

1 Introduction

The financial information on which this Interim Management Statement is based, and the data set out in the explanatory notes to this statement, are unaudited and have been prepared in accordance with PrivatBank Group's accounting policies as described in the Annual Report 2011. A glossary of terms is also provided in the Annual Report 2011.

2 Operating Environment of the Group

Ukraine continues to display certain characteristics of an emerging market, including but not limited to, the existence of a currency that is not freely convertible outside of Ukraine, restrictive currency controls, and inflation of 0.7% for the three month period ended 31 March 2012 (three months ended 31 March 2011: 3.3%) and high interest rates. While the financial situation in the Ukrainian financial and corporate sectors significantly deteriorated since mid-2008, in 2010 and during the first nine months of 2011 the economy experienced a moderate recovery of economic growth. The recovery was accompanied by lower refinancing rates, stabilisation of the exchange rate of the Ukrainian hryvnia against major foreign currencies, and increased money market liquidity levels until June 2011. The country's GDP grew during three months of 2012 by approximately 2.0%.

From July till November 2011 the Ukrainian economy experienced significant liquidity deficit of its local currency driven by the regulatory actions of the NBU directed on control of inflation and support of hryvnia exchange rate. Shortages of liquid resources in local currency led to increase in the interest rates on money market operations. In December 2011 the NBU revised the regulatory impact particularly decreasing the mandatory reserve requirements for commercial banks.

As of 31 March 2012 Ukraine's long-term foreign currency ratings were 'B' by Fitch Ratings, 'B2' by Moody's and 'B+' by Standard & Poor's.

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

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn impacted their ability to repay the amounts owed. As a significant part of loans to customers was issued in foreign currencies, UAH depreciation against these currencies had a significant impact on borrowers' ability to service the loans. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Bank has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of UAH 568 million or UAH 569 million (31 March 2011: an increase or decrease in loan impairment losses of UAH 451 million or UAH 472 million), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of UAH 629 million or UAH 1,011 million (31 March 2011: increase or decrease in loan impairment losses of UAH 559 million or UAH 864 million), respectively.

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

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

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

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

As of 31 March 2012 the Bank had loans and advances to customers totalling UAH 70,667 million (31 December 2011: UAH 67,715 million) issued in UAH with the condition of compensation to be received by the Bank in the event that the official exchange rate of UAH depreciates against USD. The contract to receive compensation was accounted for by the Bank as an embedded derivative with the fair value of UAH 1,521 million as of 31 March 2012 (31 December 2011: UAH 1,484 million) estimated using a valuation technique. This valuation technique takes into account expected movements in exchange rates, discount factor and credit risk. Changing the assumptions about expected exchange rates may result in a different profit. All contracts mature from 2012 to 2014, inclusive. If the expected UAH/USD exchange rate for these years would be higher/lower by 5%, the fair value of the derivative and the respective consolidated Information of comprehensive income amount would increase by UAH 4,849 million and decrease by UAH 738 million (31 March 2011: 5%; increase by UAH 1,948 million and decrease by UAH 486 million). If the discount rate used for fair valuation of the derivatives as of 31 March 2012 would be higher/lower by 100 basis points, the fair value of the derivative and the respective consolidated Information of comprehensive income amount would decrease/increase by UAH 19 million (31 March 2011: UAH 374 million). If the credit risk of counterparties as of 31 March 2012 would be higher/lower by 10%, the fair value of the derivative and the respective consolidated Information of comprehensive income amount would decrease/increase by UAH 41 million (31 March 2012: UAH 464 million). Analysis of deviation of sensitivity of fair value of derivative is done for each estimate separately not taking into the account changes in other estimates.

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

Provision for credit related commitments. The Group regularly reviews its outstanding credit related commitments to any provision to be created for credit related commitments. In determining whether a provision should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that credit related commitment will be executed and the best estimate of the expenditure required to settle the commitment at the end of the period is lower than the remaining unamortised balance of the amount at initial recognition.

Management uses estimates based on historical loss experience for commitments with credit risk characteristics similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

PrivatBank Group
Selected Explanatory Notes to the Interim Management Statement for the Three Month Period
Ended 31 March 2012 (Unaudited)

4 Cash and Cash Equivalents and Mandatory Reserves

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Cash on hand	4,052	3,749
Cash balances with the NBU	2,425	2,424
Cash balances with the Central Bank of Russian Federation	1,197	1,507
Cash balances with the Central Bank of Latvia	521	492
Cash balances with the Central Bank of Cyprus	132	258
Cash balances with the Central Bank of Georgia	363	248
Correspondent accounts and overnight placements with other banks		
- Ukraine	250	191
- Other countries	13,215	12,494
Total cash and cash equivalents and mandatory reserves	22,155	21,363

As at 31 March 2012 mandatory reserve balance with the National Bank of Ukraine is calculated on the basis of a simple average over a monthly period (31 December 2011: simple average over a monthly period) and should be maintained at the level of 0 to 8 per cent (31 December 2011: 0 to 8 per cent) of certain obligations of the Bank depending on its maturity and currency. As such, mandatory reserve balance with the National Bank of Ukraine can vary from day-to-day. For March 2012 the Bank's mandatory reserve average balance was UAH 2,129 million (December 2011: UAH 2,091 million).

As at 31 March 2012 in accordance with the NBU regulations the Bank was required to maintain the balance on accounts with the NBU at the level of 95% (31 December 2011: 95%) of the mandatory reserve balance for the preceding month. The Bank will not be subject to any sanctions if it fails to comply with the requirements less than 30 times within a 3 month period. As at 31 March 2012 it was also required to maintain the balance on the separate account with the NBU at the level not less than 95% of the mandatory reserves balance for the preceding month (31 December 2011: not less than 70% of the mandatory reserves balance for the preceding month), as a part of the total required level of mandatory reserves; the amount is subject to interest payments from the side of the NBU at a rate of 2.250% (30% of the NBU official interest rate), provided that the Bank is in compliance with the mandatory reserve requirements (31 December 2011: the interest was 2.325%, which was calculated as 30% of the NBU official interest rate).

As at 31 March 2012 this reserve of UAH 3 million (31 December 2011: UAH 56 million) has been placed on a separate account.

As of 31 March 2012 the mandatory reserve balances of the Bank's subsidiaries in Russia, Latvia, Cyprus and Georgia that should be kept with respective central banks were UAH 652 million (31 December 2011: mandatory reserves in Russia, Latvia, Cyprus and Georgia were UAH 731 million).

As the respective liquid assets are not freely available to finance the Bank's day-to-day operations, for the purposes of the consolidated cash flow Information, the mandatory reserve balance is excluded from cash and cash equivalents of UAH 2,678 thousand, that is 95% of the mandatory reserve balance with the NBU and 100% of the mandatory reserve balance with other Central Banks (31 December 2011: UAH 2,773 million, that is 100% of the mandatory reserve balance with the NBU and other Central Banks).

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Total cash and cash equivalents and mandatory reserves	22,155	21,363
Less mandatory reserves balances	(2,678)	(2,773)
Cash and cash equivalents for the purposes of the consolidated Information of cash flows	19,477	18,590

PrivatBank Group
Selected Explanatory Notes to the Interim Management Statement for the Three Month Period
Ended 31 March 2012 (Unaudited)

4 Cash and Cash Equivalents and Mandatory Reserves (Continued)

As of 31 March 2012 cash balances with the NBU of UAH 484 million (31 December 2011: UAH 484 million) have been pledged as collateral for the refinancing loan received from the NBU. Refer to Notes 6 and 14.

5 Loans and Advances to Customers

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Corporate loans	102,640	96,825
Loans to individuals - card	17,372	16,817
Loans to individuals - mortgage	4,836	4,997
Loans to individuals - auto	1,236	1,454
Loans to individuals - consumer	865	966
Loans to individuals - other	1,059	928
Loans to small and medium enterprises (SME)	1,090	1,393
Less: Provision for loan impairment	(16,233)	(15,950)
Total loans and advances to customers	112,865	107,430

As of 31 March 2012 interest income of UAH 1,258 million (31 December 2011: UAH 1,113 million) was accrued on loans and advances to customers impaired at the end of the reporting period.

Movements in the provision for loan impairment for the three month period ended 31 March 2012 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals					SME	Total
	loans	Card	Mortgage	Auto	Consumer	Other		
Provision for loan impairment at 1 January 2012	13,740	618	1,061	254	12	21	244	15,950
Provision/(reversal of provision) for impairment during the period	1,157	258	(26)	47	12	6	28	1,482
Amounts written off during the period as uncollectible	(893)	(122)	(51)	(73)	(9)	(1)	(59)	(1,208)
Currency translation differences	(9)	15	3	-	-	-	-	9
Provision for loan impairment at 31 March 2012	13,995	769	987	228	15	26	213	16,233

The provision for impairment for the three month period ended 31 March 2012 differs from the amount presented in profit or loss for the period due to UAH 103 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the Information of comprehensive income for the three month period ended 31 March 2012.

PrivatBank Group
Selected Explanatory Notes to the Interim Management Statement for the Three Month Period
Ended 31 March 2012 (Unaudited)

5 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment for the three month period ended 31 March 2011 are as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals				SME	Total	
	loans	Card	Mortgage	Auto	Consumer	Other		
Provision for loan impairment at 1 January 2011	10,108	451	1,523	522	6	227	778	13,615
Provision/(reversal of provision) for impairment during the period	747	199	146	77	17	(42)	146	1,291
Amounts written off during the period as uncollectible	(106)	(122)	(8)	(80)	(14)	(25)	(264)	(618)
Currency translation differences	26	4	14	2	-	-	3	50
Provision for loan impairment at 31 March 2011	10,776	532	1,675	520	10	160	664	14,338

The provision for impairment for the three month period ended 31 March 2011 differs from the amount presented in profit or loss for the period due to UAH 39 million recoveries of amounts previously written off as uncollectible. The amount of the recovery was credited directly to provisions in the Information of comprehensive income for the three month period ended 31 March 2011.

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

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)		31 December 2011	
	Amount	%	Amount	%
Oil trading	37,531	29	39,436	32
Loans to individuals	25,368	20	25,160	20
Ferroalloy trading and production	15,285	12	10,937	9
Agriculture, agricultural machinery and food industry	13,394	10	14,049	11
Commerce, finance and securities trading	11,044	9	8,756	7
Manufacturing	10,809	8	10,485	8
Construction	4,977	4	4,791	4
Ski resorts, tourism and football clubs	4,474	3	4,178	4
Air transport	2,579	2	2,394	2
Small and medium enterprises (SME)	1,090	1	1,400	2
Other	2,547	2	1,794	1
Total loans and advances to customers (before impairment)	129,098	100	123,380	100

Disclosed in the oil trading industry are UAH 37,531 million or 29% of gross loans and advances, (31 December 2011: UAH 39,436 million or 32%) issued to companies engaged in wholesale and retail sale of petrol, oil and oil products. Certain of these companies work closely with each other. As at 31 March 2012 loans issued to these companies of UAH 37,531 million were collateralised with inventory of oil, gas and oil products of the collateral value of UAH 2,639 million, property rights for advances made by borrowers of UAH 2,390 million and corporate rights for shares in the share capital of borrowers and their guarantors with the collateral value of UAH 31,499 million. Collateral value of corporate rights for shares was determined based on the fair value of petrol stations, petrol storages, oil refineries and gas and oil production fields owned by these borrowers and their guarantors. Collateral agreements are concluded under the UK Law. The fair value of collateral substantially contributes to the assessment of whether there is an impairment of loans issued to oil traders.

As of 31 March 2012 the total aggregate amount of loans to the top 10 borrowers of the Group amounted to UAH 13,579 million (31 December 2011: UAH 14,774 million) or 11% of the gross loan portfolio (2011: 12%).

PrivatBank Group
Selected Explanatory Notes to the Interim Management Statement for the Three Month Period
Ended 31 March 2012 (Unaudited)

5 Loans and Advances to Customers (Continued)

As of 31 March 2012 the Group had no borrowers (31 December 2011: 1 borrower) with aggregate loan balances in excess of 10% of the net assets or UAH 1,983 million (31 December 2011: UAH 1,919 million). The total aggregate amount of these loans was nil (31 December 2011: UAH 2,843 million).

As of 31 March 2012 mortgage loans of UAH 367 million (31 December 2011: UAH 383 million) have been pledged as collateral with respect to the mortgage bonds issued. Refer to Notes 8 and 14.

As of 31 March 2012 loans to two corporate borrowers (31 December 2011: two corporate borrowers) of UAH 674 million (31 December 2011: UAH 675 million) were pledged as collateral under the NBU refinancing. Refer to Notes 5 and 14.

Analysis by credit quality of loans outstanding at 31 March 2012 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate loans	Loans to individuals				SME	Total	
		Card	Mortgage	Auto	Consumer Other			
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over two years	28,349	-	-	-	-	386	-	28,735
- Large new borrowers with credit history with the Group less than 2 years	37,267	-	-	-	-	-	-	37,267
- Loans to medium size borrowers	7,427	-	-	-	-	162	50	7,639
- Loans to small borrowers	713	-	-	-	-	-	235	948
- Loans between UAH 1-100 million	-	23	187	8	-	-	-	218
- Loans less than UAH 1 million	-	15,285	1,748	583	805	372	-	18,793
Total neither past due nor impaired	73,756	15,308	1,935	591	805	920	285	93,600
<i>Past due but not impaired</i>								
- less than 30 days overdue	128	820	246	83	24	40	46	1,387
- 30 to 90 days overdue	181	481	132	41	16	17	51	919
Total past due but not impaired	309	1,301	378	124	40	57	97	2,306
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	25,655	-	3	-	-	-	15	25,673
- less than 30 days overdue	532	-	12	-	-	-	-	544
- 30 to 90 days overdue	1,208	-	5	-	-	-	5	1,218
- 90 to 180 days overdue	426	356	133	46	16	5	43	1,025
- 180 to 360 days overdue	62	220	113	47	4	9	65	520
- over 360 days overdue	692	187	2,257	428	-	68	580	4,212
Total individually impaired loans (gross)	28,575	763	2,523	521	20	82	708	33,192
Less impairment provisions	(13,995)	(769)	(987)	(228)	(15)	(26)	(213)	(16,233)
Total loans and advances to customers	88,645	16,603	3,849	1,008	850	1,033	877	112,865

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5 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

<i>In millions of Ukrainian hryvnias</i>	Corporate	Loans to individuals				SME	Total	
	loans	Card	Mortgage	Auto	Consumer			Other
<i>Neither past due nor impaired</i>								
- Large borrowers with credit history with the Group over two years	22,685	-	-	-	-	370	-	23,055
- Large new borrowers with credit history with the Group less than 2 years	41,724	-	-	-	-	-	-	41,724
- Loans to medium size borrowers	7,079	-	-	-	-	149	71	7,299
- Loans to small borrowers	655	-	-	-	-	-	452	1,107
- Loans between UAH 1-100 million	-	5	239	25	-	-	-	269
- Loans less than UAH 1 million	-	14,988	1,898	701	911	301	-	18,799
Total neither past due nor impaired	72,143	14,993	2,137	726	911	820	523	92,253
<i>Past due but not impaired</i>								
- less than 30 days overdue	109	884	158	74	25	33	56	1,339
- 30 to 90 days overdue	114	340	139	58	13	10	45	719
Total past due but not impaired	223	1,224	297	132	38	43	101	2,058
<i>Loans individually determined to be impaired (gross)</i>								
- Not overdue	22,142	-	14	-	-	-	-	22,156
- less than 30 days overdue	1,096	-	10	-	-	-	-	1,106
- 30 to 90 days overdue	490	1	24	-	-	-	-	515
- 90 to 180 days overdue	53	249	87	55	12	10	37	503
- 180 to 360 days overdue	203	193	141	61	3	8	92	701
- over 360 days overdue	475	157	2,287	480	2	47	640	4,088
Total individually impaired loans (gross)	24,459	600	2,563	596	17	65	769	29,069
Less impairment provisions	(13,740)	(618)	(1,061)	(254)	(12)	(21)	(244)	(15,950)
Total loans and advances to customers	83,085	16,199	3,936	1,200	954	907	1,149	107,430

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

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

5 Loans and Advances to Customers (Continued)

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

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

Information on loans and advances to customers from transactions with related parties is disclosed in Note 16.

6 Due to the NBU

Due to the NBU at 31 March 2012 and 31 December 2011:

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Term borrowing from the NBU	5,453	5,825
Total due to the NBU	5,453	5,825

Assets pledged under the NBU refinancing loan are as follows:

<i>In millions of Ukrainian hryvnias</i>	Note	31 March 2012 (unaudited)	31 December 2011
Cash balances with the NBU	4	484	484
Loans and advances to customers	5	674	675
Premises		959	954
Assets owned by related and third parties		5,734	5,734

7 Customer Accounts

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Individuals		
- Term deposits	71,559	66,536
- Current/demand accounts	14,402	12,967
Legal entities		
- Term deposits	9,773	9,147
- Current/settlement accounts	17,231	15,559
Total customer accounts	112,965	104,209

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7 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)		31 December 2011	
	Amount	%	Amount	%
Individuals	85,960	76	79,502	76
Trade	9,535	8	9,207	9
Manufacturing	4,414	4	4,764	5
Services	4,319	4	3,478	3
Agriculture	2,889	3	2,618	3
Transport and communication	1,744	2	1,458	2
Machinery	290	-	477	-
Other	3,814	3	2,705	2
Total customer accounts	112,965	100	104,209	100

At 31 March 2012 the aggregate balances of top 10 customers of the Group amount to UAH 10,038 million (31 December 2011: UAH 9,576 million) or 9% (2011: 9%) of total customer accounts.

At 31 March 2012 included in customer accounts are deposits of UAH 33 million (31 December 2011: UAH 30 million) held as collateral for irrevocable commitments under import letters of credit, guarantees issued by the Group. Refer to Note 14.

At 31 March 2012 included in customer accounts are deposits of UAH 3,206 million (31 December 2011: UAH 2,445 million) held as collateral for loans and advances to customers, issued by the Group.

8 Debt Securities in Issue

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Eurobonds	1,587	4,785
Private placements of bonds	568	560
Mortgage bonds	233	254
Promissory notes	1	1
Total debt securities in issue	2,389	5,600

In February 2007 the Group issued USD denominated Eurobonds with a par value of USD 500 million (UAH 2,525 million at the exchange rate at the date of the issue) maturing in February 2012. The bonds carry a coupon rate of 8% per annum and yield to maturity of 9.31%. The Eurobonds are listed on the Swiss Stock Exchange.

In February 2012 USD 500 million Eurobonds were fully redeemed at maturity.

9 Subordinated Debt

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Subordinated debt provided by legal entities	1,362	1,405
Subordinated debt provided by individuals	23	13
Total subordinated debt	1,385	1,418

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9 Subordinated Debt (Continued)

Included in subordinated debt, provided by legal entities, are USD denominated subordinated debts issued in February 2006 with a par value of USD 150 million (UAH 758 million at par at the exchange rate at the date of issue) at 8.75% per annum payable every six months with contractual maturity in February 2016. Under subordinated debt issued in February 2006 the Group had a call option exercisable in February 2011 at par. The Group did not exercise this call option.

In February 2011 in accordance with the terms and conditions of USD denominated subordinated debt with a par value of USD 150 million the step-up interest rate was set at 5.799% per annum; effective interest rate is 5.883% per annum.

10 Share Capital

<i>In millions of UAH except for number of shares</i>	Number of outstanding shares, in millions	Nominal amount
At 1 January 2011	48.49	8,860
At 31 March 2011	48.49	8,860
At 31 December 2011	64.64	13,545
At 31 March 2012	64.64	13,545

The total authorised number of ordinary shares is 64.64 million shares (2011: 64.64 million shares) with a par value of UAH 209.53 per share (2011: UAH 209.53 per share). All issued ordinary shares are fully paid.

Each ordinary share carries one vote.

11 Interest Income and Expense

<i>In millions of Ukrainian hryvnias</i>	Three months ended 31 March 2012 (unaudited)	Three months ended 31 March 2011 (unaudited)
Interest income		
Loans and advances to legal entities	2,839	2,717
Loans and advances to individuals	1,714	1,533
Due from other banks	31	50
Other	41	44
Total interest income	4,625	4,344
Interest expense		
Term deposits of individuals	1,790	1,568
Due to the NBU	229	206
Current/settlement accounts	142	229
Term deposits of legal entities	137	169
Due to other banks and other financing institutions	77	146
Debt securities in issue	19	38
Subordinated debt	32	28
Other	5	3
Total interest expense	2,431	2,387
Net interest income	2,194	1,957

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11 Interest Income and Expense (Continued)

Information on interest income and expense from transactions with related parties is disclosed in Note 16.

12 Fee and Commission Income and Expense

<i>In millions of Ukrainian hryvnias</i>	Three months ended 31 March 2012 (unaudited)	Three months ended 31 March 2011 (unaudited)
Fee and commission income		
Settlement transactions	546	460
Cash collection and cash transactions	236	434
Guarantees issued	6	8
Transactions with securities	3	5
Foreign exchange	1	1
Other	35	17
Total fee and commission income	827	925
Fee and commission expense		
Cash and settlement transactions	116	83
Other	7	10
Total fee and commission expense	123	93
Net fee and commission income	704	832

Information on fee and commission income from transactions with related parties is disclosed in Note 16.

13 Administrative and Other Operating Expenses

<i>In millions of Ukrainian hryvnias</i>	Three months ended 31 March 2012 (unaudited)	Three months ended 31 March 2011 (unaudited)
Staff costs	779	810
Rent	162	131
Contributions to Individual Deposits Guarantee Fund	94	75
Depreciation and amortisation of premises, leasehold improvements and equipment and intangible assets	84	110
Utilities and household expenses	81	66
Maintenance of premises, leasehold improvements and equipment	59	50
Mail and telecommunication	58	49
Taxes other than on income	36	23
Security	32	32
Advertising and marketing	21	18
Transportation	14	15
Other	30	32
Total administrative and other operating expenses	1,450	1,411

Included in staff costs is unified social contribution of UAH 179 million (31 March 2011: social security contributions of UAH 195 million). Pension contributions are made into the State pension fund which is a defined contribution plan.

Information on administrative and other operating expenses from transactions with related parties is disclosed in Note 16.

14 Contingencies and Commitments

Contingent liabilities in respect of tax, currency and customs legislation. Tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant local and central authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Ukrainian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. Such tax positions may come under scrutiny. The impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax position will be sustained. Accordingly no provision for potential tax liabilities (2010: nil) has been recorded.

As at 31 March 2012 provision of UAH 11 million has been recorded for potential legal liabilities (31 December 2011: UAH 11 million).

Capital expenditure commitments. At 31 March 2012 the Group has contractual capital expenditure commitments in respect of construction of premises, computers and furniture and equipment totalling UAH 55 million (31 December 2011: UAH 78 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

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

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
Import letters of credit	1,044	1,167
Guarantees issued	885	559
Irrevocable commitments to extend credit	143	84
Less: Cash covered letters of credit	(31)	(30)
Less: Provision for credit related commitments	(3)	(2)
Total credit related commitments	2,038	1,778

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments as of 31 March 2012 and 31 December 2011 was insignificant.

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14 Contingencies and Commitments (Continued)

As of 31 March 2012 the Group had undrawn credit limits on credit cards of UAH 14,828 million (31 December 2011: UAH 13,791 million) that are available to credit cardholders. These credit limits are revocable. The Group on a regular basis monitors activity on the cards and based on the frequency and pattern of withdrawals and repayments done by borrowers is able to reduce limits on credit cards unilaterally. Provision for undrawn credit limits on credit cards was not significant as of 31 March 2012 and 31 December 2011.

As of 31 March 2012 irrevocable commitments under letters of credit and guarantees issued by the Group of gross amount of UAH 31 million (31 December 2011: UAH 32 million) are secured by deposits of UAH 33 million (31 December 2011: UAH 30 million). Refer to Note 7.

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

<i>In millions of Ukrainian hryvnias</i>	31 March 2012	31 December 2011
	Nominal value	Nominal value
Shares of Ukrainian companies	5,872	5,886
Domestic corporate bonds	2,435	2,541
Investment certificates	1,877	1,671

Funds under trust management. Funds under trust management represent assets managed and held by the Group on behalf of customers. The Group earns commission income for holding such assets. The Group is not subject to interest, credit, liquidity and currency risk with respect of these assets in accordance with the agreements concluded with the customers. Loans are granted on behalf of customers who have remitted a deposit as collateral for the loans. As of 31 March 2012 assets under trust management amounted to UAH 385 million (31 December 2011: UAH 484 million).

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

	Note	31 March 2012 (unaudited)		31 December 2011	
		Asset pledged	Related liability/ commitment	Asset pledged	Related liability/ commitment
<i>In millions of Ukrainian hryvnias</i>					
Gross receivables under swap, forward and spot agreements		23,018	23,039	19,803	19,841
Loans and advances to customers	5, 8	367	233	383	254
Cash balances with the NBU, premises, loans and advances to customers	4, 5	2,117	5,453	2,113	5,825
Total		25,502	28,725	22,299	13,569

As of 31 March 2012 the Group pledged its USD denominated deposit with an international bank of UAH 2,884 million (31 December 2011: UAH 2,892 million) under USD denominated loan issued by this private bank to a customer of the Group which placed UAH denominated deposit of UAH 2,884 million (2011: UAH 2,892 million) with the Group.

15 Derivative Financial Instruments

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

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

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)		31 December 2011	
	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange swaps, forwards and spots: fair values, at the end of the reporting period date, of				
- USD receivable on settlement (+)	6,190	1,080	4,129	2
- USD payable on settlement (-)	(2,240)	(13,470)	(201)	(15,471)
- Euros receivable on settlement (+)	98	13,405	128	14,056
- Euros payable on settlement (-)	(5,979)	(60)	(3,634)	(33)
- UAH receivable on settlement (+)	48	-	120	60
- UAH payable on settlement (-)	-	(798)	-	-
- RUB receivable on settlement (+)	2,126	75	-	1,307
- Other currencies receivable on settlement (+)	-	44	-	1
- Other currencies payable on settlement (-)	(192)	(348)	(477)	(25)
Net fair value of foreign exchange swaps, forwards and spots	51	(72)	65	(103)

At 31 March 2012, the Group had outstanding obligations from unsettled spot transactions with foreign currencies of UAH 21,089 million (31 December 2011: UAH 18,805 million). The net fair value of unsettled spot transactions is insignificant.

For the three month period ended 31 March 2012 the Group received a gain of UAH 175 million (31 March 2012: a gain of UAH 36 million) resulting from foreign exchange swaps, forwards and spots.

As of 31 March 2012 the Group had outstanding derivatives embedded in loans issued to customers which were separated from the host instrument and carried at fair value of UAH 1,521 million (31 December 2011: UAH 1,484 million). For the three month period ended 31 March 2012 the Group recognised a gain of UAH 108 million (31 March 2011: a gain of UAH 225 million) in respect of change in fair value of a financial derivative that arises on the issue of UAH denominated loans with the condition of compensation in the case of UAH devaluation against USD. This embedded derivative is represented by a currency option maturing in up to 3 years. The strike price was from UAH 7.98 to UAH 7.99 per USD 1 (31 December 2011: UAH 7.93 to UAH 7.99 per USD 1).

16 Related Party Transactions

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

The ultimate major shareholders of the Bank are Mr. I.V. Kolomoyskiy and Mr. G.B. Bogolyubov, neither of which individually controls the Bank nor jointly control the Bank.

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16 Related Party Transactions (Continued)

At 31 March 2012 and 31 December 2011, the outstanding balances with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)			31 December 2011		
	Share - holders	Manage- ment	Companies under control of major shareholders	Share - holders	Manage- ment	Companies under control of major shareholders
Gross amount of loans and advances to customers (contractual interest rate: 2012: UAH - 12%, USD - 12%, EUR - 13%; 2011: UAH - 13%, USD - 12%, EUR - 12%)	-	4	9,471	-	4	8,462
Impairment provisions for loans and advances to customers	-	-	(3,818)	-	-	(3,693)
Loans and advances to customers written off as uncollectable	-	-	(848)	-	-	(17)
Financial derivatives	-	-	71	-	-	60
Other financial assets	-	-	6	-	-	46
Other assets	-	-	235	-	-	217
Customer accounts (contractual interest rate: 2012: UAH - 9%, USD - 8%, EUR - 11%; 2011: UAH - 6%, USD - 2%, EUR - 10%)	388	33	4,548	283	69	3,614
Subordinated debt (contractual interest rate: 2012: UAH - 6%, RUR - 1%; 2011: UAH - 6%, RUR - 1%)	-	-	163	-	-	156

The income and expense items with related parties for the three month period ended 31 March 2012 and 31 March 2011 were as follows:

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)			31 March 2011 (unaudited)		
	Share - holders	Manage- ment	Companies under control of major shareholders	Share - holders	Manage- ment	Companies under control of major shareholders
Interest income	5	1	205	3	-	410
Interest expense	(4)	(1)	(21)	(11)	(2)	(45)
Provision for loan impairment	-	-	(973)	-	-	(125)
Fee and commission income	-	-	14	-	-	32
Losses less gains from financial derivatives	-	-	10	-	-	10
Other operating income	-	-	2	-	-	2
Administrative and other operating expenses, excluding management remuneration	-	-	(53)	-	-	(10)

At 31 March 2012 and 31 December 2011, other rights and obligations with related parties were as follows:

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)	31 December 2011
	Companies under control of major shareholders	Companies under control of major shareholders
Guarantees issued	2	15
Total credit related commitments	2	15

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16 Related Party Transactions (Continued)

Aggregate amounts lent to and repaid by related parties during the three month period ended 31 March 2012 and 31 March 2011 were:

<i>In millions of Ukrainian hryvnias</i>	31 March 2012 (unaudited)			31 March 2011 (unaudited)		
	Share- holders	Manage- ment	Companies under control of major shareholders	Share- holders	Manage- ment	Companies under control of major shareholders
Amounts lent to related parties during the period	316	4	1,265	565	21	9,951
Amounts repaid by related parties during the period	321	4	565	565	21	11,695

The remuneration of members of the Management Board comprised salaries, discretionary bonuses, pension contributions and other short-term benefits totalling UAH 6 million for the three month period ended 31 March 2012 (31 March 2011: UAH 8 million).

17 Events After the End of the Reporting Period

In July 2012 the share capital of the Bank was registered, which was increased by UAH 1,352 million up to nominal value of UAH 14,897 million via capitalisation of dividends attributable to the shareholders of the Bank for the year ended 31 December 2011.