PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK

“PRAVEX-BANK”

Annual Financial Statements for 2013

Contents

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Independent Auditors' Report

To the Board of Directors
Public Joint-Stock Company Commercial Bank "PRAVEX-BANK"

Report on the financial statements

We have audited the accompanying financial statements of Public Joint-Stock Company Commercial Bank "PRAVEX-BANK" (the Bank) (EDRPOU Code 14360920, located Klovskiy Uzviz 9/2, registered in Kyiv on 29 December 1992), which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, cash flows and changes in equity, for the year then ended, and a summary of significant accounting policies and other explanatory notes, which includes general information on the Bank's activities.

Management's Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing adopted as Ukraine's National Standards on Auditing pursuant to Resolution of the Audit Chamber of Ukraine No. 229/7 dated 31 March 2011 and in accordance with the requirements adopted pursuant to No. 1528 dated 19 December 2006 and Resolution No. 1360 dated 29 September 2011 of the State Commission on Securities and Stock Market. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, and Ukrainian legislation.

Emphasis of matter

We draw attention to Note 2 to the financial statements, which describes the political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in Note 2 could adversely affect the Bank's results and financial position in a manner not currently determinable. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

Report on requirements of the National Commission on Securities and Stock Market

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. In conformity with Resolutions of the State Commission on Securities and Stock Market No. 1528 dated 19 December 2006 and No.1360 dated 29 September 2011, our audit procedures addressed the disclosure of information in the financial statements as is required by International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market. We conducted our audit in accordance with the engagement contract № 89-SA/2013 dated 9 July 2013. Our audit was conducted between 9 July 2013 and 11 March 2014.

In our opinion, the disclosed information in the financial statements has been prepared, in all material respects, in accordance with International Financial Reporting Standards, requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation and the effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1528 dated 19 December 2006 and No. 1360 dated 29 September 2011, we inform you of the following:

- As at 31 December 2013, the Bank complies with the requirements of Part Three, Article 155 of the Civil Code of Ukraine in respect of net asset value.

In addition, based on Resolution of the State Commission on Securities and Stock Market No. 1360 dated 29 September 2011, we inform you of the following:

- There are no significant discrepancies between the financial statements and other information prepared by the Bank and submitted to the National Commission on Securities and Stock Market together with the financial statements;
- During the year ended 31 December 2013, the Bank complied with the requirements on execution of any significant legal transactions in excess of 10 per cent of the total assets' value in accordance with Article 70 of the Law of Ukraine "On Joint-Stock Companies";
- The information disclosed in the financial statements properly presents the Bank's corporate governance status, including its internal audit function;
- In the course of our audit, we determined and performed assessment of risks of material misstatement due to fraud in accordance with ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

In addition, based on Resolution of the National Commission on Securities and Stock Market # 1528 dated 19 December 2006, we inform you of the following:

- As at 31 December 2013 the Bank is not an issuer of mortgage bonds;
- As at 31 December 2013 registered share capital in amount of UAH 949,170 thousand corresponds to charter documents and was paid-up in full by cash.

Report on requirements of the National Bank of Ukraine

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. In planning the scope of our audit procedures, we did not seek to obtain audit evidence in order to express an opinion on individual components of the financial statements, and, accordingly, we do not express such opinion. We also did not perform audit procedures in order to express an opinion on the effectiveness of the Bank's internal control and other internal processes and procedures, and, accordingly, we do not express such opinion. As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain requirements of National Bank of Ukraine, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those requirements was not an objective of our audit, and accordingly, we do not express such an opinion.

The following matters, amongst others, were considered in the course of our audit as described in preceding paragraph:

- **Maturity distribution of assets and liabilities presented in the form of statistical reporting on assets and liabilities' structure as reported by the Bank to the NBU**

  Maturity analysis of assets and liabilities is based on Statistical Form No. 631 *Report on structure of assets and liabilities by maturity*, approved by resolution of the Board of the National Bank of Ukraine No. 124 dated 19 March 2003.

  According to Statistical Form No. 631, the Bank has the following liquidity gaps: negative – "current", "overnight", "from 8 days to 31 days", "from 32 days to 92 days", "from 93 days to 183 days", and "over 10 years";

  positive – "from 2 days to 7 days", "from 184 days to 274 days", "from 275 days to 365 (366) days", "from 365 (366) days to 548 (549) days", "from 549 (550) days to 2 years", "from 2 years to 3 years", "from 3 years to 5 years", "from 5 years to 10 years".

- **Quality of assets and liabilities management of the Bank**

  The Assets and Liabilities Management Committee (ALCO) is the Bank's collective body established to support the assets and liabilities management function. ALCO reports to the Bank's Board of Directors and exercises the powers under the procedure defined in *"Regulation on internal committees of Public Joint-Stock Company Commercial Bank "PRAVEX-BANK"* as adopted by Resolution of Supervisory board of the Bank (Minutes No. 40 dated 22 December 2008, with amendments as adopted by Resolution of Supervisory board of the Bank No. 21 dated 13 May 2013).

  During our audit we obtained an understanding of the assets and liabilities management framework to the extent required to form an opinion on the financial statements as a whole. Our analysis did not seek to identify all the weaknesses or irregularities that may exist and, therefore, it should not be construed as an assurance of absence of any inefficiencies and/or omissions in the Bank's assets and liabilities management.

- **Allowances and capital adequacy, which is based on analysis of assets quality, including an analysis of operations with insiders/related parties in accordance with the regulatory requirements of the NBU, including those on banking activities and assessment of risks as to recognition and utilization of allowances for potential losses of the Bank's assets**

  As at 31 December 2013 the Bank recorded in the accompanying financial statements prepared in accordance with IFRS the loan impairment allowance of UAH 1,675,834 thousand, securities impairment allowance of UAH 156 thousand and allowance for impairment of other financial assets and other assets of UAH 3,146 thousand.

  Besides, in accordance with the other regulatory requirements of the National Bank of Ukraine, the Bank's regulation developed on a basis of Procedure for Allocation and Use of Loan Loss Provisions by Ukrainian Banks adopted by Resolution of the National Bank of Ukraine No. 23 dated 25 January 2012, the Bank recorded the following allowances as at 31 December 2013 for regulatory purposes only, thus, these allowances do not form part of the financial statements of the Bank prepared in accordance with International Financial Reporting Standards:

  - Loan impairment allowance in the amount of UAH 1,091,985 thousand, or 31.5% of total loans and advances to customers.
  - Securities impairment allowance in the amount of UAH 156 thousand, or 0.2% of total securities available-for-sale.
  - allowance for impairment of other financial assets and other assets in the amount of UAH 13,945 thousand and UAH 1,427 thousand, respectively.

  The Bank determined that its regulatory capital as at 31 December 2013 calculated in accordance with the regulatory requirements of the National Bank of Ukraine amounted to UAH 729,628 thousand, or 17.5%, and, thus, as at 31 December 2013, the Bank determined that it complied with the regulatory capital ratio requirements. Also, the Bank determined that it complies with the ratios of maximum loans, guarantees and warranties to its insiders (the Bank determined the ratio of maximum loans, guarantees and warranties to one insider (N9) as 1.5% and the ratio of maximum total loans, guarantees and warranties to insiders (N10) as 1.9% as at 31 December 2013)

- **The Bank's risk management structure**

  The Bank's risk management structure is regulated by the internal provisions and is intended to address risks inherent to banking operations, such as liquidity, currency, interest rate, credit and market risks.

- **Adequacy of accounting, internal control procedures and internal audit of the Bank**

  In planning and performing our audit, we considered the Bank's internal control over financial reporting, including the activities of the internal audit department, where applicable, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Internal control is the process designed and effected by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting in accordance with the applicable Ukrainian legislation and regulations of the National Bank of Ukraine. Our consideration of internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a weakness in internal control that could have a material effect on the financial statements.

  The principles of the Bank's internal audit are set forth in *"Regulation on the Internal Audit Department"* adopted by Resolution of the Supervisory Board (Minutes No. 14 dated 1 March 2013), which is based on the requirements of the Law of Ukraine "On Banks and Banking" and Regulation *"On Organization of Internal Audit in Commercial Banks of Ukraine"* adopted by the National Bank of Ukraine.

Our consideration of the matters described above was for the limited purpose described in the first paragraph of this section. We did not identify any instances of material non-compliances with requirements of the National Bank of Ukraine relating to matters described above, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. This report is intended solely for the information and use by the Bank and the National Bank of Ukraine, and is not intended to be and should not be used by anyone other than these specified parties.

JSC KPMG Audit
JSC "KPMG Audit"
Certificate No. 2397 of 26 January 2001 issued by the Audit Chamber of Ukraine
EDRPOU Code: 31032100
NBU Banking Auditor's Registration Certificate No. 0000012 of 17 September 2012, Resolution No. 39
11 March 2014

Ania Parkhomenko
Deputy Director
Certified Auditor

ACU Certificate: # 0085 dated 29 October 2009
NBU Certificate: # 0000044 dated 20 September 2007

Statement of financial position
as at 31 December 2013
PJSCCB "PRAVEX-BANK"

(UAH' 000)

Item	Notes	2013	2012
1	2	3	4
ASSETS			
Cash and cash equivalents	6	876,931	601,053
Mandatory reserves with the National Bank of Ukraine		110,524	74,125
Other financial assets at fair value through profit or loss	7	2,898	3,006
Due from banks	8	223,327	200
Loans and advances to customers	9	2,645,589	3,215,645
Securities available-for-sale	10	101,605	127,220
Investment property	11	9,327	10,822
Current income tax receivable		1,558	1,558
Deferred tax asset	30	-	36,725
Property, equipment and intangible assets	12	635,403	674,143
Other financial assets	13	41,393	47,670
Other assets	14	30,829	38,437
Non-current assets held-for-sale and disposal group assets	15	74,653	25,041
Total assets		4,754,037	4,855,645
LIABILITIES			
Due to banks	16	83,340	343,084
Due to customers	17	3,045,034	3,101,040
Debt securities issued by the Bank	18	1	99,180
Current income tax payable	30	1,673	-
Deferred tax liability	30	5,247	1,232
Provisions	19	1,908	4,406
Other financial liabilities	20	88,003	176,159
Other liabilities	21	50,900	75,952
Subordinated debt	22	119,095	119,466
Total liabilities		3,395,201	3,920,519
EQUITY			
Share capital	23	1,018,806	1,011,556
Share premium	23	1,521,465	787,112
Accumulated deficit		(1,397,742)	(1,069,644)
Reserves and other funds		1,332	1,332
Revaluation reserves		214,975	204,770
Total equity		1,358,836	935,126
Total liabilities and equity		4,754,037	4,855,645

Chairman of the Board
of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
11.03.2014

The statement of financial position as at 31 December 2013 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 - 78.

Statement of comprehensive income for 2013
PJSCCB "PRAVEX-BANK"

(UAH' 000)

Item	Notes	2013	2012
1	2	3	4
Interest income	26	563,610	686,070
Interest expenses	26	(322,102)	(327,604)
Net interest income		241,508	358,466
Commission income	27	195,590	208,076
Commission expense	27	(16,620)	(14,646)
Revaluation surplus on other financial instruments at fair value through profit or loss		573	746
Gains less losses arising from sale of securities available-for-sale		605	(1,102)
Gains less losses arising from dealing in foreign currencies		30,985	32,030
Gains less losses arising from foreign currency translation		(516)	(7,689)
Gains less losses arising from revaluation of investment property	11	590	(1,723)
Gains less losses from initial recognition of financial assets at interest rates higher or lower than market rates		(2,834)	(2,683)
Gains less losses from initial recognition of financial liabilities at interest rates higher or lower than market rates		(121)	317
Provision for impairment of loans and due from banks	9	(210,967)	(974,302)
Provision for impairment of accounts receivable and other financial assets	13, 14	(1,070)	(816)
Provision for impairment of securities available-for-sale	10	(156)	-
Provisions	19	1,913	(626)
Other operating income	28	16,882	14,491
Administrative and other operating expenses	29	(547,121)	(548,971)
(Loss) before tax		(290,759)	(938,432)
Income tax expense	30	(39,952)	(92,908)
(Loss) from continuing operations		(330,711)	(1,031,340)
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Revaluation of securities available-for-sale		(855)	324
Income tax related to revaluation of securities available-for-sale	30	158	(62)
Total items that may be reclassified subsequently to profit or loss		(697)	262
Items that will not be reclassified to profit or loss:			
Revaluation of property, equipment and intangible assets	24	16,134	(8,521)
Income tax related to revaluation of property, equipment and intangible assets	30	(2,619)	1,458
Total items that will not be reclassified to profit or loss		13,515	(7,063)
Total other comprehensive income after tax for the year		12,818	(6,801)
Total comprehensive income for the year		(317,893)	(1,038,141)
(Loss) attributable to: shareholders		(330,711)	(1,031,340)
Total comprehensive income attributable to: shareholders		(317,893)	(1,038,141)
Loss per share from continuing operations:			
Basic (loss) per ordinary share	31	(0.20)	(0.64)
Diluted (loss) per ordinary share	31	(0.20)	(0.64)
(Loss) per share attributable to shareholders:			
Basic (loss)per ordinary share for the year	31	(0.20)	(0.64)
Diluted (loss) per ordinary share for the year	31	(0.20)	(0.64)

Chairman of the Board of PJSCCB "PRAVEX-BANK" — **T.O. Kyrychenko**

Chief Accountant of PJSCCB "PRAVEX-BANK" — **O.Yu. Kibets**

11.03.2014

The statement of comprehensive income for the year ended 31 December 2013 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 - 78.

Statement of cash flows (direct method) for 2013
PJSCCB "PRAVEX-BANK"

(UAH' 000)

Item	Notes	2013	2012
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		373,507	512,022
Interest expense paid		(336,079)	(346,784)
Commission income received		195,372	208,113
Commission expense paid		(16,606)	(14,577)
Gains/losses from dealing in foreign currencies		30,985	32,030
Other operating income received		5,578	11,121
Proceeds from sale of loans		28,241	-
Administrative and other operating expenses paid		(449,991)	(487,367)
Cash (paid) from operating activities before changes in operating assets and liabilities		(168,993)	(85,442)
Changes in operating assets and liabilities			
Net (increase)/decrease of mandatory reserves with the National Bank of Ukraine		(36,399)	9,389
Net (increase)/decrease of due from banks		(222,980)	137,787
Net decrease of loans and advances to customers		456,097	568,302
Net decrease of other financial assets		14,615	3,781
Net (decrease) of due to banks		(332,911)	(857,456)
Net (decrease) of due to customers		(26,012)	(28,414)
Net (decrease)/increase of debt securities issued by the Bank		(100,000)	100,000
Net (decrease) of provisions		(616)	-
Net (decrease)/increase of other financial liabilities		(32,155)	27,262
Net cash (used) from operating activities		(449,354)	(124,791)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchase of securities available-for-sale		(2,595,262)	(639,575)
Proceeds from sale of securities available-for-sale		2,637,864	526,140
Purchase of securities held to maturity		(500,000)	(30,000)
Proceeds from repayment of securities held-to-maturity		500,000	30,000
Purchase of financial assets at fair value through profit or loss		725	(2,139)
Proceeds from sale of non-current assets		2,070	-
Purchase of property and equipment		(17,165)	(19,272)
Proceeds from disposal of property and equipment		4,729	2,858
Purchase of intangible assets		(46,929)	(114,657)
Dividends received	28	115	-
Net cash flows (used) in investment activity		(13,853)	(246,645)
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Proceeds from issuance of shares	23	741,603	496,050
Net cash flows from financial activities		741,603	496,050
Effect of changes in NBU exchange rates on cash and cash equivalents		(2,518)	(2,246)
Net increase of cash and cash equivalents		275,878	122,368
Cash and cash equivalents as at the beginning of the year	6	601,053	478,685
Cash and cash equivalents as at the end of the year	6	876,931	601,053

Chairman of the Board
of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
11.03.2014

The statement of cash flows for the year ended 31 December 2012 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 78

Statement of changes in equity for 2013
PJSCCB "PRAVEX-BANK"

(UAH' 000)

Item	Notes	Attributable to shareholders of the Bank						Total equity
		Share capital	Share premium	Reserves and other funds	Revaluation reserves	Accumulated deficit	Total	
1	2	3	4	5	6	7	8	9
Balance as at 1 January 2012		1,006,916	295,702	1,332	211,981	(38,714)	1,477,217	1,477,217
Total comprehensive income								
(Loss) for the year						(1,031,340)	(1,031,340)	(1,031,340)
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Revaluation of securities available-for-sale	24	-	-	-	324	-	324	324
Deferred income tax related to revaluation of securities available-for-sale	24	-	-	-	(62)	-	(62)	(62)
Total items that may be reclassified subsequently to profit or loss	24	-	-	-	262	-	262	262
Items that will not be reclassified to profit or loss:								
Revaluation of property and equipment	24	-	-	-	(8,521)	-	(8,521)	(8,521)
Deferred income tax related to revaluation of property and equipment	24	-	-	-	1,458	-	1,458	1,458
Total items that will not be reclassified to profit or loss	24	-	-	-	(7,063)	-	(7,063)	(7,063)
Total comprehensive (loss) for the year	24	-	-	-	(6,801)	(1,031,340)	(1,038,141)	(1,038,141)
Realised revaluation surplus on property and equipment disposed	24	-	-	-	(410)	410	-	-
Issue of shares:	23	-						
nominal value	23	4,640	-	-	-	-	4,640	4,640
share premium	23	-	491,410	-	-	-	491,410	491,410
Balance as at 31 December 2012 (balance as at 1 January 2013)		1,011,556	787,112	1,332	204,770	(1,069,644)	935,126	935,126
Total comprehensive income								
(Loss) for the year						(330,711)	(330,711)	(330,711)
Other comprehensive income								

The statement of changes in equity for the year ended 31 December 2013 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 78.

Item	Notes	Attributable to shareholders of the Bank						Total equity
		Share capital	Share premium	Reserves and other funds	Revaluation reserves	Accumulated deficit	Total	
1	2	3	4	5	6	7	8	9
Items that may be reclassified subsequently to profit or loss:								
Revaluation of securities available-for-sale	24	-	-	-	(855)	-	(855)	(855)
Deferred income tax related to revaluation of securities available-for-sale	24	-	-	-	158	-	158	158
Total items that may be reclassified subsequently to profit or loss	24	-	-	-	(697)	-	(697)	(697)
Items that will not be reclassified to profit or loss:								
Revaluation of property and equipment	24	-	-	-	16,134	-	16,134	16,134
Deferred income tax related to revaluation of property and equipment	24	-	-	-	(2,619)	-	(2,619)	(2,619)
Total items that will not be reclassified to profit or loss	24	-	-	-	13,515	-	13,515	13,515
Total comprehensive income/(loss) for the year	24	-	-	-	12,818	(330,711)	(317,893)	(317,893)
Realised revaluation surplus on property and equipment disposed	24	-	-	-	(2,613)	2,613	-	-
Issue of shares:	23							
nominal value	23	7,250	-	-	-	-	7,250	7,250
share premium	23		734,353	-	-	-	734,353	734,353
Balance as at 31 December 2013		1,018,806	1,521,465	1,332	214,975	(1,397,742)	1,358,836	1,358,836

Chairman of the Board of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets** **11.03.2014**

The statement of changes in equity for the year ended 31 December 2013 is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 8 to 78.

Notes to the Annual Financial Statements

Note 1. Background information

Full name of the Bank	Public Joint-Stock Company Commercial Bank “PRAVEX-BANK”
Short name of the Bank	PJSCCB “PRAVEX-BANK”
Location	9/2 Klovsky Uzviz, Kyiv 01021, Ukraine
Country of registration	Ukraine
Form of ownership	Public Joint-Stock Company
Name and location of the parent company	Intesa Sanpaolo S.p.A. Piazza San Carlo, 156, Torino, 10121 Italia.
Management shareholding	0%
Foreign investor shareholding	Intesa Sanpaolo S.p.A. (Italy) owns 100% of the Bank’s share capital
Reporting period	From 1 January to 31 December 2013
Reporting currency and measurement unit	Thousands of Ukrainian hryvnias

The strategic target of activity and development of PJSCCB “PRAVEX-BANK” (hereinafter – “the Bank”) is to create the universal bank providing a full range of bank services to legal entities and individuals.

The result of the Bank in 2013 was negative, with a loss UAH 331 million.

These results been affected by external and internal factors, i.e. the negative trends of the economy, the underperformance in Corporate segment and significant amount of loan loss provisions that were not compensated by the efforts aimed at controlling costs.

The progressive deterioration of the conditions of the economy and of the financial markets (the latter mostly at the end of the year) have not allowed the bank to deploy its strategy of growth and had negative impacts on the financial results.

During the very first months of the year, the Bank spent significant efforts in increasing the free funds, in order to avoid any liquidity risks; at the same time, the bank started focusing more actively on setting up more effective collection processes.

In spring, 2013 the situation of liquidity improved; however, the Bank was not able to increase lending activities, mainly because of the much lower than forecasted activity in Corporate, and through 2013 year, the amount of Corporate portfolio decreased, also because of the strategic decision to reshape the focus on particular sectors/segments, with lower risks.

In this framework, the Bank actively managed interest rates on deposits, and has been able to significantly decrease the cost of funds, much below the market, without significant impacts on liquidity.

The Bank, in order to reduce foreign currency (FX) risks (at least temporarily), and given the high risk of devaluation of local currency, set up a further agreement with the National Bank of Ukraine in June 2013, that inter alia allowed the Bank to breach the regulatory limits related to open currency position till the end of 2013.

During 2013 PJSCCB “PRAVEX-BANK” increased its capital for an amount of UAH 742 million. The process was completed in June 2013.

The non-performing loans (NPL) ratio, that was 57.10% at the end of 2012 reached 60.66% as at 31 December 2013, mainly due to the decrease in performing loans, rather than because of increase of non-performing loans.

At the end of the year, the expectations of devaluation started to increase, and the particular political situation brought significant pressure on the markets; therefore the Bank (as it happened in 2012) concentrated in efforts in avoiding any risks and the Bank has been able to keep a significant base of free funds.

Further interventions in cost cutting and increase in quality of the assets were realized by the Bank:

- The further rationalization of the organization, with consequent reduction in staff (as at 31 December 2012 – 3,662 employees, as at 31 December 2013 – 3,459 employees);
- Strong control on costs;
- Suspension of almost all non-strategic investments.

However, as mentioned before, these interventions have not been sufficient to compensate the negative impact of other factors, thus determining an overall negative result for 2013.

Note 2. Business environment

During 2013 the Ukrainian economy was in a recession. GDP was falling due to unfavourable conditions in external export markets for domestic producers, i.e. weak external demand from countries being main trading partners, lower prices for the main export types of Ukrainian products and trade barriers of Russian Federation. The main factors intensifying the economic activity in 2013 were increase in the production volume of the agricultural sector and a fairly high domestic consumer demand.

The negative dynamics of economic growth in Ukraine in 2013 nullified prospects to reach its pre-crisis volumes. During three quarters of 2013, GDP was declining. In Q1 2013 GDP decline was -1.1 % (compared to Q1 2012). In Q2 2013 the external economic conditions further deteriorated resulting in deterioration of Ukraine's GDP during this period, which decreased by -1.3 %. In Q3 2013 the economic activity began a gradual recovery in the euro area, thus promoting the recovery of the demand for Ukrainian industrial products, however, abnormal weather conditions in September were unfavourable for agriculture. Consequently, the decline in real GDP in Q3 was -1.3 %.

Throughout 2013 the situation on foreign markets for domestic products was unfavourable, which affected the real economy indicators and the total volume of production.

During 2013 compared to 2012 a positive result was recorded only in agriculture (+13.7%) and retail trade (+9.5%). The rest of the economy sectors recorded a negative result (construction -14.5% and transport -1.9%). The decline in industrial production during 2013 was -4.7%, however, due to a gradual recovery in demand for Ukrainian export products the industrial recession decelerated (thus, for 10 months of 2013 the industrial recession was -5.2%). General rates of economic recession were mostly affected by the drop in prices and decrease in demand for domestic export-oriented manufacturers and restrictions on the supply of Ukrainian products to the Russian Federation.

In 2013 the moderate price dynamics was observed in the Ukrainian consumer market. From the year beginning, consumer prices were rising slowly (inflation in the first half of 2013 was registered at +0.2 %). Since July consumer prices started to decline resulting in deflation, which continued until the end of September and reached -0.6 %. This was primarily due to significant cheapening of whole foods. However, from October to the end of the year inflation was recorded (in Q4 2013, consumer prices increased by +1.1%). Despite food prices decline (-0.7 % for 2013) based on 2013 results inflation was at +0.5 % (compared to December 2012). This was both due to increase in administratively regulated prices, which in 2013 grew by +3.7% (prices increased mostly for tobacco products by +12.8% in 2013) and due to the increased costs of transport services +5.4% (which was mainly due to increase in tariffs for long-distance passenger rail service by+15.0%).

During the reporting year, due to prudent NBU monetary policy the situation in the forex market improved, which was evidenced by significant decrease in demand for foreign currency and maintaining a stable exchange rate during the year. Despite the political turmoil at the end of the year, demand for foreign currency was at a low level (compared to 2012). During 2013, individuals bought USD 2.9 billion, including USD 0.9 billion in December 2013 (while during 2012 individuals bought USD 10.2 billion, including USD 0.2 billion in December 2012). Due to prudent NBU policy the official UAH/USD exchange rate for the year has not changed, while the market UAH/USD rate was increasing gradually during the year (in average from 8.13 at the year beginning to 8.27 at the year end). Also, in order to protect the financial system against external shocks, the NBU took measures on dedollarization of the economy. Thus, in 2013 mandatory reserves rates for deposits in foreign currency increased twice, while mandatory reserves rates for deposits in local currency remained at zero rate.

The liquidity of the banking system increased in 2013 compared to 2012 (in 2013 the average amount of balances on correspondent accounts was UAH 25.0 billion, while in 2012 – UAH 19.5 billion.).

The total deposit base growth during 2013 was +17.3% (UAH 98.2 billion). The increase was solely due to deposits in national currency (+31,6% or UAH 101.1 billion), while balances in foreign currencies decreased by -1.2% (UAH 2.9 billion). Increase in corporate deposits during 2013 was 13.3% (UAH 26.8 billion). Portfolio growth was solely due to deposits in national currency of +23.0% or UAH 31.2 billion, while foreign currency deposits decreased by -6.7% (UAH -4.4 billion).

The interest rate policy of the National Bank of Ukraine in 2013 aimed at reduction of cost of funding of the economy. Thus, during 2013 the NBU reduced interest rates twice (by -0.5% each time) to 6.5% and the refinancing rate on overnight loans to 7.5%. The above actions in addition to the maintaining price stability in the country led to a reduction in the cost of funding in the national currency both on deposits and on loans. Thus, according to the Ukrainian index of rates on retail deposits, the average interest rate in local currency for 2013 decreased by -2.0% to 17.1%, while rates in foreign currency scarcely changed and amounted on average to 6.3% (6.4% in 2012). Average interest rates on national currency loans during 2013 changed insignificantly (decreased by -0.08%) to 17,5%, and in foreign currency decreased by -0,6% to 8.7%.

Positive changes in the banks' funding base, decrease in cost of funds and improvement of banking liquidity resulted in gradual lending increase in lending in 2013. The total loan portfolio of banks during 2013 increased by +11.9% (or UAH 96.6 billion), whereof UAH 87.9 billion increase (+17.2%) was in the national currency and UAH 8.7 billion (+2.9%) was in foreign currency. Corporate loans during 2013 increased by +14.5% (UAH 90.9 billion), whereof increase in national currency was +15.9% (or UAH 65.4 billion) and increase in foreign currency was +11.8% (or UAH 25.6 billion.). During 2013 retail loan portfolio comprised loans extended in national currency (increase during 2013 was +22.6% or UAH 22.5 billion), however, it was partially offset by a decrease in foreign currency loans by -20.2% (UAH -16.8 billion.). A decrease in foreign currency loan balances was caused by a restriction on granting new loans and activities carried out during the year with overdue retail loans in foreign currency accumulated before the 2008 crisis (restructuring, write off, collection companies activity). Thus, the total retail loan portfolio during 2013 increased by +3.1% (+UAH 5.7 billion).

The main potential risks for the next year may include:

- political risks undermining both consumer confidence and business confidence (the failure to sign an agreement with the EU and the growing influence of Russia through trade sanctions and other means of influence);
- slow recovery in economies of major trading partners, which will maintain demand for Ukrainian exports at a low level;
- loss of the market share for domestic metallurgists due to increased competition from China;
- deterioration of purchasing power and weakening of the internal market;

- increase in devaluation pressure and use of foreign currency reserves to decrease devaluation pressure;
- risk of decreased lending activity and, as a consequence, working capital deficit of companies;
- risk of increase of inflationary pressure;
- further decrease of investment attractiveness and direct investment in the country;
- lack of external funding opportunities and narrowing access to international capital markets.

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Bank's results and financial position in a manner not currently determinable. These financial statements reflect management's current assessment of the impact of the Ukrainian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment. These financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date.

The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation. Tax regulations are often unclear, open to wide interpretation, and in some instances are conflicting. Instances of inconsistent opinions between local, regional and national tax authorities and between the National Bank of Ukraine and the Ministry of Finance are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enabled by law to impose significant penalties and interest charges. These facts create tax risks in Ukraine substantially more significant than typically found in countries with more developed tax systems.

Management believes it has complied with all existing tax legislation. However, there can be no assurance that the tax authorities will not have a different interpretation of the Bank's compliance with existing legislation and assess fines and penalties.

Note 3. Basis of presentation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), requirements of the National Bank of Ukraine on financial reporting by Ukrainian banks, Ukrainian legislation, and effective regulations on submission of annual reports by issuers and professional participants in the stock market to the National Commission on Securities and Stock Market.

During the year and in preparation of these financial statements, the Bank consistently applied significant accounting policies set out below.

The preparation of financial statements under IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Transactions are recorded in the underlying transaction currency. Assets and liabilities, income and expenses from transactions with foreign currencies are reflected in UAH equivalent at the official NBU exchange rate for foreign currencies at the date of recognition. The functional currency of these financial statements is the Ukrainian hryvnia (UAH). The financial statements are presented in thousands of Ukrainian hryvnias, unless otherwise indicated.

Changes in accounting policies

The Bank has adopted IFRS 13 *"Fair Value Measurements"* with a date of initial application being 1 January 2013.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 "*Financial Instruments: Disclosures"*. (see note 36.4).
As a result, the Bank adopted a new definition of fair value. The change had no significant impact on the measurements of assets and liabilities. However, the Bank included new disclosures in the financial statements that are required under IFRS 13, comparatives were recalculated.

Note 4. Accounting policies of PJSCCB "PRAVEX-BANK" for 2013

4.1. Basis of measurement

The Bank's accounting policies are based on the underlying accounting principles under which the financial statements are prepared: completeness, substance over form, standalone basis, prudence, going concern, accrual and matching of income and expenses, consistency (consistent application by the bank of selected accounting policies) and the single monetary unit.

Information on criteria for the recognition and measurement of assets and liabilities and income and expenses is set out in the following sections of this note.

The financial statements have been prepared on the historical cost basis except for:

Securities available-for-sale and financial assets at fair value through profit or loss that are measured at fair value;

Non-current assets held-for-sale that are measured at lower of carrying amount and fair value;

Buildings and investment property that are measured at fair value.

Use of accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that may significantly affect the amounts in the statement of financial position and in the statement of comprehensive income as well as the amounts of assets and liabilities in the financial statements. The estimates are based on the available information and subjective judgments that are often based on historical experience which are used to formulate reasonable assumptions when assessing results of operations. Taking into account their nature, estimates and assumptions used, can be changed from year to year, and, therefore, the amounts presented in the financial statements may significantly differ in the future financial years as a result of change in the subjective estimates.

Management should make its subjective estimates regarding the following:

- assessment of impairment losses of loans and, generally, other financial assets;
- estimates and assumptions with regard to realization of deferred tax assets.

In particular, information about significant areas of estimation uncertainty in applying accounting policies is as follows:

Impairment of loans and advances. Management estimates impairment by assessing the likelihood of repayment of loans and advances based on analysis of individual accounts for individually significant loans, and collectively for loans with similar terms and risk characteristics. Factors taken into consideration when assessing individual loans include collection history, current financial condition of the borrower, timeliness of repayments and collateral, if any. To determine the amount of impairment, management estimates the amounts and timing of future payments of principal and interest and proceeds from the disposal of collateral, if any. These cash flows are then discounted using the loan's original interest rate. Actual principal and interest payments depend on the borrowers' ability to generate cash flows from operations or obtain alternative financing, and could differ from management's estimates.

Factors taken in consideration when estimating impairment on loans assessed collectively include historical loss experience, portfolio delinquency rates and overall economic conditions.

Note 9 contains a description of the sensitivity of the carrying amount of loans and advances to changes in estimates. Should actual repayments be less than management estimates, the Bank would be required to record additional impairment expense.

4.2. Initial recognition of financial instruments

A financial instrument represents any contract causing origination (increase) of a financial asset for one counterparty and financial liability or equity instrument for the other counterparty.

The Bank recognises financial assets and liabilities in accounting records, when the Bank becomes a party to the contractual provisions of the instrument.

A financial instrument (financial asset or financial liability) is initially measured by the Bank at its fair value.

Transaction costs that are directly attributable to the recognition of a financial instrument, including commissions paid to agents, advisors, brokers, dealers, duties to regulators, stock exchanges, etc., are added to the amount of the discount (premium) for underlying financial instrument. The Bank amortises the amount of the discount/premium during the period of life of a financial instrument (excluding financial instruments held for trading) using the effective interest method on at least monthly basis. The amount of the discount/premium must be fully amortised by the financial instrument maturity date.

Bank classifies its financial instruments as follows: cash and cash equivalents, financial assets at fair value through profit or loss, loans and accounts receivable, financial assets available-for-sale and financial liabilities. **4.3. Impairment of assets**

Financial assets

The Bank assesses at each reporting date whether objective evidence of impairment exists for financial assets that are individually significant, or for group of financial assets that are not individually significant. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulties, default or delinquency in interest or principal payments, probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from credit institutions and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed (significant) financial asset, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to accrue on the reduced carrying amount applying the original effective interest rate of the asset. Loans are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If in a subsequent year the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

In particular, the Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected revenues, feasibility of other financial support, the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date.

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, mortgage loans, car loans and consumer loans) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated by the Bank at each reporting date with each portfolio receiving a separate review.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Renegotiated loans

If the currency of the loan has been changed the original loan is derecognised and the new loan is recognised.

If the loan restructuring is caused by the financial difficulties of the borrower and the loan is considered to be impaired after restructuring, the Bank recognises the difference between the present value of future cash flows under new terms discounted using original effective interest rate and the carrying amount recognised before restructuring as impairment loss in the reporting period.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered to be past due, but are treated as current loans once minimum number of repayments required under a new arrangements have been received. Renegotiated loans subject to individual impairment review are subject to ongoing reviews to determine whether they remain impaired.

4.4. Derecognition of financial instruments

Financial assets are derecognised only when as a result of sale all the risks and rewards related to assets are transferred. On the contrary, if a significant portion of risks and rewards related to sold financial assets are retained, they continue to be recognised as assets even if the ownership for these assets was transferred. Unless the identification of transfer of risks and rewards is practicable, financial assets are derecognised when control over assets is lost. In other case, when control is retained at least partially, the Bank continues to recognise assets within its interest therein, which is measured based on the degree of participation in changes in the value of sold assets and underlying cash flows. Finally, sold financial assets are derecognised, if the entity retains contractual obligations for receiving cash flows from an asset, but simultaneously undertakes to transfer respective cash flows to third parties. The Bank derecognises a financial liability or its part when its contractual obligations are discharged or cancelled or expire.

4.5. Cash and cash equivalents.

Under "Cash and cash equivalents" caption, the Bank recognises cash (on hand), funds on accounts in the National Bank of Ukraine (except mandatory reserves restricted for use), correspondent accounts, and overnight deposits in other banks. Due to existence of certain restrictions on their use, the Bank did not recognise the mandatory reserves held on special account with the NBU under "Cash and cash equivalents" captions of the statement of financial position and statement of cash flows.

4.6. Loans and advances to customers.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as financial instruments available-for-sale or,
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans are initially recognised on the date on which a contract is entered into and which is usually the date when a loan is granted based on the fair value of the financial instrument that equals to an amount given, including expenses/income that are directly attributable to a single loan and can be determined when originated even if paid at a later date. Expenses reimbursed by a borrower are either classified as regular administrative expenses, even if they have the above characteristics, or are eliminated.

Subsequent to initial recognition loans are carried at amortised cost, which equals to the original cost increased/decreased by principal repayments and by amounts of adjustments/repayments and amortisation calculated using the effective interest method of any difference between the initial amount and the amount expected in maturity that, usually, relates to expense/income which directly attributable to the loan. The effective interest rate is the rate that exactly discounts the estimated future cash flows on a loan, i.e. principal amount and interest, to the amount of the cash disbursed, including expenses/income which relate to the loan. This measurement method is based on the financial approach and allows allocating the economic effect of expenses/income over the remaining period until maturity.

4.7. Securities available-for-sale

Securities available-for-sale include financial assets that are not classified to other categories such as loans, financial assets held for trading, investments held to maturity.

Debt securities and shares available-for-sale are initially recognised at the settlement date. Assets are initially recognised at fair value taking into account transaction costs and income directly attributable to the instrument.

After initial recognition financial assets available-for-sale are carried at fair value. Income and loss from change of fair value are recognised in other comprehensive income up to the moment the financial asset is derecognised or objective indications of impairment are identified. When a financial asset is sold or loss is recognised, accumulated gain or loss is reversed through the statement of comprehensive income. For determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, pricing models are applied that take into account the current market and contractual prices of the underlying instruments and other factors. Equity instruments included to this category and derivative financial instruments originated based on equity instruments whose fair value may not be determined reliably are recognised at cost. Financial assets available-for-sale are reviewed to determine whether there is any indication of impairment. If any such indication exists, loss is determined as a difference between the carrying amount of the asset and its fair value. If indications of impairment no longer exist after the event that occurred after recognition of impairment, loans and debt securities are reversed through the statement of comprehensive income and equity instruments are reversed through other comprehensive income. The reversal shall be recognised only to the extent that the carrying amount of the financial asset does not exceed its amortised cost had no impairment losses been recognised in the prior periods.

4.8. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets and liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments); or,
- upon initial recognition, designated as at fair value through profit or loss.

Management may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

4.9. Property and equipment

Property and equipment represents tangible assets held by the Bank in its ordinary activity, to deliver services, to lease to other persons or to perform administrative function, to the extent that the useful lives of such assets exceed one year.

Property and equipment are initially recognised at cost including any costs directly attributable to acquisition and bringing the assets to the working condition for their intended use.

Subsequent to initial recognition, the Bank measures the property and equipment items, other than properties of the Bank, using historical cost method.

The assets that after initial recognition are measured at historical cost are not subject to any subsequent revaluations.

The Bank measures its properties applying the revalued cost method. The Bank remeasures any properties carried at revalued cost to the extent that the residual value of such properties differs significantly from its fair value at the balance sheet date. In case any properties are revaluated, the Bank performs revaluation of all other properties as of the same date.

To determine fair values of its properties, the Bank orders their independent expert appraisal as at the balance sheet date. Independent expert appraisal must be carried out by in independent appraiser as at the reporting year end.

Subsequent revaluations of a group of property and equipment revalued in previous periods must be carried out with a sufficient frequency to ensure their residual value as at the balance sheet date does not significantly differs from their fair value.

As at 31 December 2013, the Bank's properties revaluation was carried out by independent certified appraiser, LLC "Kredytno Brokerske Agentstvo". The fair value was assessed based on market value net of VAT. To determine market value of the property subject to evaluation, the appraiser applied market approach (adjusting of comparable property value).

A revaluation increase on buildings is recognised directly in other comprehensive income, except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on buildings is recognised in profit or loss, except to the extent that it reverses a previous revaluation increase recognised as other comprehensive income directly in equity.

In recognising revaluation surplus, historical (revalued) amount of property and equipment is decreased by accumulated depreciation, and carrying amount calculated on a net basis is revalued to fair value. Based on this method, revalued amount is equal to fair value and accumulated depreciation amounts to nil.

The costs of improvement of property and equipment are recognised on capital investments accounts.

The below table presents useful lives of certain categories of property and equipment and respective depreciation rates:

Description	Useful lives, years
Buildings and constructions	33
Machinery and equipment	4-10
Transport vehicles	10
Fixtures and fittings (furniture)	4-10
Other property and equipment	2-10

Depreciation is charged on a straight-line basis over the estimated useful lives of individual assets. In 2013, there were no changes in depreciation method.

All non-current assets (except for land and construction in progress) are subject to depreciation.

Expenditures made for operating leasehold improvements are charged over the period starting from the month following the month of completion of improvements and ending in the last month of the lease term, or, if the economic life of leasehold improvements is shorter than the applicable lease, depreciation is charged over the economic life of the leasehold improvement.

Depreciation is discontinued on the earlier of:

- the date of transfer of underlying asset to the category non-current assets held-for-sale;
- the date of derecognition of underlying asset.

Useful lives and applicable depreciation rates are reviewed at each year end. At year end 2012, the Bank reviewed and changed useful lives of its buildings and constructions based on recommendations of independent appraiser. Changes in depreciation were applied prospectively. At year end 2013, the Bank reviewed and made no changes in useful lives of its property and equipment.

Items of property and equipment are derecognised in case of their disposal as a result of sale transaction, free transfer, liquidation, etc.

4.10. Intangible assets

The Bank classified within intangible assets licenses to use computer software, and acquired computer software.

Acquired intangible assets are measured at cost (historical/actual cost) including the costs incurred to acquire and bring specific items to intended use.

Subsequently, the Bank measures intangible assets at historical cost (cost), less accumulated amortisation and accumulated impairment losses.

Amortisation is charged on a straight-line basis. During 2013, there were no changes in amortisation method or useful life of intangible assets. Useful lives and amortisation rates of intangible assets are revised at each year end and when such revisions are supported by relevant reasonable feasibility studies.

Useful lives of intangible assets and the monthly rates of amortisation of main categories of the intangible assets are specified below.

Items of intangible assets	Useful lives (months)
Software solutions and hardware	1 – 10
Licenses to use computer programs	1 – 10

Amortisation is charged on a monthly basis applying the rates calculated referring to useful life of each individual intangible asset.

4.11. Operating lease

Operating leases are the lease contracts, under which the Bank does not assume substantially all the risks and rewards of ownership to the leased assets. Operating lease agreements entitle the lessee to make use of the non-current assets during the period not exceeding their useful lives subject to their mandatory return to the lessee as provided in the underlying agreement.

Property and equipment are transferred for operating lease at carrying amounts.

Property and equipment transferred to the Bank for operating lease are carried on the Bank's balance sheet applying the same criteria as those applied to any other property and equipment belonging to the Bank.

The items leased by the Bank represent the property and equipment used to support the Bank's operations and activity.

4.12. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale of in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value, with changes recognised in profit or loss.

If the use of investment property changes and it is reclassified to property and equipment, fair value of investment property as at the date of reclassification becomes its cost for the purpose of its subsequent accounting.

4.13. Non-current assets held-for-sale

The Bank recognises non-current assets as held-for-sale, where their carrying value is recoverable via their sale, rather than as a result of on-going use.

Non-current assets are designated as held-for-sale subject to their compliance with the following conditions as of the date of their designation: their current condition allows their immediate sale and it is highly probable that they may be sold within 12 months following the date of their designation as held-for-sale.

Non-current assets held-for-sale are measured and accounted for at the lower of carrying amount and fair value.

Non-current assets held-for-sale are not subject to depreciation.

Real estate designated as non-current assets held-for-sale were subject to independent revaluation as at 31 December 2013 by LLC "Kredytno Brokerske Agentstvo", an independent qualified appraiser engaged by the Bank.

4.14. Derivative financial instruments

A derivative is a financial instrument meeting the following three criteria:

a) its value fluctuates in line with changes in effective interest rate, price of financial instrument, consumer goods price, foreign exchange rate, prices or interest rates index, credit or solvency rating or any other similar variable indicator; and

b) it does not require initial net investments or requires initial net investments that are lower than those that would be required by other types of contracts similarly responding to changes in market condition; and

c) it is subject to repayment on a future date.

All derivative financial instruments are initially measured and recognised at fair value. Transaction costs are recognised in expenses during their initial recognition. Transaction costs do not include any premiums or discounts stipulated under forward contracts or options.

On each balance sheet date following their initial recognition, derivative financial instruments are measured at fair value net of any transaction costs.

Financial instruments traded on stock exchanges are remeasured by the Bank based on results of each trading day (trading session) to the values equal to their quoted (settlement) prices.

Where the quotations of derivative financial instruments on active market are not available, the Bank determines their fair values using the following methods:

- by reference to a market price of another similar instrument;
- discounted cash flows analysis;
- other methods that ensure reliable measurement of fair values of derivative financial instruments.

4.15. Borrowed funds

The Bank mostly designates its own bonds to the borrowed funds category. The Bank may realize the bonds at nominal value at a discount or premium.

The Bank accrues interest and carries out amortisation of discounts (premiums) on own bonds subject to the terms and conditions of their issue at least once a month during the period from the date of placement through the date of redemption of underlying securities.

The amount of amortisation of discount (premium) for the reporting period is assessed using the effective interest method. The amount of amortisation of discount/premium on transactions with own debt securities results in higher/lower interest expenses.

The Bank can redeem own bonds both on and in advance of their maturities (if such option is stipulated by the terms and conditions of the issue). The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. In case of early redemption of a security, the Bank amortises respective part of the discount (premium) through the date of redemption.

4.16. Provisions

The Bank records provisions for liabilities, as well as provisions for contingent liabilities.

Provisions for contingent liabilities are established to cover probable risks arising as the result of suits claiming reimbursement of losses in favour of third parties. The Bank establishes the provision in the amount required to reimburse all reasonable contingent expenses the Bank may incur under third parties' law suits.

The Bank recognises provision for liabilities only to the extent all three following conditions are met:

- the Bank has a present (legal or constructive) debt as a result of past events;
- it is probable, that an outflow of economic benefits will be required to settle the debt;
- the amount of the debt can be estimated reliably.

4.17. Employee benefits

Under Ukrainian legislation, the Bank withholds amounts payable by the employees to the statutory pension plan based on the earnings of the employees and transfers mandatory contributions to the Pension Fund of Ukraine. Furthermore, under the current statutory pension system requirements, employers are obliged to assess current payments as a percentage of the total current employees remuneration. The cost for these contributions is recognised in the period when contributions are due and is included in salaries and employee benefits. Upon their retirement, employees receive retirement benefits from the State Pension Fund of Ukraine. The Bank is not a party to any other non-state retirement benefit plans or other material employee benefits plans that would require additional accruals.

The Bank records provisions for unused vacations.

4.18. Income tax

The Bank recognises its current income tax payable as a liability equal to the amount calculated for the reporting period in accordance with the tax laws of Ukraine. According to clause 10 of subclause 4 of Section XX of the Tax Code of Ukraine, in 2013 (as at reporting date, i.e. as at 31 December 2013), the corporate income tax rate was 19% (31 December 2012 – 21%). From 1 January 2014 to 31 December 2014, the corporate income tax rate will be equal to 18%, from 1 January 2015 to 31 December 2015 – 17%, and since 1 January 2016 – 16%.

Income tax on the profit or loss comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and tax liabilities attributable to the same tax and payable within the same period are offset. In years when the amount of respective deductible temporary differences exceeds the amount of taxable temporary differences, respective deferred tax assets are recognised within assets in the statement of financial position under “deferred tax assets” caption. Otherwise, in years when the amount of taxable temporary differences exceeds the amount of deductible temporary differences, resulting deferred taxes are recognised in the statement of financial position under “deferred tax liabilities” caption.

When assessing the portion of the unused deferred tax assets and that of outstanding deferred tax liabilities that are believed to be realized in the years after the balance sheet date, the Bank analyzes the degree of probability of such realization. In case the expected taxable profit does not fully offset respective taxable temporary differences, realization of which was expected in the period, the Bank recognises impairment of the deferred tax asset.

The recognised impairment loss is recognised in the statement of comprehensive income under “Income tax” caption.

Taxable profit expected in the future period is assessed referring to the business plan prepared by management and considering available feasible tax planning options.

4.19. Share capital and share premium

Share capital is the value of the shares/equity interests in the Bank contributed in cash by the Bank’s shareholders in the amount prescribed by the Charter.

Share premium represents the surplus of the funds received from initial offering or sale of the Bank’s own shares (other corporate rights) over their nominal value, or the surplus of the nominal value of the shares (other corporate rights) over their redemption value.

4.20. Recognition of income and expenses

Income and expenses are accounted for on an accrual basis, that is, they are recognised in the period to which they are attributable.

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date to the extent that the transaction result can be estimated reliably.

Interest income and expenses are recognised using the effective interest rates pro rata the time lapsed and the amount of the underlying asset (liability).

Any differences, arising between the interest income (expenses) recognised using the effective interest rate and the income (expenses) accrued applying the nominal interest rate on the financial instruments acquired or issued at nominal value (i.e., without any discount or premium), are recognised on the accounts of non-amortised discounts or premiums in correspondence with underlying interest income and expenses.

Commissions, not included in a loan cost (e.g. commissions for cash payments and withdrawals, etc.), are recognised within commission income.

Interest income on debt securities available-for-sale, including any discounts and premiums, are recognised using the effective interest rate.

Dividends on variable-yield securities available-for-sale are recognised as income for the period during their holding.

4.21. Foreign currencies

Items of assets and liabilities, income and expenses arising from dealing in foreign currencies and precious metals are recognised in UAH equivalent at the official NBU foreign currencies and banking metals exchange rates ruling at the transaction dates.

Income and expenses on items denominated in foreign currencies are translated into Ukrainian hryvnias at the NBU exchange rate ruling as at the transaction date. Foreign currency accruals are translated into UAH at the exchange rate ruling at the transaction date.

Assets and liabilities denominated in foreign currencies are recognised in the statement of financial position at the official NBU exchange rate ruling at the reporting date. As at 31 December, the exchange rates of UAH established by NBU were as follows:

Currency	31 December 2013	31 December 2012
US Dollar	7.99	7.99
Euro	11.042	10.53

All monetary items carried on the balance sheet are revaluated each time when the NBU exchange rate is revised and results are recognised within gains less losses from foreign currency translation in the statement of comprehensive income.

The Bank recognises gains and losses from dealing in foreign currencies as gains/losses from foreign currency purchase, sale and exchange transactions.

4.22 Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

4.23 Determination of amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Effective interest rate represents the interest rate that exactly discounts the previously estimated ingoing and outgoing cash flows that will be generated during the expected period of life of the financial instrument or the during period to the future date of revaluation of the instrument price to the net book value of the financial asset or liability. When assessing the present value, the effective interest rate is applied to the future ingoing and outgoing cash flows that will be generated during the whole period of life of the financial asset or liability or a shorter period in case of recurrence of certain conditions or circumstances (e.g. revision of market interest rates).

Subsequent to initial recognition, amortised cost makes it possible to allocate the revenues and expenses directly by the instrument cost reduction or increase on the dates of its amortisation during the whole expected period of life of the instrument. Amortised cost determined will fluctuate depending on whether the financial assets/liabilities bear fixed or floating rates and, in case of a floating rate, subject to availability of the observable date on the interest rate volatility range. As regards instruments bearing fixed or floating rates, the future cash flows are determined for certain time horizons based on the interest (fixed or floating) rates observable during the whole period of financing. As regards financial assets/liabilities bearing floating rates whose volatility indexes are unobservable, i.e. unknown in advance (e.g. when the interest rate is linked to an index), the cash flows are determined referring to the latest observable interest rate. During the whole period of life of an investment, i.e. up to its maturity date, on each date of revision of the effective interest rate, the Bank revised the applicable amortisation rate and effective interest rate. Any effects of such changes are recognised in the income statement through profit or loss.

Loans, held to maturity investments and accounts payable and securities issued are recognised at amortised cost.

4.24 Segment reporting

An operating segment is a component of a Bank that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Bank); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segments and assess their performance, and for which discrete financial information is available.

The Bank represents one reportable segment that has central management and follows common lending policy and marketing strategy.

The Bank has no customers generating individually revenues in excess of 10% of its total external revenues.

Substantially all revenues from external customers are generated from services to customers that are Ukrainian residents. Substantially all assets of the Bank are located in Ukraine.

4.25 Fair value measurement

IFRS 13 "*Fair value measurement*" establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, the Bank's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The fair value measurement framework described in IFRS 13 applies to both initial and subsequent measurement if fair value is required or permitted by other IFRSs.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date.

As a result, the Bank adopted a new definition of fair value, as set out below. The change had no significant impact on the measurements of assets and liabilities.

For financial instruments, fair value is determined through the use of quoted prices obtained from active financial market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If the market for the financial instrument is not active, the Bank estimates the fair value by using a valuation technique. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing transaction. The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

Valuation techniques include:

- using market inputs that are indirectly linked to the instrument being measured and are obtained from products with similar risk characteristics;

- using – even only in part – unobservable inputs that are not derived from the market, for which estimates and assumptions made by the assessor are used.

When measuring fair value, the Bank maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Banks measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1 inputs:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date.

A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available. If a Level 1 inputs are available for financial instruments, some of which might be exchanged in multiple active markets the emphasis within Level 1 is on determining both of the following:

(a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and

(b) whether the Banks can enter into a transaction for the asset or liability at the price in that market at the measurement date.

If the Bank holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability will be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the Bank. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

If an asset or a liability measured at fair value has a bid price and an ask price the Bank use bid prices for asset positions and ask prices for liability positions.

Level 2 inputs:

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.
(b) quoted prices for identical or similar assets or liabilities in markets that are not active.
(c) inputs other than quoted prices that are observable for the asset or liability, for example:
    (i) interest rates and yield curves observable at commonly quoted intervals;
    (ii) implied volatilities; and
    (iii) credit spreads.
(d) market-corroborated inputs.

Adjustments to Level 2 inputs can vary depending on factors specific to the asset or liability. Those factors include the following:
(a) the condition or location of the asset;
(b) the extent to which inputs relate to items that are comparable to the asset or liability; and
(c) the volume or level of activity in the markets within which the inputs are observed.

An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorized within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

Level 3 inputs:

Level 3 inputs are unobservable inputs for the asset or liability.

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2013 Bank categorized due from customers as Level 3 in the fair value hierarchy as valuation model uses significant unobservable inputs for fair value measuring.

The choice between the above valuation techniques is not free, but must follow a specific order of priority. Specifically, if quoted prices in active markets are available, as a rule the other valuation approaches cannot be used. IFRS 13 describes three different valuation techniques that may be used to measure fair value (which would be applied for Level 2 and Level 3 hierarchy based on the inputs used in the valuation techniques):

- Market Approach: uses prices comparison and other relevant information from market transaction involving identical or similar assets or liabilities.
- Income approach: converts future amounts (e.g. cash flows or income and expenses) to a single current (discounted) amount reflecting current market expectations about those future amounts.
- Cost approach: reflects the amount required currently to replace the service capacity of an asset (frequently) referred to a current replacement cost, which differs from the cost incurred).

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available. In some cases, this will result in more than one technique being used.

Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

(a) new markets develop;
(b) new information becomes available;
(c) information previously used is no longer available;
(d) valuation techniques improve;
(e) market conditions change.

The Bank has formalized Market Risk Management Policy that defines the principles and tools used for the assessment, control and management of fair value, and establish the overall responsibility for measurement of fair value to Risk Management Division which is independent from operational function.

As at 31 December 2013, fair value measurement has been applied to land and buildings and has been appraised by an independent entity at the end of the year, taking into consideration market method.

Note 5. New and revised standards

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013 and have not been applied in preparing these financial statements.

Of these new standards, amendments to standards and interpretations, the following will have an impact on the financial statements of the Bank:

IFRS 9 "*Financial Instruments"* will be effective for annual periods beginning on or after 1 January 2016. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued in future. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the financial statements. The impact of these changes will be analyzed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

Amendments to IAS 32 "*Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities"* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2014. The Bank has not yet analyzed the likely impact of the improvements on its financial position or performance.

Note 6. Cash and cash equivalents

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Cash	303,471	281,362
2	Balances with the National Bank of Ukraine (less obligatory reserve)	392,495	131,996
3	Correspondent accounts with:	180,965	187,695
3.1	domestic banks	2,968	1,462
3.2	foreign banks	177,997	186,233
4	Total cash and cash equivalents	876,931	601,053

Line 4 in Table 6 corresponds to Cash and cash equivalents in the statement of financial position.

Line 3, Correspondent accounts with banks includes accrued income in the amount of UAH 1 thousand (2012: UAH 1 thousand).

As at 31 December 2013, placement in the correspondent account with Intesa Sanpaolo SpA amounted to UAH 141,738 thousand (2012: 2,515 thousand), representing a significant concentration.

As at 31 December 2013 and 2012, balances in correspondent accounts are neither overdue, nor impaired.

Note 7. Other financial assets at fair value through profit or loss

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Corporate shares	2,898	3,006
2	Total other financial assets at fair value through profit or loss	2,898	3,006

Line 2 in Note 7 corresponds to Other financial assets at fair value through profit or loss in the statement of financial position.

Corporate shares in line 1 are recognised at fair value determined on a basis of the readily available quotations on the stock exchange.

Note 8. Due from banks

Table 8.1. Due from banks

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Deposits due from banks:	200	200
1.1	Short-term deposits	200	200
2	Loans to banks:	223,127	-
2.1	Short-term loans	223,127	-
3	Provision for impairment	-	-
4	Total due from banks less provision	223,327	200

Line 4 in Table 8.1 corresponds to Due from banks in the statement of financial position.

The Bank believes that potential concentration risk may arise when at least 10% of due from banks are placed with a limited number of debtors. As at 31 December 2013 and 2012, loans were granted to 4 and 1 banks, respectively, which represents significant concentration.

As at 31 December 2013 and 2012, loans were granted to 4 and 1 banks, respectively (UAH 223,127 thousand and UAH 200 thousand), which represents significant concentration, particularly granted as at 31 December 2013 to PJSC Raiffeisen Bank Aval – UAH 99,022 thousand – 45%, PJSC Citibank – UAH 50,062 thousand – 22%, PJSC Ukrsotsbank – UAH 50,055 thousand – 22%, PJSC PUMB – UAH 23,989 thousand – 11%. as at 31 December 2012 to PJSC Citibank – UAH 200 thousand – 100%.

Table 8.2. Loans to banks: credit quality analysis for 2013

(UAH'000)

Line	Description	Deposits	Total
1	2	3	4
1	Not overdue and not impaired:	200	200
1.1	Other domestic banks	200	200
2	Total due from banks less provision	200	200

Table 8.3. Due from banks: credit quality analysis for 2013

UAH'000)

Line	Description	Loans	Total
1	2	3	4
1	Not overdue and not impaired:	223,127	223,127
1.1	20 largest Ukrainian banks	173,065	173,065
1.2	Other domestic banks	50,062	50,062
2	Total due from banks less provision	223,127	223,127

Table 8.4. Due from banks: credit quality analysis for 2012

(UAH'000)

Line	Description	Deposits	Total
1	**2**	**3**	**4**
1	Not overdue and not impaired:	200	200
1.1	Other domestic banks	200	200
2	Provision for impairment	-	-
3	Total due from banks less provision	200	200

Note 9. Loans and advances to customers

Table 9.1. Loans and advances to customers

(UAH'000)

Line	Description	2013	2012
1	**2**	**3**	**4**
1	Loans to corporate customers	840,104	1,357,733
2	Loans to entrepreneurs	379	4,680
3	Retail mortgage loans	684,653	754,543
4	Retail consumer loans	2,769,581	2,744,048
5	Other retail loans	26,706	26,412
6	Provision for impairment	(1,675,834)	(1,671,771)
7	Total outstanding loans less provisions	2,645,589	3,215,645

Line 7 in Table 9.1 corresponds to Loans and advances to customers in the statement of financial position.

Line 7, Total outstanding loans less provisions, includes accrued interest as at 31 December 2013 in the amount of UAH 284,721 thousand (31 December 2012: UAH 286,038 thousand).

No securities were pledged as collateral or for repo transactions as at 31 December 2012 and 31 December 2013.

Changes in collection estimates can affect the impairment losses recognised. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment as at 31 December 2013 would be approximately UAH 26,456 thousand lower/higher (31 December 2012: UAH 32,156 thousand).

Concentration of loans to customers

The Bank believes that potential concentration risk may arise when at least 10% of net loan portfolio is attributable to limited number of customers. As at 31 December 2013 and 2012, loans were granted to 3 and 4 customers that represent 10% and 11%, respectively (UAH 272,375 thousand and UAH 371,397 thousand).

Table 9.2. Movements in provisions for impairment for 2013

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance as at 1 January 2013	(171,071)	(1,461)	(200,013)	(1,278,360)	(20,866)	(1,671,771)
2	(Increase)/decrease in provision for the year	(4,883)	1,332,	(22,943)	(186,655)	(1,257)	(214,406)
3	Bad debt written off against provision	5,821	-	441	7,670	-	13,932
4	Interest accrued on impaired loans	35,930	-	20,597	149,461	-	205,988
5	Effect of foreign currency translation	21	-	(379)	(9,208)	(11)	(9,577)
6	Provision for impairment as at the year-end	(134,182)	(129)	(202,297)	(1,317,092)	(22,134)	(1,675,834)

Balance of line 2 in Table 9.2 corresponds to Provision for impairment of loans and due from banks in the statement of comprehensive income. The difference between the amount of provision for impairment of loans and due from banks in the statement of comprehensive income and the amounts in line 2 in Table 9.2 represents the bad debt written off against the bad debt provision in the prior periods in the amount of UAH 3,439 thousand that was recovered during 2013.

Table 9.3. Movements in provisions for impairment for 2012

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Balance as at 1 January 2012	(42,400)	(1,113)	(96,776)	(714,879)	(22,338)	(877,506)
2	(Increase)/decrease in provision for the year	(157,905)	(348)	(110,134)	(707,390)	1,475,	(974,302)
3	Bad debt written off against provision	10,528	-	728	1,367	-	12,623
4	Interest accrued on impaired loans	18,700	-	6,719	145,019	-	170,438
5	Effect of foreign currency retranslation	6	-	(550)	(2,477)	(3)	(3,024)
6	Balance as at 31 December 2012	(171,071)	(1,461)	(200,013)	(1,278,360)	(20,866)	(1,671,771)

As at 31 December 2013, accrued interest income on impaired loans and advances amounted to UAH 238,495 thousand (31 December 2012: UAH 270,814 thousand).

During the year ended 31 December 2013, gross restructured loans that would be overdue or impaired otherwise, amounted to UAH 70,192 thousand (31 December 2012: 331,709).

Table 9.4. Loans and advances by economy sector

(UAH'000)

Line	Sector	2013		2012	
		amount	%	amount	%
1	2	3	4	5	6
1	Production and distribution of electricity, gas, and water	-	0.00%	13,546	0.28%
2	Real estate, lease, engineering and services	39,893	0.92%	49,386	1.01%
3	Trade, repair of vehicles, household equipment and items of personal use	453,779	10.50%	527,592	10.79%
4	Agriculture, hunting and forestry	43,258	1.00%	226,523	4.64%
5	Processing industry	303,199	7.02%	541,696	11.08%
6	Individuals	3,480,940	80.55%	3,525,003	72.12%
7	Other	354	0.01%	3,670	0.08%
8	Total loans and advances to customers less provisions	4,321,423	100.00%	4,887,416	100.00%

Table 9.5. Loans by type of collateral for 2013

The amounts in the table below represent loans secured with collateral rather than fair value of the collateral.

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Unsecured loans	145,167	119	26,611	475,320	26,706	673,923
2	Loans secured by:	694,937	260	658,042	2,294,261	-	3,647,500
2.1	cash	51,508	-	-	1,412	-	52,920
2.2	securities	27,582	-	-	-	-	27,582
2.3	real estate	416,987	107	658,042	1,477,287	-	2,552,423
2.3.1	non-residential property	401,741	95	21,628	677,895	-	1,101,359
2.3.2	land plots	15,046	-	7,710	378,824	-	401,580
2.3.3	incl. residential mortgage	200	12	628,704	420,568	-	1,049,484
2.4	Other assets	198,860	153	-	815,562	-	1,014,575
2.4.1	movable property	76,304	-	-	-	-	76,304
2.4.2	goods in turnover	114,035	-	-	-	-	114,035
2.4.3	vehicles	4,207	153	-	815,562	-	819,922
2.4.4	ownership rights	4,314	-	-	-	-	4,314
3	Total loans and advances to customers less provisions	840,104	379	684,653	2,769,581	26,706	4,321,423

Table 9.6. Loans by type of collateral for 2012

The amounts in the table below represent loans secured with collateral rather than fair value of the collateral.

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Unsecured loans	36,677	4	10,558	274,110	26,412	347,761
2	Loans secured by:	1,321,056	4,676	743,985	2,469,938	-	4,539,655
2.1	cash	56,065	1,205	-	900	-	58,170
2.2	real estate	866,647	2,778	741,537	1,776,702	-	3,387,664
2.2.1	non-residential property	787,429	206	32,266	1,011,990	-	1,831,891
2.2.2	land	67,324	-	11,842	259,288	-	338,454
2.2.3	incl. residential mortgage	11,894	2,572	697,429	505,424	-	1,217,319
2.3	Guarantees and sureties	2,057	-	-	-	-	2,057
2.4	Other assets	396,287	693	2,448	692,336	-	1,091,764
2.4.1	movable property	93,459	-	-	996	-	94,455
2.4.2	goods in turnover	299,913	-	-	-	-	299,913
2.4.3	vehicles	2,915	693	2,448	691,340	-	697,396
3	Total loans and advances to customers less provisions	1,357,733	4,680	754,543	2,744,048	26,412	4,887,416

Table 9.7. Loan portfolio quality analysis for 2013

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Current unimpaired loans:	597,183	204	314,053	713,202	4,488	1,629,130
1.1	Significant borrowers with credit history over 2 years	144,990	-	-	-	-	144,990
1.2	New significant borrowers	280,928	-	-	-	-	280,928
1.3	Medium-size businesses	166,902	-	-	-	-	166,902
1.4	Small businesses	4,363	204	-	-	-	4,567
1.5	Other retail loans	-	-	314,053	713,202	4,488	1,031,743
2	Overdue, but unimpaired:	297	-	19,966	30,429	72	50,764
2.1	Overdue less than 30 days	297	-	15,175	20,885	39	36,396
2.2	Overdue from 31 to 90 days	-	-	4,791	9,527	33	14,351
2.3	Overdue from 91 to 180 days	-	-	-	14	-	14
2.4	Overdue from 181 to 360 days	-	-	-	3	-	3
3	Loans individually assessed for impairment	242,624	175	350,634	2,025,950	22,146	2,641,529
3.1	Overdue less than 30 days	34,782	-	20,896	12,902	-	68,580
3.2	Overdue from 31 to 90 days	-	-	3,572	3,690	-	7,262
3.3	Overdue from 91 to 180 days	22,625	-	5,194	8,961	87	36,867
3.4	Overdue from 181 to 360 days	14,696	-	18,130	95,939	159	128,924
3.5	Overdue over 361 days	170,521	175	302,842	1,904,458	21,900	2,399,896
4	Outstanding loans, gross	840,104	379	684,653	2,769,581	26,706	4,321,423
5	Provision for impairment of loans	(134,182)	(129)	(202,297)	(1,317,092)	(22,134)	(1,675,834)
6	Total outstanding loans less provisions	705,922	250	482,356	1,452,489	4,572	2,645,589

Table 9.8. Loan portfolio quality analysis for 2012

(UAH'000)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	2	3	4	5	6	7	8
1	Current unimpaired loans:	1,051,406	2,116	387,284	536,076	5,266	1,982,148
1.1	Significant borrowers with credit history over 2 years	698,454	-	-	-	-	698,454
1.2	New significant borrowers	60,714	-	-	-	-	60,714
1.3	Medium-size businesses	284,787	-	-	-	-	284,787
1.4	Small businesses	7,451	2,116	-	-	-	9,567
1.5	Other retail loans	-	-	387,284	536,076	5,266	928,626
2	Overdue, but unimpaired:	-	7	30,299	52,974	114	83,394
2.1	Overdue less than 30 days	-	7	16,560	32,186	48	48,801
2.2	Overdue from 31 to 90 days	-	-	13,599	20,767	66	34,432
2.3	Overdue from 91 to 180 days	-	-	89	15	-	104
2.4	Overdue from 181 to 360 days	-	-	51	6	-	57
3	Loans individually assessed for impairment	306,327	2,557	336,960	2,154,998	21,032	2,821,874
3.1	Overdue less than 30 days	35,608	2,345	20,755	144,617	-	203,325
3.2	Overdue from 31 to 90 days	41,987	-	10,588	42,098	-	94,673
3.3	Overdue from 91 to 180 days	32,350	-	12,291	625,068	230	669,939
3.4	Overdue from 181 to 360 days	144,029	36	25,586	295,448	515	465,614
3.5	Overdue over 361 days	52,353	176	267,740	1,047,767	20,287	1,388,323
4	Outstanding loans, gross	1,357,733	4,680	754,543	2,744,048	26,412	4,887,416
5	Provision for impairment of loans	(171,071)	(1,461)	(200,013)	(1,278,360)	(20,866)	(1,671,771)
6	Total outstanding loans less provisions	1,186,662	3,219	554,530	1,465,688	5,546	3,215,645

Table 9.9. Collateral value as at 31 December 2013 and 2012

As at 31 December 2013, loans to customers are secured with deposits amounting to UAH 56,322 thousand, guarantees issued by financial institutions amounting to UAH 29 448 thousand, real estate and land plots with fair value of UAH 2,822,404 thousand, and vehicles with fair value of UAH 909,136 thousand.

As at 31 December 2012, loans to customers are secured with deposits amounting to UAH 237,781 thousand, guarantees issued by financial institutions amounting to UAH 2,055 thousand, real estate and land plots with fair value of UAH 3,859,735 thousand, and vehicles with fair value of UAH 832,014 thousand.

During the year ended 31 December 2013, the Bank foreclosed residential and non-residential real estate amounting to UAH 64,087 thousand (During the year ended 31 December 2012: UAH 28,813 thousand).

Note 10. Securities available-for-sale

Table 10.1 Securities available-for-sale

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Debt securities:	101,727	127,186
1.1	government bonds	-	127,186
1.2	corporate bonds	101,727	-
2	Corporate shares and other securities:	34	34
2.1	measured at cost (fair value cannot be reliably measured)	34	34
3	Provision for impairment of securities available-for-sale	(156)	-
4	Total securities available-for-sale less provision	101,605	127,220

Line 4 in table 10.1 corresponds to Securities available-for-sale in the statement of financial position.

Table 10.2. Credit quality analysis of securities available-for-sale for 2013

(UAH'000)

Line	Description	Treasury bonds	Total
1	2	3	4
1	Not overdue and not impaired:	101,727	101,727
1.1	entities	101,727	101,727
2	Provision for impairment of securities available-for-sale	(156)	(156)
3	Total securities available-for-sale less provision	101,571	101,571

Table 10.3. Credit quality analysis of securities available-for-sale for 2012

(UAH'000)

Line	Description	Treasury bonds	Total
1	2	3	4
1	Not overdue and not impaired:	127,186	127,186
1.1	government institutions	127,186	127,186
2	Total securities available-for-sale less provision	127,186	127,186

Table 10.4. Movement in provision for impairment of securities available-for-sale during 2013

(UAH'000)

Line	Movement in provision	Treasury bonds	Total
1	2	3	4
1	balance as at 1 January 2013	-	-
2	Increase in provision for impairment of securities available-for-sale	(156)	(156)
3	Balance as at 31 December 2013	(156)	(156)

Table 10.5. Major investments in securities available-for-sale and other securities with non-fixed payments

(UAH'000)

Line	Company	Activity	Country of incorpora-tion	Cost (fair value cannot be reliably measured)	
				2013	2012
1	2	3	4	5	6
1	CJSC Crimean Stock Exchange	Financial markets management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial markets management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial markets management	Ukraine	20	20
4	UCE "UICE Contracting House"	Financial markets management	Ukraine	1	1
5	Total			34	34

Note 11. Investment property measured at fair value

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Fair value of investment property at the beginning of the year	10,822	-
2	Recovery of carrying value of non-current assets on disposal	(2,045)	-
3	Loss from disposal of non-current assets	(40)	-
4	Transfer from non-current assets held-for-sale and disposal group assets	-	7,997
5	Transfer from constructions and buildings	-	4,670
6	Revaluation gain/(loss)	590	(1,723)
7	Investment property revaluation recognised in equity	-	(122)
8	Fair value of investment property as at 31 December	9,327	10,822

Line 8 in Table 11 corresponds to Investment property in the statement of financial position.

Fair value of the investment property as at 31 December 2013 was appraised by LLC Kredytno Brokerske Agenstvo, an independent appraiser.

Fair value of investment property items was determined using market approach (adjusting of comparable property value).

Note 12. Property, equipment and intangible assets as at 31 December 2013

(UAH'000)

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equip-ment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
1	Carrying value as at 1 January 2012	183	323,493	91,565	6,925	4,954	1,672	1,966	161,032	16,790	608,580
1.1.	Historical (revalued) cost	183	333,177	217,792	11,200	11,918	6,950	36,913	161,032	49,008	828,173
1.2.	Depreciation/amortisation as at 1 January 2012	-	(9,684)	(126,227)	(4,275)	(6,964)	(5,278)	(34,947)	-	(32,218)	(219,593)
2	Additions	-	-	-	-	-	-	-	142,763	-	142,763
3	Property, equipment and intangible assets put into operation	-	4,268	20,929	2	250	34	51	(266,689)	241,155	-
4	Improvements of property, equipment and intangible assets	-	93	773	-	1	-	114	(1,994)	1,013	-
5	Transfers to non-current assets held-for-sale and disposal group assets	-	(1,412)	-	-	-	-	-	-	-	(1,412)
6	Other transfers	-	(5,253)	5,253	-	-	-	-	-	-	-
7	Disposals (historical (revalued) cost)	-	(1,697)	(8,511)	(1)	(1,250)	(517)	(3,364)	(148)	(1,463)	(16,951)
8	Disposals (accumulated depreciation)	-	425	6,455	-	882	475	3,043	-	1,376	12,656
9	Depreciation charge	-	(5,307)	(22,551)	(1,047)	(986)	(753)	(1,181)	-	(27,020)	(58,845)
10	Revaluation	(58)	(12,738)	-	-	-	-	-	148	-	(12,648)
10.1	Revaluation of historical cost	(58)	(22,427)	-		-	-	-	148	-	(22,337)
10.2	Revaluation of depreciation	-	9,689	-	-	-	-	-	-	-	9,689
11	Carrying value as at 31 December 2012 (as at 31 December 2013)	125	301,872	93,913	5,879	3,851	911	629	35,112	231,851	674,143
11.1	Historical (revalued) cost	125	306,749	236,236	11,201	10,919	6,467	33,714	35,112	289,713	930,236
11.2	Depreciation/amortisation	-	(4,877)	(142,323)	(5,322)	(7,068)	(5,556)	(33,085)	-	(57,862)	(256,093)

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equip-ment	Other non-current tangible assets	Construction in progress	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
	as at 31 December 2012 (as at 31 December 2013)										
12	Additions	-	15,150	2	-	-	-	-	23,562	-	38,714
13	Property, equipment and intangible assets put into operation		-	937	-	46	-	-	(9,612)	8,629	-
14	Improvements of property, equipment and intangible assets	-	280	1,024	-	2	-	35	(19,008)	17,667	-
15	Disposals (historical (revalued) cost)	-	(5,994)	(22,978)	-	(699)	(453)	(399)	-	(3,674)	(34,197)
16	Disposals (accumulated depreciation)	-	648	21,501	-	565	437	399	-	3,674	27,224
17	Depreciation charge	-	(14,525)	(24,847)	(993)	(1,272)	(298)	(439)	-	(35,446)	(77,820)
18	Revaluation	13	7,277	-	-	-	-	-	49	-	7,339
18.1	Revaluation of historical cost	13	(6,032)	-	-	-	-	-	49	-	(5,970)
18.2	Revaluation of depreciation	-	13,309	-	-	-	-	-	-	-	13,309
19	Carrying value as at 31 December 2013:	138	304,708	69,552	4,886	2,493	597	225	30,103	222,701	635,403
19.1	Historical (revalued) cost as at 31 December 2013	138	310,153	215,221	11,201	10,268	6,014	33,350	30,103	312,335	928,783
19.2	Depreciation/amortisation as at 31 December 2013	-	(5,445)	(145,669)	(6,315)	(7,775)	(5,417)	(33,125)	-	(89,634)	(293,380)

Line 11 and line 17 in Note 12 correspond to Property, equipment and intangible assets in the statement of financial position.

At 31 December 2013 land and buildings, investment property and non-current assets held for sale are revalued based on the results of an independent appraisal performed by LLC Kredytno Brokerske Agenstvo.

The method used for the appraisal is the market approach. The market approach is based upon an analysis of the results of comparable sales of similar buildings or land plots. For each item four to five comparables were selected based on the following criteria: location, type, condition, and size. Adjustments were applied to a price representing an offer rather than an actual transaction (bargain discount), location, size, condition, floor (for apartments).

Adjustments to comparables for land plots:
1) Bargain discount: -5% to -10% based on interviews with real estate brokers and expert opinion of the Appraiser,
2) Location: -20% to 10% based on expert opinion of the Appraiser,
3) Size: -32% to -19% based on expert opinion of the Appraiser,

Adjustments to comparables for apartments:
1) Bargain discount: from -3% to -5% based on interviews with real estate brokers and expert opinion of the Appraiser,
2) Location: -20% to 20% based on expert opinion of the Appraiser,
3) Size: -5% to 5% based on analysis of real estate market and expert opinion of the Appraiser,
4) Condition: from USD (500) per m² to USD 150 per m² based on cost of repair works per m2 from observable market data,
5) Floor: from -5% to 5% based on expert opinion of the Appraiser,

Adjustments to comparables for houses and non-residential premises:
1) Bargain discount: from -20% to -5% based on interviews with real estate brokers and expert opinion of the Appraiser,
2) Location: -20% to 20% based on expert opinion of the Appraiser,
3) Size: -5% to 5% based on analysis of real estate market and expert opinion of the Appraiser,
4) Condition: from USD (500) per m² to USD 150 per m² based on cost of repair works per m2 from observable market data,

As at 31 December 2013 and 2012, there are no:
- property and equipment legally restricted for ownership, use, and disposal
- pledged property and equipment
- property and equipment not in use (conservation, reconstruction, etc)
- property and equipment withdrawn from use
- property and equipment restricted for ownership
- intangible assets generated internally.

As at 31 December 2013, historical (revalued) cost of fully depreciated property, equipment, intangible assets and other fixed assets amount to UAH 144,142 thousand (31 December 2012: UAH 113,126 thousand):
- property and equipment – UAH 77,698 thousand (2012: 52,281 thousand),
- intangible assets - – UAH 34,107 thousand (2012: 34,029 thousand),
- other fixed assets- – UAH 32,337 thousand (2012: 26,816 thousand).

As at 31 December 2013, gains/(losses) on revaluation are as follows:

- recognized directly in equity – UAH 16,134 thousand (2012: UAH (8,399) thousand),
- recognized in administrative and other operating expenses – UAH (8,795) thousand (2012: UAH (4,249) thousand),

The carrying value of buildings and land plots as at 31 December 2013, if the buildings and land plots would not have been revalued, would be UAH 83,782 thousand (2012: UAH 86,862 thousand).

Note 13. Other financial assets

Table 13.1. Other financial assets

(UAH'000)

Line	Description	2013	2012
1	**2**	**3**	**4**
1	Due from customers	3,159	2,310
2	Amounts due on accrued income from cash and settlement services and other accrued income	5,607	3,110
3	Accounts receivable on credit and debit cards operations	20,376	25,306
4	Cash restricted for use	861	17,517
5	Withholding tax receivable	12,227	-
6	Other financial assets	882	1,027
7	Provision for impairment of other financial assets	(1,719)	(1,600)
8	Total other financial assets less provisions	41,393	47,670

Line 8 in Table 13.1 corresponds to Other financial assets in the statement of financial position.

Cash restricted for use comprises a savings account with the National Bank of Ukraine in the amount of UAH 859 thousand (2012: UAH 17,497 thousand) and due from banks in the amount of UAH 2 thousand (2012: UAH 20 thousand).

Table 13.2. Movement in provision for impairment of other financial assets during 2013

(UAH'000)

Line	Movement in provisions	Due from customers	Amounts due on accrued income from cash and settlement services, including overdue amounts, and other accrued income	Other	Total
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2013	(366)	(464)	(770)	(1,600)
2	(Increase)/decrease in provision for impairment during the year	(387)	161	(99)	(325)
3	Bad debts written off	28	178	-	206
4	Balance as at 31 December 2013	(725)	(125)	(869)	(1,719)

Line 2 in Table 13.2 and Table 14.2 corresponds to Provision for impairment of accounts receivable and other financial assets in the statement of comprehensive income. The difference between the amounts of Provision for impairment of accounts receivable and other financial assets in the statement of comprehensive income and the balances in Line 2 in Table 13.2 and Table 14.2 comprises the bad debt for the prior years written off against the provision for bad debt and recovered in 2013 in the amount of UAH 168 thousand.

Table 13.3. Movement in provision for impairment of other financial assets during 2012

(UAH'000)

Line	Movement in provisions	Due from customers	Amounts due on accrued income from cash and settlement services, including overdue amounts, and other accrued income	Other	Total
1	2	3	4	5	6
1	Balance as at 1 January 2012	(112)	(465)	(888)	(1,465)
2	(Increase)/decrease in provision for impairment during the year	(368)	(296)	60	(604)
3	Bad debts written off	115	298	58	471
4	Foreign exchange differences	(1)	(1)	-	(2)
5	Balance as at 31 December 2012	(366)	(464)	(770)	(1,600)

Table 13.4. Credit quality of other financial assets for 2013

(UAH'000)

Line	Description	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit cards operations	Cash restricted for use	Witholding tax receivable	Other	Total
1	2	3	4	5	6	7	8	9
1	Not overdue and not impaired accounts receivable:	2,419	5,002	20,375	861	12,227	4	40,888
1.1	Corporate customers	-	5,002	-	-	12,227	2	17,231
1.2	Individuals	2,419	-	20,375	-	-	2	22,796
1.3	Savings account with the National Bank of Ukraine	-	-	-	861	-	-	861
2	Overdue, but not impaired accounts receivable:	-	382	-	-	-	-	382
2.1	Overdue up to 31 days	-	382	-	-	-	-	382
3	Accounts receivable with specific impairment:	740	223	1	-	-	878	1,842
3.1	Overdue up to 31 days	-	59	1	-	-	8	68
3.2	Overdue 32 to 92 days	6	77	-	-	-	7	90
3.3	Overdue 93 to 183 days	63	60	-	-	-	-	123
3.4	Overdue 184 to 365 (366) days	1	23	-	-	-	173	197
3.5	Overdue more than 366 (367) days	670	4	-	-	-	690	1,364
4	Other financial assets, gross	3,159	5,607	20,376	861	12,227	882	43,112
5	Provision for impairment of other financial assets	(725)	(125)	-	-	-	(869)	(1,719)
6	Total other financial assets less provisions	2,434	5,482	20,376	861	12,227	13	41,393

Table 13.5. Credit quality of other financial assets for 2012

(UAH'000)

Line	Description	Due from customers	Amounts due on accrued income from cash and settlement services and other accrued income	Accounts receivable on credit and debit cards operations	Cash restricted for use	Other	Total
1	2	3	4	5	6	7	8
1	Not overdue and not impaired accounts receivable:	1,636	2,023	25,306	17,517	206	46,688
1.1	Corporate customers	-	1,881	-	-	-	1,881
1.2	Individuals	1,636	142	25,306	-	206	27,290
1.3	Savings account with the National Bank of Ukraine	-	-	-	17,517	-	17,517
2	Overdue, but not impaired accounts receivable:	-	297	-	-	-	297
2.1	Overdue up to 31 days	-	297	-	-	-	297
3	Accounts receivable with specific impairment:	674	790	-	-	821	2,285
3.1	Overdue up to 31 days	-	24	-	-	3	27
3.2	Overdue 32 to 92 days	615	572	-	-	98	1,285
3.3	Overdue 93 to 183 days	1	107	-	-	1	109
3.4	Overdue 184 to 365 (366) days	14	70	-	-	7	91
3.5	Overdue more than 366 (367) days	44	17	-	-	712	773
4	Other financial assets, gross	2,310	3,110	25,306	17,517	1,027	49,270
5	Provision for impairment of other financial assets	(366)	(464)	-	-	(770)	(1,600)
6	Total other financial assets less provisions	1,944	2,646	25,306	17,517	257	47,670

Note 14. Other assets

Table 14.1. Other assets

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Accounts receivable on purchase of assets	435	800
2	Prepaid services	12,265	10,593
3	Precious metals	16,662	24,738
4	Other	2,894	2,820
5	Provision for other assets	(1,427)	(514)
6	Total other assets less provisions	30,829	38,437

Line 6 in Table 14.1 corresponds to Other assets in the statement of financial position.

Table 14.2. Movement in provision for impairment of other assets during 2013

(UAH'000)

Line	Movement in provisions	Accounts receivable on purchase of assets	Prepaid services	Total
1	2	3	4	5
1	Balance as at as at 1 January 2013	(488)	(26)	(514)
2	(Increase)/decrease in provision for impairment during the year	79	(992)	(913)
3	Balance as at 31 December 2013	(409)	(1,018)	(1,427)

Table 14.3. Movement in provision for impairment of other assets during 2012

(UAH'000)

Line	Movement in provisions	Accounts receivable on purchase of assets	Prepaid services	Total
1	2	3	4	5
1	Balance as at 1 January 2012	(278)	(24)	(302)
2	Increase in provision for impairment during the year	(210)	(2)	(212)
3	Balance as at 31 December 2012	(488)	(26)	(514)

Note 15. Non-current assets held-for-sale

Table 15.1. Non-current assets held-for-sale

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Non-current assets held-for-sale:	74,653	25,041
1.1	Other assets	74,653	25,041
2	Total non-current assets held-for-sale	74,653	25,041

Line 2 in Table 15.1 corresponds to Non-current assets held-for-sale in the statement of financial position.

Non-current assets held-for-sale comprise collateral (e.g. land plots, non-residential premises) foreclosed by the Bank in accordance with Ukrainian legislation.

These assets are expected to be sold within one year from the date they were recognised as held-for-sale.

During 2013, impairment result on revaluation recognised in administrative and other operating income amount to UAH 945 thousand (2012: losses 4,040 thousand).

Fair values of the non-current assets held-for-sale as at 31 December 2013 were appraised by LLC Kredytno Brokerske Agenstvo, an independent appraiser.

Table 15.2. Disposal group assets and liabilities sold and consideration received

(UAH'000)

Line	Description	2013
1	**2**	**3**
1	Other assets	270
2	Cash inflow from disposal	270

Note 16. Due to banks

(UAH'000)

Line	Description	2013	2012
1	**2**	**3**	**4**
1	Correspondent accounts and overnight deposits	2,896	1,736
2	Loans obtained:	80,444	341,348
2.1	Short-term loans	80,444	83,694
2.2	Long-term loans	-	257,654
3	Total due to banks	83,340	343,084

Line 3 in Table 16 corresponds to Due to banks in the statement of financial position.

Line 2 Loans obtained includes accrued expenses in the amount of UAH 517 thousand (2012: UAH 1,431 thousand).

As at 31 December 2013 and 2012, due to banks in the amount of UAH 80,444 thousand and UAH 337,839 thousand, respectively, comprise amounts due to a related party and parent company Intesa Sanpaolo S.p.A. that represent significant concentration.

Note 17. Due to customers

Table 17.1. Due to customers

(UAH'000)

Line	Description	2013	2012
1	**2**	**3**	**4**
1	State and public organizations:	7,600	7,229
1.1	Current accounts	7,427	5,853
1.2	Term deposits	173	1,376
2	Other legal entities:	900,901	680,196
2.1	Current accounts	412,399	489,981
2.2	Term deposits	488,502	190,215
3	Individuals:	2,136,533	2,413,615
3.1	Current accounts	769,676	667,541
3.2	Term deposits	1,366,857	1,746,074
4	Total due to customers	3,045,034	3,101,040

Line 4 in Table 17.1 corresponds to Item "Due to customers" in the Statement of financial position.

Line 1 "State and public organizations" and Line 2 "Other legal entities" as at 31 December 2013 include accrued interest amounting to UAH 6,753 thousand (2012: UAH 2,916 thousand).

Line 3 "Individuals" as at 31 December 2013 includes accrued interest on call deposits of individuals amounting to UAH 124 thousand (2012: UAH 43 thousand) and term deposits of individuals amounting to UAH 40,746 thousand (2012: UAH 68,215 thousand).

The Bank believes that potential concentration risk may arise when at least 10% of deposits of customers (net of subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2013 and 2012, deposits of 6 and 19 Bank's customers represented 10% and 10% of the total amount of due to customers, respectively.

Table 17.2. Due to customers by type of activity

(UAH'000)

Line	Type of activity	2013		2012	
		Amount	%	Amount	%
1	2	3	4	5	6
1	State authorities	72	0.01%	46	0.01%
2	Production and distribution of electricity, gas, and water	4,938	0.16%	4,816	0.16%
3	Real estate, lease, engineering and services	64,035	2.10%	99,218	3.20%
4	Trade, repair of vehicles, household equipment and items of personal use	261,336	8.58%	229,799	7.40%
5	Agriculture, hunting and forestry	15,238	0.50%	29,641	0.95%
6	Individuals	2,136,533	70.16%	2,413,615	77.83%
7	Processing industry	230,635	7.57%	81,889	2.65%
8	Construction of buildings, specialized construction work	55,084	1.81%	33,002	1.06%
9	Other	277,163	9.11%	209,014	6.74%
10	Total due to customers	3,045,034	100.00%	3,101,040	100.00%

As at 31 December 2013, guaranteed deposits amounting to UAH 69,832 thousand are pledged to secure:

- corporate and retail loans amounting to UAH 56,322 thousand;
- guarantees issued amounting to UAH 13,510 thousand.

As at 31 December 2012, guaranteed deposits amounting to UAH 245,564 thousand are pledged to secure:

- corporate and retail loans amounting to UAH 232,024 thousand;
- guarantees issued amounting to UAH 13,540 thousand.

Note 18. Debt securities issued by the Bank

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Domestic bonds	-	99,179
2	Certificates of deposit	1	1
3	Total	1	99,180

As at 31 December 2013, the Bank has no convertible debt instruments.

Line 3 in Note 18 corresponds to Item "Debt securities issued by the Bank" in the Statement of financial position.

Note 19. Provisions for liabilities

Table 19.1. Movement in provisions for liabilities during 2013

(UAH'000)

Line	Movement in provisions	Credit related commitments	Tax risks	Litigation contingencies	Other
1	2	3	4	5	6
1	Balance as at 1 January 2013	2,996	165	1,245	4,406
2	(Decrease) in provision for impairment during the year	(1,531)	-	(382)	(1,913)
3	Amounts recovered	-	-	(616)	(616)
4	Foreign exchange differences related to provisions	31	-	-	31
5	Balance as at 31 December 2013	1,496	165	247	1,908

a) Litigations

As at 31 December 2013, the Bank's contingencies arising from disputes on employment contracts and business contracts processed in administrative courts and courts of general jurisdiction amount to UAH 30 thousand and UAH 217 thousand, respectively;

b) Tax contingencies

As at 31 December 2013, the Bank has a risk of income tax assessments that may arise from disputes with tax authorities brought to court totalling UAH 165 thousand.

Line 2 Table 19.1 corresponds to Item "Provisions" in the Statement of comprehensive income.

Line 5 Table 19.1 corresponds to Item "Provisions" in the Statement of financial position.

Table 19.2. Movement in provisions for liabilities during 2012

(UAH'000)

Line	Movement in provisions	Credit related commitments	Tax risks	Litigation contingencies	Other	Movement in provisions
1	2	3	4	5	6	7
1	Balance as at 1 January 2012	3,584	216	874	2	4,676
2	Increase/(decrease) in provision for impairment during the year	(588)	(51)	1,267	(2)	626
3	Amounts recovered	-	-	(896)	-	(896)
4	Balance as at 31 December 2012	2,996	165	1,245	-	4,406

a) Litigations

As at 31 December 2013, the Bank's contingencies arising from disputes on employment contracts and business contracts processed in administrative courts and courts of general jurisdiction total UAH 1,245 thousand;

б) Tax contingencies.

As at 31 December 2013, the Bank has a risk of income tax assessments that may arise from disputes with tax authorities brought to court totalling UAH 165 thousand.

Line 2 in Table 19.2 corresponds to Item "Provisions" in the Statement of comprehensive income.

Line 4 in Table 19.2 corresponds to Item "Provisions" in the Statement of financial position.

Note 20. Other financial liabilities

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Accounts payable to customers	80,668	99,206
2	Accounts payable for debit and credit cards	939	11,535
3	Foreign exchange transactions	5,986	63,328
4	Accounts payable for other financial instruments	3	7
5	Other accrued liabilities	407	2,083
6	Total other financial liabilities	88,003	176,159

Line 6 in Note 20 corresponds to Item "Other financial liabilities" in the Statement of financial position.

Note 21. Other liabilities

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Taxes payable, other than income tax	11,182	10,588
2	Salary payable	17,817	18,927
3	Accounts payable for assets purchased	5,518	26,486
4	Deferred income	2,497	2,331
5	Accounts payable for recruitment services	7,451	2,256
6	Accounts payable for software maintenance services	785	8,085
7	Accounts payable for services	2,396	3,557
8	Other	3,254	3,722
9	Total	50,900	75,952

Line 9 in Note 21 corresponds to Item "Other liabilities" in the Statement of financial position.

Note 22. Subordinated debt

(UAH'000)

Line	Description	2013	2012	Nominal interest rate as at 31 December 2013 %	Effective interest rate as at 31 December 2013 %	Effective interest rate as at 31 December 2012 %	Origination	Maturity
1	2	3	4	5	6	7	8	9
1	Principal amount, including:	112,702	112,702					
	Loan received	20,782	20,782	5.5831	5.5831	5.8435	12.09.2000	21.09.2015
	Loan received	35,969	35,969	5.5831	5.5831	5.8435	21.11.2000	01.11.2015
	Loan received	31,972	31,972	5.5831	5.5831	5.8435	08.06.2006	01.06.2016
	Loan received	23,979	23,979	5.5831	5.5831	5.8435	07.08.2006	31.07.2016
2	Interest accrued on subordinated loan, including:	6,393	6,764					
	Interest accrued	1,179	1,247	-	-	-	-	-
	Interest accrued	2,040	2,159	-	-	-	-	-
	Interest accrued	1,814	1,919	-	-	-	-	-
	Interest accrued	1,360	1,439	-	-	-	-	-
3	Total	119,095	119,466	-	-	-	-	-

Interest on the loan received as a subordinated debt is accrued on a monthly basis and paid at the investor's written request.

Line 3 in Note 22 corresponds to Item "Subordinated debt" in the Statement of financial position.

Note 23. Share capital and share premium

(UAH'000)

Line	Description	Outstanding shares (thousand)	Ordinary shares	Share premium	Preference shares	Total
1	2	3	4	5	6	7
1	Balance as at 1 January 2012	1,616,000	1,006,046	295,702	870	1,302,618
2	Contributions for new share issue	8,000	4,640	491,410	-	496,050
3	Closing balance as at 31 December 2012 (balance as at 1 January 2013)	1,624,000	1,010,686	787,112	870	1,798,668
4	Contributions for new share issue	12,500	7,250	734,353	-	741,603

Line	Description	Outstanding shares (thousand)	Ordinary shares	Share premium	Preference shares	Total
1	2	3	4	5	6	7
5	Closing balance as at 31 December 2013	1,636,500	1,017,936	1,521,465	870	2,540,271

As at 31 December 2013 and 2012, preference shares outstanding amount to 1,500 shares.

As at 31 December 2013 and 2012, par value of shares is UAH 0.58 per share. In accordance with Resolution No. 2/2012 dated 25 June 2012, of the General meeting of the shareholders, during 2012 share capital of the Bank was increased through increase of ordinary registered shares with the same par value by 8,000 shares due to additional contributions. Changes in Bank's charter documents were registered by the state authorities on 25 September 2012, registration number 10701050049003106.

In accordance with Resolution No. 1/2013 dated 21 March 2013, of the General meeting of the shareholders, during 2013 share capital of the Bank was increased through increase of ordinary registered shares with the same par value by 12,500 shares due to additional contributions. Changes in Bank's charter documents were registered by the state authorities on 19 June 2013, registration number 10701050055003106.

Holders of preference shares have the right to participate in profit distribution and receive dividends in the amount stipulated by their preference shares, notwithstanding the amount of Bank's net profit for the respective year.

Preferences stipulated by preference share issue terms are as follows: holders of registered preference shares are entitled to dividends of 18% per annum, notwithstanding the amount of Bank's net profit for the respective year.

In accordance with Ukrainian legislation, distributable reserves are restricted by retained earnings reported in the statutory financial statements.

Note 24. Revaluation reserves (components of other comprehensive income)

Table 24.1. Revaluation reserves (components of other comprehensive income)

(UAH'000)

Line	Description	2013	2012
1	2	3	4
Components of comprehensive income that will not be reclassified into profit or loss:			
1.	Balance as at 1 January	204,509	211,982
2	Revaluation of property and equipment	13,521	(8,931)
2.1	change in revaluation to fair value	16,134	(8,521)
2.2	realized gain/loss on revaluation recognised in retained earnings	(2,613)	(410)
3	Income tax related to revaluation of property and equipment	(2,619)	1,458
4	Total revaluation reserves (other comprehensive income), net of income tax	215,411	204,509

Note 24.2. Revaluation reserve on securities available-for-sale

(UAH'000)

Line	Description	2013	2012
1	2	3	4
Components of comprehensive income that may be subsequently reclassified into profit or loss:			
1.	Balance as at 1 January	261	(1)
2	Revaluation of securities available for sale	(855)	324
3	Income tax related to revaluation of securities available for sale	158	(62)
4	Total revaluation reserves (other comprehensive income), net of income tax	(436)	261

Note 25. Maturity analysis of assets and liabilities

(UAH'000)

Line	Description	Note	2013			2012		
			Less than 12 months	Over 12 months	Total	Less than 12 months	Over 12 months	Total
1	2	3	4	5	6	7	8	9
ASSETS								
1	Cash and cash equivalents	6	876,931	-	876,931	601,053	-	601,053
2	Mandatory reserves in the National Bank of Ukraine		110,524	-	110,524	74,125	-	74,125
3	Other financial assets at fair value through profit or loss	7	2,898	-	2,898	3,006	-	3,006
4	Due from banks	8	223,327	-	223,327	200	-	200
5	Loans and advances to customers	9	1,652,062	993,527	2,645,589	2,175,972	1,039,673	3,215,645
6	Securities available-for-sale	10	101,605	-	101,605	127,220	-	127,220
7	Investment property	11	-	9,327	9,327	-	10,822	10,822
8	Current income tax receivable		1,558	-	1,558	1,558	-	1,558
9	Deferred tax asset		-	-	-	8,066	28,659	36,725
10	Property, equipment and intangible assets	12	28,634	606,769	635,403	-	674,143	674,143
11	Other financial assets	13	41,393	-	41,393	47,670	-	47,670
12	Other assets	14	30,829	-	30,829	38,437	-	38,437
13	Non-current assets held-for-sale and disposal group assets	15	74,653	-	74,653	25,041	-	25,041
14	Total assets		3,144,414	1,609,623	4,754,037	3,102,348	1,753,297	4,855,645
LIABILITIES								
15	Due to banks	16	83,340	-	83,340	343,084	-	343,084
16	Due to customers	17	3,020,620	24, 414	3,045,034	3,056,973	44,067	3,101,040
17	Debt securities issued	18	1	-	1	99,180	-	99,180
18	Current income tax liability		1,673	-	1,673	-	-	-
19	Deferred tax liabilities		-	5,247	5,247	1,232	-	1,232
20	Provisions for liabilities	19	1,908	-	1,908	4,406	-	4,406
21	Other financial liabilities	20	87,889	114	88,003	176,012	147	176,159
22	Other liabilities	21	50,900	-	50,900	75,952	-	75,952
23	Subordinated debt	22	6,394	112,701	119,095	6,764	112,702	119,466
24	Total liabilities		3,252,725	142,476	3,395,201	3,763,603	156,916	3,920,519

In accordance with Ukrainian legislation, as at 31 December 2013, individual depositors may withdraw their funds from deposit accounts before maturity subject to 2 day notification of the Bank before the transaction. Management believes that the majority of these deposits will not be withdrawn before maturity.

As at 31 December 2013 deposits of individuals with maturity less than 1 year including accrued interest income amounted UAH 1,343,541 thousand, with maturity more than 1 year – UAH 24,414 thousand (As at 31 December 2012: UAH 1,702,383 thousand and UAH 43,691 thousand respectively).

Note 26. Interest income and expense

(UAH'000)

Line	Description	2013	2012
1	2	3	4
Interest income:			
1	Loans and advances to customers	542,024	666,434
2	Debt securities available-for-sale	17,391	13,295
3	Securities held to maturity	1,751	12
4	Due from banks	1,428	5,486

Line	Description	2013	2012
1	2	3	4
5	Cash and cash equivalents	1,016	843
6	Total interest income	563,610	686,070
Interest expense:			
7	Term deposits from legal entities	(32,071)	(21,736)
8	Debt securities issued	(4,744)	(10,819)
9	Term deposits from individuals	(202,686)	(184,759)
10	Term deposits due to banks	(11,909)	(57,193)
11	Overnight deposits due to banks	-	(24)
12	Current accounts	(64,298)	(46,310)
13	Other	(6,394)	(6,763)
14	Total interest expense	(322,102)	(327,604)
15	Net interest income	241,508	358,466

Line 15 in Note 26 corresponds to Item "Net interest income" in the Statement of comprehensive income.

Note 27. Commission income and expense

(UAH'000)

Line	Description	2013	2012
1	2	3	4
COMMISSION INCOME:			
1	Cash payments and withdrawals	156,052	184,163
2	Commission for lease of safe deposit boxes	3,759	965
3	Commission for consulting services	3,476	-
4	Dealing in securities	97	96
5	Interbank operations with plastic cards	14,225	11,975
6	Guarantees issued	746	601
7	Other	17,235	10,276
8	Total commission income	195,590	208,076
COMMISSION EXPENSE:			
9	Cash payments and withdrawals	(7,467)	(5,764)
10	Commission for services and other	(3,006)	(185)
11	Services provided by payment systems and operations with plastic cards	(6,147)	(8,697)
12	Total commission expense	(16,620)	(14,646)
13	Net commission income	178,970	193,430

Line 8 and Line 12 in Note 27 correspond to Items "Commission income" and "Commission expense" in the Statement of comprehensive income.

Note 28. Other operating income

(UAH'000)

Line	Description	2013	2012
151	2	3	4
1	Operating lease	231	151
2	Transactions with derivative financial instruments (spot foreign exchange transactions)	-	2,631
3	Penalties and fines received	9,189	6,943
4	Undrawn funds after limitation period	3,269	1,970
5	Cash collection services	497	733
6	Dividends	115	-
7	Shortages charged to responsible employees	2,032	1,519
8	Other	1,549	544
9	Total operating income	16,882	14,491

Line 9 in Note 28 corresponds to Item "Other operating income" in the Statement of comprehensive income.

Note 29. Administrative and other operating expenses

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Personnel costs	258,077	275,660
2	Recruitment services	9,475	4,747
3	Depreciation of property and equipment	42,374	31,825
4	Impairment loss arising from property and equipment revaluation	7,850	8,289
5	Amortisation of software and other intangible assets	35,446	27,020
6	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	94,853	88,297
7	Operating lease	28,926	31,845
8	Disposal of intangible assets and property and equipment	2,214	1,407
9	Cash collection and transportation	3,294	3,680
10	Services provided by payment systems on payment cards	3,411	3,247
11	Services on recovery of doubtful debts	2,408	6,615
12	Professional services	19,030	23,758
13	Marketing and advertising	1,384	2,310
14	Security	11,383	14,127
15	Taxes, other than income tax	25,918	22,700
16	Other	1,078	3,444
17	Total administrative and other operating expenses	547,121	548,971

Line 17 in Note 29 corresponds to Item "Administrative and other operating expenses" in the Statement of comprehensive income.

Note 30. Income tax expense

Table 30.1. Income tax expense

(UAH'000)

Line	Description	31.12.2013	31.12.2012
1	2	3	4
1	Current income tax	1,673	-
2	Change in deferred income tax resulting from:	38,279	92,908
2.1	origination or reversal of temporary differences	38,279	61,229
2.2	increase or decrease in tax rate	-	31,679
3	Total income tax expense	39,952	92,908

Line 3 in Table 30.1 corresponds to Item "Income tax expense" in the Statement of comprehensive income.

Table 30.2. Reconciliation of accounting loss and taxable loss

(UAH'000)

Line	Description	31.12.2013	31.12.2012
1	2	3	4
1	(Loss) / profit before tax	(290,759)	(938,432)
2	Income tax calculated applying current tax rate	(55,244)	(197,071)
3	Non-deductible tax expenses	21,788	11,660
4	Effect of change in tax rates	-	31,679
5	Changes in unrecognised deferred tax assets	73,408	246,640
6	Income tax expense	39,952	92,908

Table 30.3. Tax effects related to recognised deferred tax assets and liabilities for the year 2013

(UAH'000)

Line	Description	Balance as at 31 December 2012	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2013
1	2	3	4	5	6
1	Tax effect of temporary differences:				
1.1	Tax loss carried forward	151,889	(69,201)	-	82,688
1.2	Due from banks and loans to customers	140,211	108,165	-	248,376
1.3	Due to banks	6,879	1,053	-	7,932
1.4	Provisions for liabilities	5,440	(182)	-	5,258
1.5	Securities available-for-sale	1,307	(1,607)	158	(142)
1.6	Securities issued	415	(415)	-	-
1.7	Other assets	402	164	-	566
1.8	Due to customers	182	(293)	-	(111)
1.9	Property, equipment, intangible assets, and investment property	(5,939)	(2,555)	(2,619)	(11,113)
1.10	Provision for impairment of deferred tax assets	(265,293)	(73,408)	-	(338,701)
2	Deferred tax asset (liability), including:	35,493	(38,279)	(2,461)	(5,247)
2.1	Recognised deferred tax asset	36,725	-	-	-
2.2	Recognised deferred tax liability	(1,232)	-	-	(5,247)

Table 30.4. Tax effects related to recognised deferred tax assets and liabilities for the year 2012

(UAH'000)

Line	Description	Balance as at 31 December 2011	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2012
1	2	3	4	5	6
1	Tax effect of temporary differences:				
1.1.	Tax loss carried forward	179,789	(27,900)	-	151,889
1.2.	Due from banks and loans to customers	(48,147)	188,358	-	140,211
1.3.	Due to banks	9,420	(2,541)	-	6,879
1.4.	Provisions for liabilities	8,041	(2,601)	-	5,440
1.5.	Securities available-for-sale	(191)	1,560	(62)	1,307
1.6.	Securities issued	-	415	-	415

Line	Description	Balance as at 31 December 2011	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2012
1	2	3	4	5	6
1.7.	Other assets	370	32	-	402
1.8	Due to customers	(48)	230	-	182
1.9.	Property, equipment, intangible assets, and investment property	(3,576)	(3,821)	1,458	(5,939)
1.10.	Provision for impairment of deferred tax assets	(18,653)	(246,640)	-	(265,293)
2	Deferred tax asset (liability), including:	127,005	(92,908)	1,396	35,493
2.1	Recognised deferred tax asset	127,554	-	-	36,725
2.2	Recognised deferred tax liability	(549)	-	-	(1,232)

Note 31. (Loss)/earnings per ordinary share and preference share

Table 31.1. Basic and diluted (loss)/earnings per ordinary share and preference share

(UAH'000)

Line	Description	Note	2013	2012
1	2	3	4	5
1	(Loss) attributable to the holders of ordinary shares		(330,711)	(1,031,340)
2	Profit attributable to the holders of preference shares		157	157
3	(Loss) for the year		(330,711)	(1,031,340)
4	Annual average number of ordinary shares outstanding (in thousands of shares)		1,629,212	1,616,620
5	Annual average number of preference shares outstanding (in thousands of shares)		1,500	1,500
6	Basic and diluted (loss) per ordinary share		(0.20)	(0.64)
7	Basic and diluted earnings per preference share		0.10	0.10

Note 32. Dividends

(UAH'000)

Line	Description	2013		2012	
		Ordinary shares	Preference shares	Ordinary shares	Preference shares
1	2	3	4	5	6
1	Balance as at 1 January	-	-	-	-
2	Dividends declared for payment during the year	-	157	-	157
3	Dividends paid during the year	-	(157)	-	(157)
4	Balance as at 31 December	-	-	-	-

Note 33. Financial risks management

Substantially all lines of Bank's operations are exposed to risks. To minimise these risks, the Bank has risk measurement and control system in place operating in accordance with the Bank's internal regulations, and recommendations and requirements of the NBU. The system of internal policies of the Bank sets the framework of management systems through determination of processes, limits, functions, and responsibilities. These policies also establish risk limits and principles of risk undertaking by line of business, as well as required actions in case of exceeding limits.

Subsequent to Bank's reorganization, segregation of duties and responsibilities between business units and risk management subdivisions was implemented by the Bank in line with Intesa Sanpaolo Group practices. In addition, independent Head Office of Risk Management Department was established in the Bank.

Head Office of Risk Management Department is responsible for:

- development and implementation of methodology and processes for determination of credit risk limits (in accordance with parent company's requirements and management regulations);

- efficient assessment of risks and monitoring of loan portfolio quality;

- minimisation of losses for the Bank through appropriate measures, on a case-by-case basis, aimed at debt collection;

- identification of market and operational risks, implementation of proper procedures to ensure adequate risk minimisation.

The above functions are performed by the following subdivisions:

- Risk Management Department monitors credit, market, and operational risks and reports to management of the Bank and parent company, as well as determines loan terms and assesses risks inherent in any new product;

- Department of Underwriting ensures proper process of authorisation of retail and corporate loans for the Bank as a whole, proper process of monitoring and pre-trial collection of debts under retail and corporate loans, and supports Business Department in development retail loan products.

Main principle of Head Risk Management Department's operations consists in ensuring full segregation of duties between business units and risk management subdivisions where business units receive loan applications/products with credit risk, and the Department performs independent review and 1) takes decisions in accordance with its authority's limits, or 2) submits the preliminary assessment report to the respective body, if the amount on loan application exceeds its authority limits.

Apart from Head Risk Management Department, monitoring and management of Bank's risks are performed by the following Committees:

To ensure adequate level of risk while maintaining proper profitability, the Bank has Assets and Liabilities Management Committee (ALCO) and Credit Committee (supported by meetings on asset quality).

The main objective of ALCO is to safeguard Bank's capital, ensure its proper allocation, maintain proper liquidity level, with due consideration of cost and maturity profile, in compliance with the legislation, internal regulations, and the Parent Company's guidelines.

ALCO responsibilities include:

- regular monitoring and assessment of the balance sheet structure;

- monitoring of expected profitability of existing lines of business;

- overall market assessment, competitive benchmarking of the Bank;

- approval of terms and conditions of new financial products or changes in terms and conditions of existing financial products;

- in line with Intesa Sanpaolo Group regulations, establishment of risk management policy and risk limits to manage market, interest rate, liquidity, foreign exchange, and operational risks;

- monitoring of adherence to limits in compliance with internal regulations and external requirements.

Credit Committee is the superior body dealing with credit issues within authorities approved by the Supervisory Board. Credit Committee's responsibilities and functions include at least the following:

- development and periodic review of credit policy

- review of risk management documents on a quarterly basis

- regular review of credit procedures manual, including its principles and segregation of duties, recommendations on any changes to the Supervisory Board, as appropriate

- determination of maximum risks by segments, products, terms, currencies;

- discussion and approval of loan offers within the limit established by the Supervisory Board;

Decisions of the Credit Committee are binding and are documented in the Minutes of the Credit Committee meetings. Offers are effective from the date of the Credit Committee meeting where they were approved. Minutes of the Credit Committee meetings are filed with the Head Department of Foreign Subsidiary Banks – Credit Department.

Asset Quality assessment meetings are extended meetings of the Credit Committee intended to take necessary steps to prevent and reduce credit losses. Asset Quality assessment meetings analyze the loan portfolio and its quality, prepare recommendations on borrower classification methodology, and develop the rating system of the Bank.

Asset Quality assessment meetings fulfils the following tasks:

- approve/decline loan applications and changes in risk classification of a borrower;

- take necessary measures related to overdue loans, including provisioning, write-off, and sale of assets;

- assess regular actions aimed at overdue loan management;

- recommend to the Supervisory Board on the loan provisioning policy;

- Decisions of the Asset Quality assessment meetings are submitted to the Supervisory Board at least on a quarterly basis;

- Minutes of the Asset Quality assessment meetings include Minutes of the Credit Committee and are sent to the Head Department of Foreign Subsidiary Banks – Credit Department – of the Parent Company, Intesa Sanpaolo SpA.

Risk management is an essential element of the Bank's operational management. Therefore, before any major transaction is performed, it is analysed not only for risks arising from such transaction, but also for its impact on all areas of Bank's operations, specifically on the structure of assets and liabilities, financial performance, profitability, asset quality, compliance with the NBU's requirements.

Due to the fact that the Bank's operations are concentrated in retail segment, major risks inherent to Bank's operations are credit, liquidity, interest rate, and foreign exchange risks.

Credit risk

Credit risk is the risk of non-performance of credit obligations by a Bank's borrower (counterparty) (i.e. the risk of non-repayment or failure to repay the principal amount and the accrued interest when due).

Credit risk management comprises taking management decisions aimed at maximum possible income with minimum risk of loss based on quantitative and qualitative analysis of loan portfolio by line of business.

Ongoing monitoring of the loan portfolio is supported with proper control over timeliness of payments of the principal amount and interest, evaluation of borrower' financial position, and analysis of target use of loans.

Within credit risk management framework, the Bank develops the methodology of client tailored lending activity that contributes to high quality of the loan portfolio.

Credit risk management of the Bank includes the following activities:

- improvement of existing lending standards;

- monitoring and control over credit risk for potential non-recovery of loans and taking adequate decisions;

- solvency evaluation by counterparty, industry, competitor, etc.;

- segregation of duties in approving loan applications depending on the loan amount and potential risk;

- ensuring risk management function, non-performing loan function, and security function in place;

- diversification of the loan portfolio, i.e. placements with numerous counterparties operating in different industries in order to avoid simultaneous default by a significant number of counterparties, investing in different assets rather than concentrating funds in one or several instruments;

- establishment of placement limits per counterparty (concentration limits) based on counterparty's financial position and scope of operations in order to minimize losses in case of default of a specific counterparty;

- obtaining negotiable collateral for loans to reduce credit risk, involvement of an independent appraiser to valuate collateral, monitoring and revaluation of collateral, check of collateral for registration in the State Register of Pledged Property.

In order to reduce credit risk, the Bank employs different types and conditions for lending operations in terms of maturity, borrowers, security, interest rates, principles of interest accrual, limits, diversification of the loan portfolio, provisioning, monitoring and control over risks.

Assessment of individual credit risk by corporate borrower envisages preliminary solvency assessment, analysis of its financial position, of internal and external environment, assessment of market position, projection of cash flows, assessment of reliability, credit history, and collateral saleability. The Bank evaluates all factors that influence risks based on qualitative and quantitative indicators using internally developed methodologies of credit risk assessment for short-term and long-term loans. Such analysis and evaluation allow classifying lending operation, identifying and summarizing credit risks related to a borrower that helps assess the probability of default by the borrower and the level of risk inherent in the lending operation.

Assessment of credit risk by individual borrower considers solvency assessment, analysis of his financial position, evaluation of quality and adequacy of collateral using the methodology of evaluation of individual borrowers and entrepreneurs. Based on such evaluation, Bank's specialists prepare the summary of borrower's financial position and classify the lending operation.

Assessment of credit risk by borrower in order to set lending limits is performed in accordance with relevant regulations on setting limits on lending and interbank placements. Based on this assessment, the Bank determines whether the lending operation is acceptable and the terms of the operation, i.e. maturity, amount, interest rate.

To ensure diversification of the loan portfolio, the Bank sets flexible limits for different lending activities.

Market risk

The Bank is exposed to market risks arising from changes in interest rates, foreign exchange rates, and other market prices that mostly depend on general and specific market conditions.

ALCO sets risk limits acceptable to the Bank. In managing its market risks, the Bank applies recommendations of its Parent Company, Intesa Sanpaolo SpA, which are based on Group instructions.

The Parent Company continuously monitors market risk faced by the Bank in compliance with policies and procedures adopted by Intesa Sanpaolo SpA.

Currency risk

Currency risk is the risk of adverse changes in net foreign exchange positions due to fluctuations of currency rates. This risk has a potential impact on the Bank's profitability and capital.

Currency risk has a direct impact on the Statement on financial position and the Statement of comprehensive income, as assets and liabilities denominated in foreign currencies are to be translated into functional currency as at each reporting date.

The Bank uses limits as the key instrument for currency risk management. Limits and sublimits are applied to overall open foreign exchange position and foreign exchange position by specific currency. The system of internal limits allows comprehensive and adequate currency risk management based on principles adopted by the Bank.

In compliance with the NBU requirements, the Bank set currency risk limits and sublimits for its subdivisions for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant currency rate fluctuations.

The Bank applies the following limits:

1. Internal position limits:
- Limits for all currencies
- Limits for USD
- Limits for EUR

2. Internal position sublimits:
- Sublimits for nontrade operations (cash)
- Sublimits for precious metals

3. VaR limit
4. NBU limits for foreign exchange position:
- Limit for long foreign exchange position
- Limit for short foreign exchange position

Control over currency risk is performed through day-to-day monitoring of net foreign exchange position and other macroeconomic indicators. Risk Management Department is responsible for determining the amount of limits and control over their adherence.

Department of Market and Operational Risk Management provides Bank’s subdivisions with updated information on Bank’s sensitivity to currency risk and, if market conditions significantly deteriorate, immediately reports to Risk Management Department of Intesa Sanpaolo, which takes necessary measures and immediately informs the Board of the Group.

Risk Management Department is responsible for:
- daily analysis of Bank’s foreign exchange position;
- determination of acceptable currency risk exposure and setting limits for net foreign exchange position;
- initiating revision of Bank’s policy applicable to limits in case of deterioration of market conditions;
- control over adherence to approved limits by responsible subdivisions of the Bank.

ALCO is responsible for:
- approving limits;
- taking necessary measures, if approved limits exceed maximum acceptable amounts.

Adherence to established limits is binding for all subdivisions dealing with foreign exchange transactions.

Table 33.1. Currency risk analysis

(UAH'000)

Line	Description	As at 31 December 2013			As at 31 December 2012		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
1	2	3	4	5	6	7	8
1	USD	864,996	1,044,500	(179,504)	1,315,893	1,320,158	(4,265)
2	EUR	85,954	131,371	(45,417)	238,793	230,983	7,810
3	GBP	2,309	534	1,775	1,167	1,100	67
4	Other	42,088	37,609	4,479	54,898	49,537	5,361
5	Total	995,347	1,214,014	(218,667)	1,610,751	1,601,778	8,973

Table 33.2. Sensitivity of profit or loss and equity to potential changes in official UAH exchange rates as at the reporting date, assuming that all other variables remain constant

(UAH'000)

Line	Description	As at 31 December 2013		As at 31 December 2012	
		Effect on profit/(loss)	Effect on equity	Effect on profit/(loss)	Effect on equity
1	2	3	4	5	6
1	5% strengthening of USD	(8,975)	(8,975)	(213)	(213)
2	5% weakening of USD	8,975	8,975	213	213
3	5% strengthening of EUR	(2,271)	(2,271)	391	391
4	5% weakening of EUR	2,271	2,271	(391)	(391)
5	5% strengthening of GBP	89	89	3	3
6	5% weakening of GBP	(89)	(89)	(3)	(3)
7	5% strengthening of other currencies	224	224	268	268
8	5% weakening of other currencies	(224)	(224)	(268)	(268)

Table 33.3. Sensitivity of profit or loss and equity to potential changes in official weighted average UAH exchange rate as at the reporting date, assuming that all other variables remain constant

(UAH'000)

Line	Description	Weighted average exchange rate for 2013		Weighted average exchange rate for 2012	
		Impact on profit/(loss)	Impact on equity	Impact on profit/(loss)	Impact on equity
1	2	3	4	5	6
1	5% strengthening of USD	(9,051)	(9,051)	(212)	(212)
2	5% weakening of USD	9,051	9,051	214	214
3	5% strengthening of EUR	(3,725)	(3,725)	184	184
4	5% weakening of EUR	955	955	(577)	(577)
5	5% strengthening of GBP	117	117	2	2
6	5% weakening of GBP	(63)	(63)	(4)	(4)
7	5% strengthening of other currencies	656	656	268	268
8	5% weakening of other currencies	174	174	(268)	(268)

Interest rate risk

In assessing and managing interest rate risk the Bank uses the methodology where expected future cash flows are projected for different periods applying basis point changes in interest rates to sensitive assets and liabilities.

Financial Risk Management Committee of Intesa Sanpaolo S.p.A. approved the limit of net interest income sensitivity (+ 100 bp) at the level of +/- EUR 10 million. The limit was adopted by the Bank and is an integral part of interest rate risk management.

Key factors ensuring flexible interest rate risk management are as follows:

- liquidity aspect, i.e. availability and maintenance of sufficient liquid resources;
- price competition in lending and deposit operations by other banks;
- difficulties in forecasting movement in interest rates in Ukrainian financial market.

To mitigate interest rate risk, the Bank takes the following measures:

- prepares projections of interest rate fluctuations;
- analyzes asset and liability structure on a daily basis;
- calculates and analyzes movement in net interest margin;
- monitors liquidity gap between assets and liabilities sensitive to interest rate fluctuations;
- performs monitoring of market interest rates for financial instruments and competitive benchmarking on a monthly basis.

Following the procedures approved by the Parent Company, the Bank prepares reports for the meetings of the Board of Directors and the Supervisory Board.

If market conditions deteriorate, Department of Market and Operational Risk Management, together with Risk Management Department of Intesa Sanpaolo S.p.A., continuously monitors situation in the market and Bank's risk exposure.

Table 33.4. General analysis of interest rate risk

General analysis of interest rate risk as at 31 December 2013 and 2012 covers no financial assets and liabilities which are not sensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets, and other financial liabilities.

(UAH'000)

Line	**Description**	**On demand and less than 1 month**	**1 – 6 months**	**6 - 12 months**	**More than 1 year**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**
	2013					
1	Total financial assets	1,319,424	334,649	574,473	1,619,029	3,847,575
2	Total financial liabilities	1,738,731	1,219,237	265,186	24,316	3,247,470
3	Net interest rate gap as at the end of period	(419,307)	(884,588)	309,287	1,594,713	600,105
	2012					
4	Total financial assets	767,721	824,350	581,415	1,770,599	3,944,085
5	Total financial liabilities	1,549,054	1,839,869	230,405	43,443	3,662,771
6	Net interest rate gap as at the end of period	(781,333)	(1,015,519)	351,010	1,727,156	281,314

Table 33.4.1 Analysis of interest rate risk arising from floating rate financial liabilities

Analysis of sensitivity of profit before tax and equity to interest rate risk is presented below. Analysis comprises floating interest rate assets and liabilities.

(UAH'000)

Line	Description	For the year ended 31 December 2013		For the year ended 31 December 2012	
		1% increase in interest rate	1% decrease in interest rate	1% increase in interest rate	1% decrease in interest rate
1	2	3	4	5	6
1	Loan from Intesa Sanpaolo SpA	-	-	(6,787)	6,787
2	Subordinated debt	-	-	(1,127)	1,127
3	**Net effect on profit before tax and equity**	**-**	**-**	**(7,914)**	**7,914**

Table 33.5. Interest rates on financial instruments

(%)

Line	Description	2013				2012			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
	Assets								
1	Cash and cash equivalents	-	-	-	0.01	-	-	-	0.20
2	Due from banks	6.26	3.00	-	-	-	-	-	-
3	Loans and advances to customers	14.81	10.86	10.70	-	16.33	10.73	9.60	-
4	Debt securities available for sale	15.06	-	-	-	15.00	9.24	-	-
	Liabilities								
5	Due to banks	-	6.29	-	-	-	6.69	-	-
6	Due to customers:								
6.1	Current accounts	1.99	1.07	0.94	-	1.16	0.83	1.13	-
6.2	Term deposits	16.13	6.34	4.22	4.50	18.93	6.80	4.39	4.05
7	Debt securities issued	-	-	-	-	12.50	-	-	-
8	Subordinated debt	-	5.58	-	-	-	5.84	-	-

Other market price risk

Other market price risk arises in connection with the Bank's investments in securities. Investments in securities are made within the prescribed limits. Limits on transactions with securities are set by the relevant committee of the Parent company. Limits are established in the light of issuers and specific issues of securities. Limits are established with the limited term of effect and after that they are being reviewed.

The Treasury and Investment Banking Department initiates the necessity to establish the limits. The Risk Management Department provides assessment of the possibility to establish such limits. After that the relevant materials are submitted to the relevant committee of the Parent company.

The Risk Management Department monitors the compliance with the established limits on the permanent basis.

Geographic risk

Geographic risk is determined by specifics of the certain administrative and geographical region with conditions other than the average conditions in the country in general. The differences may refer to climate, national, political, legislative and other characteristics of the region which influence on the borrower's position and, therefore, become a component of credit risk.

Concentration of assets and liabilities by region is shown in tables 33.6, 33.7.

Table 33.6 Analysis of geographic concentration of financial assets and financial liabilities for 2013

(UAH'000)

Line	Description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	698,933	167,618	10,380	876,931
2	Mandatory reserves with the National Bank of Ukraine	110,524	-	-	110,524
3	Other financial assets at fair value through profit or loss	-	2,898	-	2,898
4	Due from banks	223,327	-	-	223,327
5	Loans and advances to customers	2,638,112	6,819	658	2,645,589
6	Securities available-for-sale	101,605	-	-	101,605
7	Other financial assets	29,165	12,227	1	41,393
8	Total financial assets	3,801,666	189,562	11,039	4,002,267
	Liabilities				
9	Due to banks	2,892	-	80,448	83,340
10	Due to customers	3,029,012	8,892	7,130	3,045,034
11	Debt securities issued by the Bank	1	-	-	1
12	Other financial liabilities	87,573	426	4	88,003
13	Subordinated debt	-	-	119,095	119,095
14	Total financial liabilities	3,119,478	9,318	206,677	3,335,473
15	Net on balance sheet position	682,188	180,244	(195,638)	666,794
16	Credit-related obligations	10,124	-,	-	10,124

Table 33.7 Analysis of geographic concentration of financial assets and financial liabilities for 2012

(UAH'000)

Line	Description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	414,820	178,897	7,336	601,053
2	Mandatory reserves with the National Bank of Ukraine	74,125	-	-	74,125
4	Other financial assets at fair value through profit or loss	3,006	-	-	3,006
5	Due from banks	200	-	-	200
6	Loans and advances to customers	3,157,981	56,783	881	3,215,645
7	Securities available-for-sale	127,220	-	-	127,220
8	Other financial assets	47,668	2	-	47,670
9	Total financial assets	3,825,020	235,682	8,217	4,068,919
	Liabilities				
10	Due to banks	5,242	257,654	80,188	343,084
11	Due to customers	3,050,000	19,830	31,210	3,101,040
12	Debt securities issued by the Bank	99,180	-	-	99,180
13	Other financial liabilities	111,595	63,044	1,520	176,159
14	Subordinated debt	-	-	119,466	119,466
15	Total financial liabilities	3,266,017	340,528	232,384	3,838,929
16	Net on balance sheet position	559,003	(104,846)	(224,167)	229,990
17	Credit-related obligations	31,948	-	-	31,948

Liquidity risk

Liquidity risk is managed in compliance with the Bank's policy on liquidity risk management.

Liquidity risk is the risk that the Bank shall be unable to exercise its obligations within the established term due to lack of possibility to attract assets at the market or sell its liquidity assets. The Bank is able to cover cash outflow on account of funds, marketable assets and its own ability to receive loans. In particular, under the market crisis it becomes rather difficult (or practically impossible) to sell such marketable assets or use them in security for cash. From this point of view the liquidity risk is closely connected with the liquidity terms at the market.

To manage the liquidity risk the Bank constantly monitors future expected cash flows at operations with customers and intra-banking transactions, which is a part of the assets/liabilities management process. The Bank determines the liquidity risk and manages it based on the internal liquidity ratios and based on liquidity ratios established by the NBU.

Liquidity risk management covers current and term liquidity management, as well as liquidity management under the extraordinary conditions.

The process of liquidity risk management of the Bank is divided into three macro zones: (I) short-term, (II) structural and (III) extraordinary plan.

Short-term liquidity comprises the system of indices, limits and threshold limits of liquidity, which the Bank is exposed within the short-term period, used for establishing of the maximum risk which the Bank is ready to challenge and ensure the best approach to its management. The short-term period is accepted as the most important period considering that in case of problems with liquidity the Bank's solvency during the first several days is the critical factor for further development of any crisis situation.

Structural liquidity involves the system of actions and limits aimed at control and management of risks, arising due to inconsistency between the maturities of medium-term/long-term assets and liabilities, which are critically important for strategic planning of liquidity management and for avoidance of further deficit of short-term liquidity.

The issues of liquidity management under the crisis situations due to deterioration of the Bank's financial position have been specified in the Contingency Plan.

The Contingency Plan determines the system of indices for identification of the unforeseen conditions which may lead to deterioration of the Bank's liquidity position. Such plan comprises the list of authorities and procedures to be implemented under the extreme conditions.

The extraordinary situation in the light of liquidity may be related to market situation or the specific banking situation, whereas in view of its duration such situation may be classified as a temporary (several days) or a long one.

The Contingency Plan provides:

- detection of the initial indices of liquidity lack, their permanent control and determination of procedures to be implemented when the lack of liquidity becomes evident;
- legitimating of the actions of management responsible for administration of the extraordinary liquidity who should be able to the quick change of assets and liabilities structure;
- a range of instruments for immediate actions and intermediation to resolve the extraordinary situation.

Table 33.8 Analysis of financial liabilities by maturities for 2013

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2013 are as follows:

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Total
1	2	3	4	5	6	7
1	Due to banks	2,896	81,195	-	-	84,091
2	Due to customers:	1,637,809	694,758	793,320	26,626	3,152,513
2.1	Due to individuals	981,848	530,754	687,520	26,626	2,226,748
2.2	Other	655,961	164,004	105,800	-	925,765
3	Debt securities, issued by the Bank	1	-	-	-	1
4	Subordinated debt	6,928	1,017	4,740	119,849	132,534
5	Other financial liabilities	85,761	638	1,490	114	88,003
6	Financial guarantees	23,458	-	-	-	23,458
7	Other credit-related obligations	10,124	-	-	-	10,124
8	Total potential future payments per financial obligations	1,766,977	777,608	799,550	146,589	3,490,724

Table 33.9 Analysis of financial liabilities by maturities for 2012

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2012 are as follows:

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
1	Due to banks	5,245	-	351,057	-	-	356,302
2	Due to customers:	1,549,874	759,272	814,041	53,757	-	3,176,944
2.1	Due to individuals	956,658	737,875	729,834	53,503	-	2,477,870
2.2	Other	593,216	21,397	84,207	254	-	699,074
3	Debt securities, issued by the Bank	-	-	104,043	-	-	104,043
4	Subordinated debt	559	1,101	4,926	133,526	-	140,112
5	Other financial liabilities	162,303	664	13,045	142	6	176,160
6	Financial guarantees	28,069	2,055	-	-	-	30,124
7	Other credit-related obligations	31,948	-	-	-	,	31,948
8	Total potential future payments per financial obligations	1,777,998	763,092	1,287,112	187,425	6	4,015,633

Table 33.10. Analysis of financial assets and liabilities based on contractual maturities for 2013

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	876,931	-	-	-	-	876,931
2	Other financial assets at fair value through profit or loss	2,898	-	-	-	-	2,898
3	Due from banks	223,327	-	-	-	-	223,327
4	Loans and advances to	807,739	281,702	562,621	659,489	334,038	2, 645, 589

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
	customers						
5	Securities available-for-sale	2,153	99,452	-	-	-	101,605
6	Other financial assets	39,578	1,815	-	-	-	41,393
7	Total financial assets	1,952,626	382,969	562,621	659,489	334,038	3,891,743
	Liabilities						
8	Due to banks	2,896	80.444	-	-	-	83,340
9	Due to customers	1,620,283	661,742	738,595	24,414	-	3,045,034
10	Debt securities issued by the Bank	1	-	-	-	-	1
11	Other financial liabilities	85,761	638	1,490	114	-	88,003
12	Subordinated debt	6,394	-	-	112,701	-	119,095
13	Total financial liabilities	1,715,335	742,824	740,085	137,229	-	3,335,473
14	Net liquidity gap as at 31 December	237,291	(359,855)	(177,464)	522,260	334,038	556,270
15	Cumulative liquidity gap as at 31 December 2013	237,291	(122,564)	(300,028)	222,232	556, 270	-

Table 33.11 Analysis of financial assets and liabilities based on contractual maturities for 2012

(UAH'000)

Line	Description	On demand and up to 1 month	1 to 3 months	3 - 12 months	12 months to 5 years	More than 5 years	Total
1	2	3	4	5	6	7	8
	Assets						
1	Cash and cash equivalents	601,053	-	-	-	-	601,053
2	Other financial assets at fair value through profit or loss	3,006	-	-	-	-	3,006
3	Due from banks	200	-	-	-	-	200
4	Loans and advances to customers	166,469	264,290	1,014,288	1,086,965	683,633	3,215,645
5	Securities available-for-sale	34	127,186	-	-	-	127,220
6	Other financial assets	22,175	191	25,304	-	-	47,670
7	Total financial assets	792,937	391,667	1,039,592	1,086,965	683,633	3,994,794
	Liabilities						
8	Due to banks	5,245	-	337,839	-	-	343,084
9	Due to customers	1,543,808	739,379	774,410	43,443		3,101,040
10	Debt securities issued by the Bank	1	-	99,179	-	-	99,180
11	Other financial liabilities	162,302	664	13,045	142	6	176,159
12	Subordinated debt	-	-	-	119,466	-	119,466
13	Total financial liabilities	1,711,356	740,043	1,224,473	163,051	6	3,838,929
14	Net liquidity gap as at 31 December	(918,419)	(348,376)	(184,881)	923,914	683,627	155,865
15	Cumulative liquidity gap as at 31 December 2013	(918,419)	(1,266,795)	(1,451,676)	(527,762)	155,865	-

Note 34. Capital management

The Bank's shareholders give sufficient deal of interest to capital increase, specifically, to increase of the share capital as the key component of capital.

The Bank's capital is formed for the purpose of:

– highly profitable use of own assets;

– covering of all risks accepted by the Bank;

– optimization of assets and liabilities structure by ageing and investment of funds.

In 2013 the Bank's share capital was increased by the total amount of UAH 740,773 thousand. As at 31 December 2013 the Bank's share capital and share premium equal UAH 2,470,331 thousand.

The Bank performs a strict control of the established regulatory normatives on a daily basis in accordance with requirements of "Instruction on procedure of Ukrainian banks activity regulation", approved by NBU Resolution No.368 dd. August 28th, 2001.
The NBU sets and monitors capital requirements for the Bank as a whole. The Bank is directly supervised by their local regulators.
Under the current capital requirements set by the NBU, banks have to maintain a ratio of capital to risk weighted assets (regulatory capital ratio) above the prescribed minimum level. As at 31 December 2013, the minimum level required by the NBU is 10.0% (31 December 2012: 10.0%).

As at 31 December 2013 regulatory capital adequacy ratio, ratio of regulatory capital to total assets and ratio of regulatory capital to obligations equal to 17.54% (the regulatory ratio is no less than 10%), 12.51% ((the regulatory ratio is no less than 9 %) and 18.77% (the regulatory ratio is no less than 10 %), accordingly.

Table 34.1. Regulatory capital structure

(UAH'000)

Line	Description	2013
1	**2**	**3**
	Core regulatory capital	489,494
1	Share capital	949,170
2	Share premium	1,521,161
3	Total reserves under NBU legislation	1,332
4	Intangible assets	(312,238)
5	Amortisation of intangible assets	89,634
6	Capital investments in intangible assets	(24,227)
7	Uncovered losses of past years	(1,546,962)
8	Estimated loss	(188,376)
	Additional capital	242,804
9	Provisions for standard indebtedness	43,097
10	Retained earnings of past years	1,745
11	Fixed assets revaluation result	141,531
12	Subordinated debt	56,431
	Deductions	(2,670)
13	Transactions with insiders	(121)
14	Corporate shares and other securities without fixed income issued by the Bank, held for trade and available for sale	(2,549)
15	Total regulatory capital	729,628

As at 31 December 2012 the Bank performed calculations of the regulatory capital, considering all adjusting entries made in the balance sheet for the regulatory capital purposes only (the adjusting entries relating to balances as at 31 December 2012 were processed by the Bank on 14 March 2013), including adjustments in respect of loan losses in accordance with NBU's Regulations "On calculation of the provision" No. 23 dated 25 January 2012. Based on this, the calculation as at 31 December 2012 which included adjusting entries, the Bank determined that it was in deficit of the regulatory capital requirements compared to the minimum required level.

In order to strengthen the regulatory capital the following measures were taken in 2013:

On 5 March 2013 the sole shareholder, being the parent company, Intesa Sanpaolo S.p.A. made a decision to increase capital of PJSCCB "PRAVEX-BANK by EUR 70 million, which will be converted to Ukrainian hryvnias as at the date of purchase of shares. In accordance with Resolution No. 1/2013 dated 21 March 2013, of the General meeting of the shareholders, during 2013 share capital of the Bank was increased through increase in ordinary registered shares with the same par value by 12,500 shares due to additional contributions. Changes in Bank's foundation documents were registered with the state authorities on 19 June 2013, registration number 10701050055003106.

Additionally, in March 2013, the Parent Company Intesa Sanpaolo S.p.A. provided a guarantee amounting to USD 108,793 thousand for doubtful loans. This resulted in a decrease by UAH 676,003 thousand of the adjustment for loan losses used in the calculation of the regulatory capital requirements as at 14 March 2013. Adjustment for loan losses was determined in accordance with the Regulation of the National Bank of Ukraine # 23 "On calculation of the provision" dated 25 January 2012. Such decrease had a positive impact on certain economic ratios, specifically the regulatory capital amount calculated in accordance with the regulatory requirements. The guarantee had no impact on the level of the loan loss impairment provisions under IFRS recognized in these financial statements.

Table 34.2. The composition of capital calculated in accordance with the requirements of the Basel Accord II

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Tier I capital	896,919	469,907
2	Tier II capital	143,301	162,202
3	Total	1,040,220	632,109
4	Risk-weighted assets	2,622,621	3,151,235
5	Market risk	218,363	13,435
6	Tier I capital adequacy ratio	31.57%	14.85%
7	Capital adequacy ratio	36.61%	19.97%

Note 35. Contingent liabilities

Capital investments commitments.

As at 31 December 2013, PJSCCB "PRAVEX-BANK" had contractual obligations on purchase of property and equipment, and intangible assets amounting to UAH 1,419 thousand.

Insurance

The insurance industry in Ukraine is in a developing stage and many forms of insurance protection common in other countries are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of damage arising from accidents on Bank property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the operations and financial position.

Table 35.1 Structure of credit related commitments

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	Outstanding credit related commitments	1,598	5,735
2	Undrawn credit lines	573,331	387,721
3	Export letters of credit	16,590	11,866
4	Import letters of credit	6,477	6,192
5	Guarantees issued	18,315	23,342
6	Provision for credit related commitments	(1,496)	(794)

Line	Description	2013	2012
1	2	3	4
7	Total credit related commitments less provision	614,815	434,062

The Bank has outstanding commitments to extend loans. These commitments take the form of approved loans and credit card limits and overdraft facilities. Total outstanding contractual commitments do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Table 35.2 Credit related commitments by currency

(UAH'000)

Line	Description	2013	2012
1	2	3	4
1	UAH	326,728	194,824
2	USD	211,148	186,744
3	Euro	74,768	50,126
4	Other	2,171	2,368
5	Total	614,815	434,062

Table 35.3 Assets pledged, but not derecognised

(UAH'000)

Line	Description	2013		2012	
		Pledged assets	Secured liability	Pledged assets	Secured liability
1	2	3	4	5	6
1	Securities available-for-sale	-	-	3,709	-
2	Total	-	-	3,709	-

Note 36. Fair value of financial instruments

Fair value of a financial instrument is defined as the amount for which an asset could be exchanged, or a liability settled, between the knowledgeable, willing and independent parties. Fair value estimates are based on the assumption that the Bank will continue its activities in future without any liquidation or essential reduction of transactions or carrying on transactions on unfavourable conditions. Fair value represents credit quality of financial instrument, as it includes the risk of counterparty's default.

Fair value estimates are based on prices received at financial markets in case of financial instruments quoted in an active market or using internal estimation methods in case of other financial instruments. Market is considered to be active when prices are easily quoted and available on the regular basis (by means of stock exchange, dealer, broker, industrial group, price informational service or regulating authority) and represent actual regular arm's length transactions between independent parties.

When market does not operate on the regular basis and it is no sufficient volatility and constant number of transactions, as well as the difference between purchase price and selling price is inadequate, fair value estimates are mainly based on estimation methods aimed at establishing of the price of hypothetic commercial transaction between independent parties as at the estimation date.

Table 36.1 Analysis of fair value of financial instruments

(UAH'000)

Line	Description	2013		2012	
		Fair value	Book value	Fair value	Book value
1	2	3	4	5	6
	FINANCIAL ASSETS				

Line	Description	2013		2012	
		Fair value	**Book value**	**Fair value**	**Book value**
1	**2**	**3**	**4**	**5**	**6**
1	Cash and cash equivalents	876,931	876,931	601,053	601,053
1.1	Cash	303,471	303,471	281,362	281,362
1.2	Balances with the NBU (other than mandatory reserves)	392,495	392,495	131,996	131,996
1.3	Corresponding accounts due from banks:	180,965	180,965	187,695	187,695
2	Obligatory reserves with the NBU	110,524	110,524	74,125	74,125
3	Other financial assets at fair value, through profit or loss	2,898	2,898	3,006	3,006
4	Due from banks	223,327	223,327	200	200
4.1	Deposits due from banks:	200	200	200	200
4.2	Loans, issued to other banks:	223,127	223,127	-	-
5	Loans and advances to customers	2,538,530	2,645,589	3,202,856	3,215,645
6	Securities available for sale	101,605	101,605	127,220	127,220
6.1	State bonds	101,571	101,571	127,186	127,186
6.2	Corporate shares and other securities without fixed income	34	34	34	34
	Other financial assets (except measured at fair value, through profit or loss)	38,495	38,495	44,664	44,664
	FINANCIAL LIABILITIES				
7	Due to banks	83,340	83,340	343,084	343,084
7.1	Correspondent accounts, deposits and overnight loans due to banks	2,896	2,896	1,736	1,736
7.2	Loans received	80,444	80,444	341,348	341,348
8	Due to customers	3,037,212	3,045,034	3,089,976	3,101,040
9	Debt securities issued by the Bank	1	1	99,180	99,180
9.1	Domestic bonds	-	-	99,179	99,179
9.2	Deposit certificate	1	1	1	1
10	Subordinated debt	119,095	119,095	119,466	119,466
11	Other financial liabilities	88,003	88,003	176,159	176,159

Table 36.2 Analysis of fair value of financial instruments by hierarchy level as at 31 December 2013

(UAH'000)

Line	Description	Fair value by measurement method as at 31 December 2013			Total fair value	Total carrying value
		Quoted market price (level I)	Valuation technique using observable inputs (level II)	Valuation technique with significant unobservable inputs (level III)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	876,931	-	876,931	876,931
2	Obligatory reserves with the NBU	-	110,524	-	110,524	110,524
3	Other financial assets at fair value, through profit or loss	2,898	-	-	2,898	2,898
4	Due from banks	-	223,327	-	223,327	223,327
5	Loans and advances to customers	-	-	2,538,530	2,538,530	2,645,589
6	Securities available for sale	-	101,605	-	101,605	101,605
7	Other financial assets	-	41,393	-	41,393	41,393
	FINANCIAL LIAILITIES					
8	Due to banks	-	83,340	-	83,340	83,340
9	Due to customers	-	3,037,212	-	3,037,212	3,045,034
10	Debt securities issued by the Bank	-	1	-	1	1
11	Subordinated debt	-	119,095	-	119,095	119,095
12	Other financial liabilities	-	88,003	-	88,003	88,003

Table 36.3 Analysis of fair value of financial instruments by hierarchy level as at 31 December 2012

(UAH'000)

Line	Description	Fair value by measurement method as at 31 December 2012			Total fair value	Total carrying value
		Quoted market price (level I)	Valuation technique using observable inputs (level II)	Valuation technique with significant unobservable inputs (level III)		
1	2	3	4	5	6	7
	FINANCIAL ASSETS					
1	Cash and cash equivalents	-	601,053	-	601,053	601,053
2	Obligatory reserves with the NBU	-	74,125	-	74,125	74,125
3	Other financial assets at fair value, through profit	3,006	-	-	3,006	3,006

Line	Description	Fair value by measurement method as at 31 December 2012			Total fair value	Total carrying value
		Quoted market price (level I)	**Valuation technique using observable inputs (level II)**	**Valuation technique with significant unobservable inputs (level III)**		
1	**2**	**3**	**4**	**5**	**6**	**7**
	or loss					
4	Due from banks	-	200	-	200	200
5	Loans and advances to customers	-	-	3,202,856	3,202,856	3,215,645
6	Securities available for sale	127,220	-	-	127,220	127,220
7	Other financial assets	-	47,670	-	47,670	47,670
	FINANCIAL LIABILITIES					
8	Due to banks	-	343,084	-	343,084	343,084
9	Due to customers	-	3,089,976	-	3,089,976	3,101,040
10	Debt securities issued by the Bank	-	99,180	-	99,180	99,180
11	Subordinated debt	-	119,466	-	119,466	119,466
12	Other financial liabilities	-	176,159	-	176,159	176,159

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having maturity less than one month it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to funds on demand, savings accounts without a specific maturity, variable rate financial instruments, loans issued or deposits placed less than one month before reporting date.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing loans and deposits is based on discounted cash flows using discount rates for assets and liabilities with similar credit risk and maturity. For quoted shares and debts issued, the fair values are calculated based on quoted market prices on active markets for identical assets or liabilities. For shares and debts issued where quoted market prices on active markets are not available, a discounted cash flow model is used based on yield to maturity for similar financial instruments quoted on active markets.

Table 36.4. Significant unobservable inputs used in the measuring instruments categorized as Level 3 in the fair value hierarchy

(UAH'000)

Year	Type of financial instrument	Fair value	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Fair value sensitivity to unobservable inputs
1	2	3	4	5	6	7
2013	Loans and advances to customers	2,538,530	Cash flow discounting	Discount rate	8.2% – 26.4%	Significant increase of discount rate results in lower values of fair value
2012	Loans and advances to customers	3,202,856	Cash flow discounting	Discount rate	7.7% – 27.2%	Significant increase of discount rate results in lower values of fair value

Note 37. Presentation of financial instruments by measurement category

Table 37.1 Financial assets by measurement category for 2013

(UAH'000)

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
1	Cash and cash equivalents	876,931	-	-	876,931
2	Mandatory reserves with the National Bank of Ukraine	110,524	-	-	110,524
3	Other financial assets at fair value through profit or loss	-	-	2,898	2,898
4	Due from banks:	223,327	-	-	223,327
4.1	Deposits due from banks	200	-	-	200
4.2	Loans to banks	223,127	-	-	223,127
5	Loans and advances to customers:	2,645,589	-	-	2,645,589
5.1	corporate loans	840,104	-	-	840,104
5.2	loans to individual entrepreneurs	379	-	-	379
5.3	mortgage loans to individuals	684,653	-	-	684,653
5.4	consumer loans to individuals	2,769,581	-	-	2,769,581
5.5	other retail loans	26,706	-	-	26,706
5.6	loan impairment provision	(1,675,834)	-	-	(1,675,834)
6	Securities available-for-sale	-	101,605	-	101,605
7	Other financial assets:	41,393	-	-	41,393
7.1	Receivables on transactions with customers	3,159	-	-	3,159
7.2	Receivables on accrued income on cash payments and other accrued income	5,607	-	-	5,607
7.3	receivables on payment card transactions	20,376	-	-	20,376
7.4	Cash restricted for use	861	-	-	861
7.5	Receivables on withholding tax	12,227	-	-	12,227

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
	recovery				
7.6	Other financial assets	882	-	-	882
7.7	Impairment loss provision on other financial assets	(1,719)	-	-	(1,719)
8	Total financial assets	3,897,764	101,605	2,898	4,002,267

Table 37.2. Financial assets by measurement category for 2012

(UAH'000)

Line	Description	Loans and receivables	Assets available-for-sale	Financial assets at fair value through profit or loss (assets held for trading)	Total
1	2	3	4	5	6
1	Cash and cash equivalents	601,053	-	-	601,053
2	Mandatory reserves with the National Bank of Ukraine	74,125	-	-	74,125
3	Other financial assets at fair value through profit or loss	-	-	3,006	3,006
4	Due from banks:	200	-	-	200
4.1.	Deposits due from banks	200	-	-	200
4.2	Loans to banks	-	-	-	-
5	Loans and advances to customers:	3,215,645	-	-	3,215,645
5.1.	corporate loans	1,357,733	-	-	1,357,733
5.2.	loans to individual entrepreneurs	4,680	-	-	4,680
5.3.	mortgage loans to individuals	754,543	-	-	754,543
5.4.	consumer loans to individuals	2,744,048	-	-	2,744,048
5.5.	other retail loans	26,412	-	-	26,412
5.6.	loan impairment provision	(1,671,771)	-	-	(1,671,771)
6	Securities available-for-sale	-	127,220	-	127,220
7	Other financial assets:	47,670	-	-	47,670
7.1.	Receivables on transactions with customers	2,310	-	-	2,310
7.2.	Receivables on accrued income on cash payments and other accrued income	3,110	-	-	3,110
7.3.	receivables on payment card transactions	25,306	-	-	25,306
7.4.	Cash restricted for use	17,517	-	-	17,517
7.5.	Other financial assets	1,027	-	-	1,027
7.6.	Impairment loss provision on other financial assets	(1,600)	-	-	(1,600)
8	Total financial assets	3,938,693	127,220	3,006	4,068,919

Note 38. Transactions with related parties

Table 38.1. Balances with related parties as at 31 December 2013

(UAH'000)

Line	Description	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Other	Interest rate	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Major shareholders												
1	Cash and cash equivalents	-	-	-	135,382	-	on demand	1,443	-	on demand	566	-	on demand
2	Other financial assets at fair value through profit or loss-	-	-	-	-	-	-	2,898	-	on demand	-	-	-
3	Other assets	-	-	-	16	-	from 1 to 1.5 years	76	-	from 1.5 to 2 years	-	-	-
4	Other financial assets	-	-	-	12,226	-	on demand	-	-	-	-	-	-
5	Other financial liabilities	5	-	on demand	-	-	-	322	-	on demand	-	-	-
6	Other liabilities	1	-	on demand	-	-	-	7,750	-	On demand-90 days	-	-	-
	Key management												
7	Due to customers	601	0 - 17%	on demand – up to 1.5 years	498	0 - 7%	on demand – up to 1,5 years	138	0 - 3%	on demand	-	-	-
8	Other liabilities	236	-	on demand	-	-	-	-	-	-	-	-	-
	Other related parties												
9	Cash and cash equivalents	-	-	-	1,756	-	on demand	-	-	-	2 591	-	on demand
10	Due to banks	-	-	-	80,444	6.29%	from 32 to 92 days	-	-	-	-	-	-
11	Other financial liabilities	-	-	-	18	-	on demand	-	-	-	1	-	on demand
12	Other liabilities	-	-	-	-	-	-	992	-	from 2 to 62 days	-	-	-

Related parties comprise entities under common control, members of the Supervisory board, key management personal and their immediate family members, companies that are controlled or significantly influenced by shareholders, by key management personal or by their close family members.

Table 38.2. Transactions with related parties for 2013

(UAH'000)

Line	Description	Major shareholders	Key management	Other related parties
1	2	3	4	5
1	Interest income	(7,754)	(128)	(4,140)
2	Revaluation surplus on other financial assets at fair value through profit or loss	573	-	-
3	Gains less losses from foreign currency translation	4,615	(16)	9
4	Commission income	755	24	-
5	Commission expense	(1,229)	-	(142)
6	Other operating income	115	-	-
7	Administrative and other operating expenses	(17)	(7,836)	(437)

Table 38.3 Balances with related parties as at 31 December 2012

(UAH'000)

Line	Description	UAH	Interest rate	Maturity	USD	Interest rate	Maturity	EUR	Interest rate	Maturity	Other	Interest rate	Maturity
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
	Major shareholders												
1	Cash and cash equivalents	-	-	-	416	-	On demand	678	-	On demand	361	-	On demand
2	Other financial assets at fair value through profit or loss-	-	-	-	-	-	-	3,006	0.00134%	On demand	-	-	-
3	Due to banks	-	-	-	257,654	4.14-7.16722%	from 3 to 12 months	-	-	-	-	-	-
4	Other financial liabilities	-	-	-	-	-	-	63,042	-	On demand	-	-	-
5	Other liabilities	-	-	-	-	-	-	3,104	-	On demand	-	-	-
	Key management												
6	Due to customers	770	6–18/%	from 1 to 3 months	991	0 - 8%	from 3 to 12 months	-	-	-	-	-	-
7	Other liabilities	155	-	On demand	-	-	-	-	-	-	-	-	-
	Other related parties												
8	Cash and cash equivalents	-	-	-	133	-	On demand	-	-	-	1,613	-	On demand
9	Loans and advances	2	27%	On demand	-	-	-	-	-	-	-	-	-
10	Due to banks	-	-	-	80,185	4.14%	from 3 to 12 months	-	-	-	-	-	-
11	Due to customers	102	13-17.5/%	Up to month	537	3%	On demand	-	-	-	-	-	-
12	Other liabilities	65	-	On demand	-	-	-	-	-	-	-	-	-

Table 38.4. Transactions with related parties for 2012

(UAH'000)

Line	Description	Major shareholders	Key management	Other related parties
1	**2**	**3**	**4**	**5**
1	Interest income	12	-	45
2	Interest expense	(51,350)	(142)	(283)
3	Revaluation surplus on other financial assets at fair value through profit or loss	746	-	-
4	Gains less losses from dealing in foreign currency	633	-	-
5	Gains less losses from foreign currency translation	(3,248)	(5)	8
6	Commission income	1,000	29	6
7	Commission expense	(374)	-	(11)
8	Administrative and other operating expenses	(5,934)	(21,423)	(2,712)

Table 38.5. Other rights and liabilities on transactions with related parties as at 31 December 2012

(UAH'000)

Line	Description	Major shareholders
1	**2**	**3**
1	Guarantees received	2,107

Table 38.6. Loans granted to and repaid by related parties during 2012

(UAH'000)

Line	Description	Major shareholders
1	**2**	**3**
1	Loans repaid by related parties during the year	50

Table 38.7. Remuneration to key management

(UAH'000)

Line	Description	2013		2012	
		Costs	Accrued liabilities	Costs	Accrued liabilities
1	**2**	**3**	**4**	**5**	**6**
1	Short-term employee benefits	4,396	236	14,734	155
2	Dismissal costs	-	-	4,656	-

The Bank's shareholder with 100% ownership is Intesa Sanpaolo S.p.A. is part of Intesa Sanpaolo Group.

Note 39. Subsequent events

On 23 January 2014 Intesa Sanpaolo S.p.A. signed agreements on sale of 100% equity of its subsidiary PJSCCB "PRAVEX-BANK" to the company CentraGas Holding GmbH.

The deal is expected to be completed during 3-6 months after its approval by the regulatory authorities.

In February 2014 the National Bank of Ukraine took a decision to reduce the official exchange rate of hryvnia to reach UAH 9.9863 per one US dollar as at 28 February 2013. In parallel with such decision the National Bank of Ukraine has also approved two resolutions which strengthen control over cash transactions at the market.

Note 40. Other information in accordance with the requirements of the Ukrainian legislation

Pursuant to the requirements of the Resolution No. 1528 dated 19 December 2006 and Resolution No. 1360 dated 29 September 2011 of the National Commission on Securities and Stock Market the Bank discloses the following information as at 31 December 2013 and 2012 and for the years ended at that date:

- The Bank's assets and liabilities as at 31 December 2013 are presented in these financial statements;
- The Bank's elements of equity are presented in the statement of changes in equity for the year ended 31 December 2013 in these financial statements, information about the Bank's capital is presented in note 23;
- Net assets amount is higher than the amount of statutory capital (share capital) of the Bank (note 23);
- Statutory capital of the Bank is fully paid;
- The Bank did not manage non-state pension funds;
- The Bank did not have mortgage securities issued.

During 2013 there were no events as defined under the part 1 of Article 41 of the Law of Ukraine "On securities and stock market" that could have had significant impact on the financial position of the Bank or led to significant change of the value of its securties issued, including the following:

- No decisions on issuance of securities for the amount exceeding 25% of statutory capital of the Bank were approved;
- No decision on buy back of the Bank's own shares were approved;
- No facts of listing/de-listing of own Bank's securities issued at stock-exchange took place;
- No loans were received the amount of which exceeds 25% of statutory capital of the Bank;
- No significant changes in the structure of Bank's management took place.
- No changes in shareholders owing 10% and more of the voting shares of the Bank took place;
- No decisions were approved to open an affiliate and/or representative office.;
- No decisions were approved to decrease the Bank's statutory capital;
- No court decisions on the Bank bankruptcy or reorganization of potential bankrupt were taken;
- No decisions of Bank's supreme governing body or court were taken in relation to filing for bankruptcy or suspension of bankruptcy proceedings.

The Bank's corporate governance status, including its internal audit functions.

The Bank's supreme governing body is general meeting of shareholders which assigns Supervisory Board that is responsible for defining the Bank's strategy, appoinment of members of the Management Board, approvals of the Bank's structure and business-plans.

The Management Board (the Board) is executive body responsible for governing daily banking operations and reportable to the Supervisory Board. The Board is responsible for establishing controls and monitoring of risks. The Bank also established management committees primarily responsible for risk management (note 33), credit approvals, tariffs and assets and liabilities management.

The Bank established the Internal Audit Department responsible for independent assessment of organizational structure and checking the control implementation. The Internal Audit Department reports directly to the Supervisory Board.

Acting Chairman of the Board
of PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
of PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**

11.03.2014