PUBLIC JOINT-STOCK COMPANY
COMMERCIAL BANK
“PRAVEX-BANK”

Financial statements
31 December 2014

These financial statements consist of 111 pages

Contents

(in thousands of Ukrainian hryvnias)

Item	Notes	2014	2013
1	2	3	4
ASSETS			
Cash and cash equivalents	6	988,572	876,931
Mandatory reserves with the National Bank of Ukraine		-	110,524
Other financial assets at fair value through profit or loss	7	2,726	2,898
Due from banks	8	200	223,327
Loans and advances to customers	9	2,291,297	2,645,589
Securities available-for-sale	10	500,455	101,605
Investment property	11	13,558	9,327
Current income tax receivable		1,672	1,558
Property, equipment and intangible assets	12	587,218	635,403
Other financial assets	13	52,145	41,393
Other assets	14	40,470	30,829
Non-current assets held-for-sale and disposal group assets	15	107,622	74,653
Total assets		**4,585,935**	**4,754,037**
LIABILITIES			
Due to banks	16	237,503	83,340
Due to customers	17	3,476,479	3,045,034
Debt securities issued by the Bank	18	1	1
Current income tax payable	30	-	1,673
Deferred tax liability	30	4,376	5,247
Provisions	19	2,593	1,908
Other financial liabilities	20	113,047	88,003
Other liabilities	21	50,860	50,900
Subordinated debt	22	228,589	119,095
Total liabilities		**4,113,448**	**3,395,201**
EQUITY			
Share capital	23	1,018,806	1,018,806
Share premium	23	1,521,465	1,521,465
Accumulated deficit		(2,309,292)	(1,397,742)
Reserves and other funds		1,332	1,332
Revaluation reserves		240,176	214,975
Total equity		**472,487**	**1,358,836**
Total liabilities and equity		**4,585,935**	**4,754,037**

Approved for issue and signed
Chairman of the Board
PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 23 FEBRUARY 2015

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**2014**	**2013**
1	**2**	**3**	**4**
Interest income	26	531,650	563,610
Interest expenses	26	(315,081)	(322,102)
Net interest income		**216,569**	**241,508**
Commission income	27	181,588	195,590
Commission expense	27	(47,706)	(16,620)
Revaluation surplus on other financial instruments at fair value through profit or loss		2,389	573
Gains less losses arising from sale of securities available-for-sale		-	605
Gains less losses arising from dealing in foreign currencies		60,698	30,985
Gains less losses arising from foreign currency translation		(208,359)	(516)
Gains less losses arising from revaluation of investment property		222	590
Gains/(losses) from initial recognition of financial assets at interest rates higher or lower than market rates		(6,374)	(2,834)
Gains/(losses) from initial recognition of financial liabilities at interest rates higher or lower than market rates		(737)	(121)
Provision for impairment of loans and due from banks	9	(594,262)	(210,967)
Provision for impairment of accounts receivable and other financial assets	13, 14	(746)	(1,070)
Provision for impairment of securities available-for-sale	10	156	(156)
Provisions for liabilities	19	(413)	1,913
Other operating income	28	12,512	16,882
Administrative and other operating expenses	29	(533,675)	(547,121)
(Loss) before tax		**(918,138)**	**(290,759)**
Income tax expense	30	6,539	(39,952)
(Loss) from continuing operations		**(911,599)**	**(330,711)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:			
Revaluation of securities available-for-sale		532	(855)
Income tax related to revaluation of securities available-for-sale	30	(96)	158
Total items that may be reclassified subsequently to profit or loss		**436**	**(697)**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS:		-	
Revaluation of property, equipment and intangible assets	24	30,606	16,134

(in thousands of Ukrainian hryvnias)

Item	Notes	2014	2013
1	2	3	4
Income tax related to revaluation of property, equipment and intangible assets	30	(5,792)	(2,619)
Total items that will not be reclassified to profit or loss		**24,814**	**13,515**
Total other comprehensive income after tax for the year		**25,250**	**12,818**
Total comprehensive income for the year		**(886,349)**	**(317,893)**
(Loss) attributable to: shareholders		(911,599)	(330,711)
Total comprehensive income attributable to: shareholders		(886,349)	(317,893)
(Loss) per share from continuing operations:			
Basic (loss) per ordinary share	31	(0.56)	(0.20)
Diluted (loss) per ordinary share	31	(0.56)	(0.20)
(Loss) per share attributable to shareholders:			
Basic (loss)per ordinary share for the year	31	(0.56)	(0.20)
Diluted (loss) per ordinary share for the year	31	(0.56)	(0.20)

Approved for issue and signed
Chairman of the Board
PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 23 FEBRUARY 2015

(in thousands of Ukrainian hryvnias)

Item	Notes	2014	2013
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		195,619	373,507
Interest expense paid		(343,214)	(336,079)
Commission income received		189,885	195,372
Commission expense paid		(47,781)	(16,606)
Gains/losses from dealing in foreign currencies		60,698	30,985
Other operating income received		12,948	5,578
Proceeds from sale of loans		-	28,241
Administrative and other operating expenses paid		(467,307)	(449,991)
Income tax paid		(1,787)	-
Cash paid in operating activities before changes in operating assets and liabilities		(400,939)	(168,993)
Net decrease/(increase) in mandatory reserves with the National Bank of Ukraine		110,524	(36,399)
Net decrease/(increase) in due from banks		222,956	(222,980)
Net decrease in loans and advances to customers		570,487	456,097
Net decrease in other financial assets		3,536	14,615
Net increase / (decrease) in due to banks		143,054	(332,911)
Net decrease in due to customers		(280,256)	(26,012)
Net decrease in debt securities issued by the Bank		-	(100,000)
Net decrease in provisions		-	(616)
Net decrease in financial liabilities		(17,901)	(32,155)
Net cash used in operating activities		351,461	(449,354)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Purchase of securities available-for-sale		(12,979,000)	(2,595,262)
Proceeds from sale of securities available-for-sale		12,581,720	2,637,864
Purchase of securities held to maturity		-	(500,000)
Proceeds from repayment of securities held-to-maturity		-	500,000
Purchase of financial assets at fair value through profit or loss		1,380	725
Proceeds from sale of non-current assets		-	2,070
Purchase of property and equipment		(2 046)	(17,165)
Proceeds from disposal of property, equipment and intangible assets		886	4,729
Purchase of intangible assets		(17,763)	(46,929)
Dividends received	28	100	115
Net cash flows used in investment activity		(414,723)	(13,853)

(in thousands of Ukrainian hryvnias)

Description	Notes	2014	2013
1	2	3	4
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	23	-	741,603
Net cash flows from financing activities	23	-	741,603
Effect of changes in NBU exchange rates on cash and cash equivalents		174,903	(2,518)
Net increase in cash and cash equivalents		111,641	275,878
Cash and cash equivalents as at the beginning of the year	6	876,931	601,053
Cash and cash equivalents as at the end of the year	6	988,572	876,931

Approved for issue and signed
Chairman of the Board
PJSCCB "PRAVEX-BANK" **T.O. Kyrychenko**

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 23 FEBRUARY 2015

(in thousands of Ukrainian hryvnias)

Item	Notes	Attributable to shareholders of the Bank						Total equity
		Share capital	Share premium	Reserves and other funds	Revaluation reserves	Retained earnings	Total	
1	2	3	4	5	6	7	8	9
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								
Items that may be reclassified subsequently to profit or loss:								
Revaluation of securities available-for-sale	24	-	-	-	(855)	-	(855)	(855)
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
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 (loss)/income	**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
Closing balance as at 31 December 2013 (balance as at 1 January 2014)		**1,018,806**	**1,521,465**	**1,332**	**214,975**	**(1,397,742)**	**1,358,836**	**1,358,836**
Total comprehensive income								
Loss for the year		**-**	**-**	**-**	**-**	**(911,599)**	**(911,599)**	**(911,599)**
Other comprehensive income								

Item	Notes	Attributable to shareholders of the Bank						Total equity
		Share capital	Share premium	Reserves and other funds	Revaluation reserves	Retained earnings	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		-	-	-	532	-	532	532
Income tax related to revaluation of securities available-for-sale		-	-	-	(96)	-	(96)	(96)
Total items that may be reclassified subsequently to profit or loss		-	-	-	436	-	436	436
Items that will not be reclassified to profit or loss								
Revaluation of property and equipment		-	-	-	30,606	-	30,606	30,606
Income tax related to revaluation of property and equipment		-	-	-	(5,792)	-	(5,792)	(5,792)
Total items that will not be reclassified to profit or loss		-	-	-	24,814	-	24,814	24,814
Total comprehensive income/(loss)	**24**	**-**	**-**	**-**	**25,250**	**(911,599)**	**(886,349)**	**(886,349)**
Realised revaluation surplus on retained earnings		-	-	-	(49)	49	-	-
Balance as at 31 December 2014		**1,018,806**	**1,521,465**	**1,332**	**240,176**	**(2,309,292)**	**472,487**	**472,487**

Approved for issue and signed
Chairman of the Board **Chief Accountant**
PJSCCB “PRAVEX-BANK” T.O. Kyrychenko **PJSCCB “PRAVEX-BANK” O.Yu. Kibets**
DATE: 23 FEBRUARY 2015

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 2014
Reporting currency and measurement unit	Thousands of Ukrainian hryvnias

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

The result of the Bank in 2014 was negative, with a loss UAH 912 million.

These results been affected by external and internal factors, including unstable political and economic situation (i.e. temporary occupation of Autonomous Republic of Crimea, launch of an anti-terrorist operation (ATO) in Donetsk and Lugansk regions, and increase of foreign currency exchange rates against Ukrainian hryvnia), which, in turn, resulted in economic stagnation. This forced the Bank to take the following steps:

- create additional loan loss provisions as a result of deterioration of the customers' creditworthiness and revaluation of collateral;
- recognise significant loss from revaluation of the open currency position due to the increase in the foreign currency exchange rate against Ukrainian hryvnia;
- impose credit limitations due to inactive market, high interest rates and increased exposure to credit risks;
- focus on increasing the volume of liquid assets to avoid liquidity risks;
- close down or suspend operations in the Crimea and anti-terrorist operation ('ATO') zone, respectively.

The progressive deterioration of the economic environment and financial markets impeded the Bank's growth strategy and had a negative impact on its financial results.

From the first month of the year, the markets operated under significant pressure caused by hryvnia devaluation forecasts and overall political situation in the country. Therefore, the Bank focused on avoiding any risks and holding sufficient liquid assets to meet the customers' needs and minimise liquidity risks.

Due to deterioration of the country's macroeconomic situation that resulted in significant outflow of funds from the banking sector, the Bank specifically focused on managing interest rates on the loans. To this end, in spring the Bank's cost of funds increased, and from the middle of the summer the cost of funds decreased well below the market without any significant effect on the available liquidity.

To strengthen its financial position, PJSCCB "PRAVEX-BANK proceeded with capital increase by UAH 615 million. The share registry process is expected to be completed by the end of Quarter 1 of 2015.

To protect its capital, the Bank undertook the following measures aimed at cost reduction and asset liquidity strengthening:

- Reorganisation of the Head Office aimed at:
- reduction of the Bank's operating expenses by redundancies in administrative divisions;
- tight cost control;
- suspension of almost all non-strategic investments.

However, the above measures were insufficient to compensate the adverse effect of the external factors, which caused the negative overall result in 2014.

2 Operating environment of the Bank

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 announced a transition to a floating foreign exchange rate regime. In March 2014, various events in Crimea led to the annexation of the Republic of Crimea by the Russian Federation, which was not recognised by Ukraine and the international community. This event resulted in a significant deterioration of the relationships between Ukraine and the Russian Federation. Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in Donetsk and Lugansk regions escalated into military clashes and armed conflict between armed supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces. As at the date these financial statements were authorized for issue, the instability and unrest continue, and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics. As a result, Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

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.

2014 became one of the most difficult years in Ukrainian history. Following its zero growth in 2013, the Ukrainian economy expectedly ran into recession in 2014. This resulted from a combination of complex systemic economic problems accumulated over the years, such as unfavourable foreign market conditions, military clashes in Eastern Ukraine and annexation of the Crimea, and deterioration of the overall fiscal situation. Furthermore, the current payment balance deficit combined with increased social and political risks triggered capital outflow from the country and, particularly, deposit runs in 2014, exerting substantial devaluation and inflation pressure and leading to demand shrinkage on the Ukrainian markets.

In 2014, the Ukrainian economy further declined by 1.2% in Quarter 1, 4.6% in Quarter 2 and 5.3% in Quarter 3 on a year-to-year basis. Such rapid slump resulted from an escalation of the military conflict in Eastern Ukraine that specifically occurred in May-September 2014, as well as recession in demand for Ukrainian goods on global markets, in particular, reduction of prices on Ukraine's key export goods and deterioration of relations with Russian Federation. Furthermore, military clashes in the East resulted in massive shutdowns of industrial enterprises, destruction of the infrastructure and reduction in trade and SME operations.

Agriculture was the only sector to demonstrate growth (+5% for 11 months of 2014) due to good yield in 2014, while almost all other sectors of the Ukrainian economy experienced a downfall. In particular, construction industry fell by 19.3% for 11 months of 2014 because of the lack of funding from the government, deterioration of the industrial enterprises financial performance and low credit activities. The transportation sector shrank by 8.5% due to reduction of cargo and passenger traffic. The domestic investment demand reduced because of a decrease in economic activity and devaluation pressure, and retail operations decreased by 7.5% for 11 months of 2014. However, industry suffered the most severe losses in 2014, mainly as a result of military clashes in Eastern Ukraine. In particular, many large industrial entities in Donetsk and Lugansk regions were shut down as a result of destroyed or damaged infrastructure (e.g. facilities, motorways, railroads, bridges, etc.). In addition, around 70% of coal mines in Donetsk region were shut down. Thus, the total decline in industrial production for 11 months of 2014 amounted to 10.1% (2013: 4.7%).

Since early 2014, consumer prices in Ukraine increase by an all-time high. The inflation rate in 2014 reached 24.9%. The reasons underlying the sharp increase in the inflation rate included political and economic shocks, Ukrainian hryvnia devaluation, growing import prices, increase in certain regulated prices, etc. During the same period, prices on foodstuff increased by 24.8%, prices on alcohol beverages and tobacco goods – by 25.9%, utility service fees increased by 34%, and transportation tariffs – by 41.6%.

In 2014, the negative current account balance accumulated for prior and current year, combined with the shrinkage of the export base, resulted in a shortage of foreign currency inflow, which, together with the military conflict in Eastern Ukraine, fuelled negative expectations among the public and exerted additional pressure on the Ukrainian hryvnia exchange rate. In February 2014, the NBU introduced a floating official foreign exchange rate. Furthermore, the NBU rose the discount rate three times during the year, from 6.5% to 14%. In addition, the National Bank of Ukraine took comprehensive remedial steps to balance the situation on the forex market, applying both monetary (i.e. exchange market interventions) and certain administrative measures. Nevertheless, the official UAH/USD exchange rate fell by 97%. The demand for foreign currencies remained quite high as compared to 2013. During 11 months of 2014, retail customers purchased USD 2.36 billion (31 December 2013: USD 1.9 billion), with the foreign currency demand remaining largely undersatisfied. The increased risks in the banking sector triggered a rise in the cost of financing on the interbank loan market, and the weighted average interbank interest rate increased from 11.3 to 21.9 in 2014.

The monetary policy in 2014 was affected by negative macroeconomic trends arising from the social and political unrest in Ukraine compounded by the military conflict in the East. This resulted in worsening of the market expectations, triggering massive deposit runs and capital outflows. Furthermore, during the reporting year 33 Ukrainian banks were recognised insolvent by the NBU.

Based on the NBU reports, the monetary base in Ukraine increased by 7% for 11 months of 2014 due to an increase in the monetary stock resulting primarily from the foreign currency revaluation.

During 11 months of 2014, the banks' line of deposits, both in Ukrainian hryvnias and foreign currencies, demonstrated a record downfall. The balances on hryvnia deposits decreased by 14%, or UAH 59 billion, while the balances on foreign currency deposits decreased by 29.6%, or USD 9 billion. The most significant deposit outflow occurred in the retail customer segment – by 19.2%, or UAH 51 billion (hryvnia deposits) and 38%, or USD 8.7 billion (foreign currency deposits), respectively, due to the annexation of the Crimea and the military conflict in Eastern Ukraine. At the same time, balances on corporate customers' deposits decreased by 4.9%, or UAH 8 billion (hryvnia deposits) and 4.8%, or UAH 0.37 billion (foreign currency deposits), respectively.

Given the existing political and economic risks, the interest rate policy of the National Bank of Ukraine in 2014 was aimed at increasing the intrinsic value of Ukrainian hryvnia, which helped forward to reduce the devaluation and inflation pressure. For this purpose, the NBU rose the discount rate three times during the year, from 6.5% to 14%, which resulted in an increase in the cost of deposits and loans in Ukrainian hryvnias and foreign currencies. Based on Ukrainian Index of Retail Deposit Rates (UIRD), the average interest rate on deposits and loans denominated in Ukrainian hryvnias increased by 3% to 20.5%, and the same on deposits and loans denominated in foreign currencies increased from 1.8% to 8.1%, respectively, for 11 months of 2014.

The negative changes in key macroeconomic indicators, as well as the increase in cost of funding in Ukrainian hryvnias, annexation of the Crimea and armed clashes in Eastern Ukraine, together with dominating devaluation processes affected both the creditworthiness of the borrowers and lending activity of the banks in 2014. In 2014, Ukrainian banks' gross exposure in Ukrainian hryvnias decreased by 9.5%, or UAS 56.6 billion, while the same in foreign currencies decreased by 17.9%, or USD 6.88 billion. The corporate segment accounted for the largest gross exposure reduction, equalling 9.3%, or UAH 44.15 billion on hryvnia denominated loans, and 16.8%, or USD 5.08 billion on foreign currency loans. The retail segment accounted for a decrease by 10.2%, or UAH 12.38 billion in hryvnia denominated loans, and 21.6%, or USD 1.8 billion in foreign currency loans, respectively. During 11 months of 2014, the share of overdue loans in the Ukrainian banks' loan portfolio increased from 7.7% to 12.3%. This forced the banks to create additional provisions, which exerted additional pressure on their performance, eventually leading to negative financial results.

During 2014, the Ukrainian banking system continued to have low net operating margin. For 11 months of 2014, Ukrainian banks incurred a loss of UAH 22.4 billion, mainly as a result of the additional provisions created in response to the increased credit risks and collateral impairment.

3 Basis of preparation

The financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter – '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 the 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.

4 Accounting policies of PJSCCB "PRAVEX-BANK" for 2014

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 profit or loss and other 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 that 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 realisation 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.

Liquidity risk management. As described in Note 2 to the financial statements, there has been a political and social unrest and regional tensions that started in November 2013 and escalated in 2014 in Ukraine. The events referred to in this note, include regional tensions that led to inability of the Bank to conduct its operations in Crimea and in substantial parts of Donetsk and Lugansk regions of Ukraine. Furthermore, there has been a deterioration of Ukrainian economic and business environment and significant devaluation of Ukrainian hryvnia. These events has also resulted in tightened liquidity in Ukrainian banking sector combined with deposit runs and financial difficulties of a number of Ukrainian banks that have been placed under NBU administration as a result. In response to ongoing crisis the NBU is taking a variety of measures that may impact the Bank’s operations and financial position.

As described in Note 25, the Bank is obliged to repay deposits of individuals on demand of a depositor. However, management of the Bank expects that many customers will not request repayment before contractual maturity.

Management believes it is taking all the necessary measures to support the sustainability and liquidity position of the Bank's business in the current circumstances, however, any further deterioration in the liquidity of the financial markets, the increased outflow of funds from the banking system and volatility in the currency market may affect the Bank’s liquidity position in a manner not currently determinable.

Exchange rates applied to the translation of assets and liabilities denominated in foreign currencies. The Ukrainian hryvnia is not a convertible currency outside Ukraine and, accordingly, any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or any other exchange rate. Any conversion of UAH amounts to USD should not be construed as a representation that UAH amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

In preparation of these financial statements management applied the NBU official rate for the retranslation of the operations and balances in foreign currencies. The NBU official exchange rates are derived from officially published source. Management believes that application of these rates substantially serves comparability purposes.

In March 2014 the National Bank of Ukraine has announced a transition to a floating foreign exchange rate regime following a significant devaluation of the national currency to major international currencies. The NBU also remains committed to the market-based exchange rate-setting mechanism further on. From the second half of 2014 Ukraine is experiencing significant deficit of foreign currency inflows, Ukrainian banks experience a shortage of liquid funds due to premature withdrawals of household deposits and severe constraints in access to domestic and external market funding. The official rates of the NBU may not necessarily represent the rates at which the foreign currency is available at the reporting date. In practice, the market participants may require additional fees and commission to the official rates of the NBU in order to supply foreign currency and/or necessary amounts of foreign currency may not be readily available in the market.

Changes in accounting policies

The Bank has adopted the below listed new standards and amendments, including any subsequent resulting changes to other standards. The official publication date of these new pronouncements is 1 January 2014:

- *Investment companies* (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements)
- *Offsetting Financial Assets and Liabilities* (Amendments to IAS 32 Financial Instruments: Disclosures)
- *Disclosure of Recoverable Amount of Non-Financial Assets* (Amendments to IAS 36 Impairment of Assets)
- *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 32 Financial Instruments: Recognition and Measurement)
- IFRIC 21 Levies

The substance and effects of the above amendments are described in details below.

Offsetting financial assets and financial liabilities

Amendments to IAS 32 Financial Instruments: Disclosures and Presentation of Information – Offsetting Financial Assets and Financial Liabilities do not establish any new rules of offsetting financial assets and financial liabilities, rather, they explain the offsetting criteria to prevent any inconsistencies in the process of application of the amendment. The amendments stipulate that the entity has a legally enforceable right to the offset, unless such right depends on any future event. This right should be applied in the process of ordinary business and in cases of default, insolvency or bankruptcy of a legal entity and any other counterparties.

The Bank does not expect that this amendment will have any impact on the financial statements.

Disclosure of the Recoverable Amount of Non-Financial Assets

This amendment cancels the requirement to disclose the recoverable amount if the cash generating unit contains goodwill or intangible assets with indefinite useful life, but no impairment occurred.

Novation of Derivatives and Continuation of Hedge Accounting

This amendment prescribes continuation of hedge accounting to the extent that novation of a derivative that represents a hedging instrument meets certain criteria. The Bank does not expect that this amendment will not have any impact on the financial statement, since it does not perform hedge accounting according to the requirements of IFRS.

IFRIC 21 Levies

According to IFRIC 21, an entity should recognise a liability to pay a levy if it pursues business activity requiring payment of levies. As regards the levy payable when certain minimum threshold is reached, the amendment explains that the liability should not be calculated through the moment of overpassing certain minimum threshold.

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 written down through an allowance account, and the amount of the loss is recognised in the statement of profit or loss and other 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 against provisions when there is no realistic prospect of future recovery and all collateral has been realised 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 profit or loss and other 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

The Bank recognises cash on hand, balances on accounts in the National Bank of Ukraine (except mandatory reserves restricted for use), correspondent accounts, and overnight deposits in other banks within cash and cash equivalents. Due to existence of certain restrictions on their use, the Bank did not recognise the mandatory reserves held on a special account with the NBU within cash and cash equivalents in 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 underlying contract date based on the fair value of the financial instrument that equals to the 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.

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.

Subsequent to the 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 profit or loss and other 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 profit or loss and other 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 instruments 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 end of the reporting year.

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 2014, 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 the 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	33,33
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 incurred 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 a leasehold improvement 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 the underlying asset to the category non-current assets held-for-sale; and

– the date of derecognition of the underlying asset.

Useful lives and applicable depreciation rates are reviewed at each year-end. During 2014, 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, 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:

Item	Useful lives (months)
Software packages and solutions	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 leases

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 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 depreciated.

Real estate designated as non-current assets held-for-sale were subject to independent revaluation as at 31 December 2014 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 realise 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 and 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' lawsuits.

The Bank recognises a 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 effective laws of Ukraine. According to clause 10 of subclause 4 of Section XX of the Tax Code of Ukraine, in 2013 (as at 31 December 2013), the corporate income tax rate was 19%. From 1 January 2014 to 31 December 2014, the corporate income tax rate is equal to 18%, from 1 January 2015 – 18%.

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 plus and any adjustments 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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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 realised in the years after the balance sheet date, the Bank analyses 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 statement of profit or loss and other 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 (expense) recognised using the effective interest rate and the income (expense) 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 2014	31 December 2013
US Dollar	15.77	7.99
Euro	19.23	11.04

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 profit or loss and other 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 only to the extent there is a legally enforceable right to offset and there is an intention to realise the asset and settle the liability simultaneously.

4.23. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which a 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 impairment losses.

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 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 via 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 Fair value measurement

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. 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 fulfil 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 any 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 2014, the 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 that is independent from operational function.

As at 31 December 2014, fair value measurement was applied to land and buildings and appraised by an independent entity at the end of the year based on the market method.

4.25. Operating segment reporting

An operating segment is a component of the 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.

5 New and revised standards

New Standards and Interpretations not yet adopted

The following new Standards, *amendments to Standards* and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

The Bank has not yet analysed the likely impact of the below new standard on its financial position or performance.

IFRS 9 *Financial Instruments* was issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase of IFRS 9, dealing with matters of the recognition and measurement of financial liabilities, was published in October 2010. The third phase of IFRS 9, containing general provisions on hedge accounting, was published in November 2013. The Standard has been finalized and published in June 2014. Its last section deals with a new model of assessment of expected loan losses for the purposes of calculation of impairment. 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 its consolidated financial statements. The potential impact of these changes has not been analysed by the Group up to now. The Bank does not plan to implement this standard early. This standard will be effective for the annual periods beginning on or after 1 January 2018 and, with certain exceptions, will be retroactive.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes relating to presentation, recognition or measurement, will take effect not earlier than on 1 January 2015. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

6 Cash and cash equivalents

Table 6.1. Cash and cash equivalents

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Cash	273,565	303,471
2	Balances with the National Bank of Ukraine (less mandatory reserves)	28,739	392,495
3	Correspondent accounts with:	686,268	180,965
3.1.	domestic banks	3,488	2,968
3.2.	foreign banks	682,780	177,997
4	Total cash and cash equivalents	988,572	876,931

Line 4 in Table 6.1 corresponds to Cash and cash equivalents" caption in the statement of financial position.

As at 31 December 2014, placement in the correspondent account with Intesa Sanpaolo S.p.A. amounted to UAH 651,666 thousand (2013 – UAH 141,738 thousand), representing a significant concentration.

As at 31 December 2014 and 2013, balances in correspondent accounts are neither overdue, nor impaired.

As at 31 December 2014, the Bank's the balances of the outlets located on temporary occupied territories, namely in the Autonomous Republic of Crimea, Donetsk Oblast and Lugansk Oblast, comprised UAH 613 thousand, UAH 427 thousand, and UAH 1 967 thousand, respectively.

Mandatory reserve balances with the National Bank of Ukraine

In accordance with Resolution No. 820 "On amending the procedure for establishment and maintenance of mandatory reserves" of the Management Board of the National Bank of Ukraine dated 18 December 2014, the Bank puts aside and maintains mandatory reserves on its correspondent account with the National Bank of Ukraine in compliance with statutory ratios in effect in respective periods. The amount of the mandatory reserve comprised UAH 63,421 thousand as at 31 December 2014. Furthermore, the banks are allowed to use assets recorded in lines 1, 2, 3 on Note 6 for the purpose of establishment of the mandatory reserves that should be established and maintained on its correspondent account with the National Bank of Ukraine. As the Bank had the right to use mandatory reserve balances with the National Bank of Ukraine in full and, therefore, they were classified as cash and cash equivalents.

In accordance with the NBU Board Resolution "On Certain Issues of Banking Activities" No. 529 of 26 August 2014, as a result of significant deterioration of the economic situation due to the annexation of the Crimea and military clashes in Donetsk and Lugansk regions, the NBU allowed banks not to maintain the mandatory reserve balance on the correspondent account with the NBU to the extent that the banks comply with certain requirements set out in the Resolution. The Bank complied with the mandatory reserve requirements as at 31 December 2014 and, therefore, it did not maintain the mandatory reserve balance on the correspondent account with the National Bank of Ukraine.

Effective from October 2013, Ukrainian banks were required to deposit 40% of the mandatory reserve balance for the previous month on a separate account with the NBU. The mandatory reserve balance is subject to interest at the rate of 30% of the NBU's official discount rate.

As at 31 December 2013, the Bank had to comply with mandatory reserve requirements of the NBU and, therefore, mandatory reserve balances with the National Bank of Ukraine were not classified as cash and cash equivalents, as the Bank could not use these balances.

7 Other financial assets at fair value through profit or loss

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Corporate shares	2,726	2,898
2	Total other financial assets at fair value through profit or loss	2,726	2,898

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

8 Due from banks

Table 8.1. Due from banks

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
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	200	223,327

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.

At the end of 2013, loans are granted to four banks, including PJSC Raiffeisen Bank Aval – UAH 99,022 thousand (45% of total loans), PJSC Citibank – UAH 50,062 thousand (22%), PJSC Ukrsotsbank – UAH 50,055 thousand (22%), and PJSC FUIB – UAH 23,989 thousand (11%).

Table 8.2. Due from banks: credit quality analysis for 2014

(in thousands of Ukrainian hryvnias)			
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 provisions	200	200

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

(in thousands of Ukrainian hryvnias)			
Line	**Description**	**Deposits**	**Total**
1	**2**	**3**	**4**
1	Not overdue and not impaired:		
1.1	Other domestic banks	200	200
2	Provision for impairment	-	-
3	Total due from banks less provisions	200	200

Table 8.4. Due from banks: credit quality analysis for 2013

(in thousands of Ukrainian hryvnias)			
Line	**Description**	**Loans**	**Total**
1	**2**	**3**	**4**
1	Not overdue and not impaired:		
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 provisions	223,127	223,127

9 Loans and advances to customers

Table 9.1. Loans and advances to customers

(in thousands of Ukrainian hryvnias)			
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Loans to corporate customers	797,000	840,104
2	Loans to entrepreneurs	570	379
3	Retail mortgage loans	1,021,095	684,653
4	Retail consumer loans	3,227,616	2,769,581
5	Other retail loans	29,129	26,706
6	Provision for impairment	(2,784,113)	(1,675,834)
7	Total outstanding loans less provisions	2,291,297	2,645,589

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

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 2014 would be approximately UAH 22,913 thousand lower/higher (31 December 2013: UAH 26,456 thousand).

Line 7, Total outstanding loans less provisions, as at 31 December 2014 includes the balances of loans less provisions for the outlets located on temporary occupied territories, including:

- the Autonomous Republic of Crimea – due from corporate customers in the amount of UAH 1,200 thousand, due from individuals in the amount of UAH 15,328 thousand, and loans to individuals secured by collateral located in the Autonomous Republic of Crimea; in the amount of UAH 33,250 thousand;
- Donetsk region – due from individuals in the amount of UAH 17,654 thousand;
- Lugansk region – due from corporate customers in the amount of UAH 10 thousand, and due from individuals in the amount of UAH 12,165 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 a limited number of customers. As at 31 December 2014 and 2013, loans to 2 and 3 customers account for 12% and 10% of the portfolio, respectively (UAH 279,291 thousand and UAH 272,375 thousand, respectively).

Table 9.2. Movements in provisions for loans impairment for 2014

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	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 2014	(134,182)	(129)	(202,297)	(1,317,092)	(22,134)	(1,675,834)
2	(Increase)/decrease in provision for the year	(103,222)	(2)	(138,838)	(350,148)	(2,066)	(594,276)
3	Interest accrued on impaired loans	22,637	-	23,169	187,928	-	233,734
4	Forex differences	(58,946)	-	(173,007)	(514,836)	(948)	(747,737)
5	Balance as at 31 December 2014	(273,713)	(131)	(490,973)	(1,994,148)	(25,148)	(2,784,113)

Balance of line 2 in Table 9.2 corresponds to Provision for impairment of loans and Due from banks recognised in the statement of profit or loss and other comprehensive income. The difference between the amount of provision for impairment of loans and due from banks in the statement of profit or loss and other comprehensive income and the amount in line 2 in Table 9.2 represents the bad debt written off against provision in the prior reporting periods and repaid in 2014 (13 UAH thousand) and 2013 (UAH 3,439 thousand).

Table 9.3. Movements in provisions for loans impairment for 2013

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	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	Forex differences	21	-	(379)	(9,208)	(11)	(9,577)
6	Provision for impairment as at 31 December 2013	(134,182)	(129)	(202,297)	(1,317 092)	(22,134)	(1,675,834)

Interest income on impaired loans and advances for the year ended 31 December 2014 amounted to UAH 233,734 thousand (for the year ended 31 December 2013: UAH 205,988 thousand).

Table 9.4. Loans by economy sector

(in thousands of Ukrainian hryvnias)

Line	Sector	2014		2013	
		amount	%	amount	%
1	2	3	4	5	6
1	Real estate, lease, engineering and services	43,461	0.86%	39,893	0.92%
2	Trade, repair of vehicles, household equipment and items of personal use	487,374	9.60%	453,779	10.50%
3	Agriculture, hunting and forestry	65,540	1.29%	43,258	1.00%
4	Processing industry	200,625	3.95%	303,199	7.02%
5	Individuals	4,277,840	84.29%	3,480,940	80.55%
6	Other	570	0.01%	354	0.01%
7	Total loans and advances to customers less provisions	5,075,410	100.00%	4,321,423	100.00%

The table blow shows an analysis of the gross exposure by type of collateral.

.

Table 9.5. Loans by type of collateral for 2014

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

(in thousands of Ukrainian hryvnias)

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	87,152	118	65,397	564,224	29,129	746,020
2	Loans secured by:	709,848	452	955,698	2,663,392	-	4,329,390
2.1	Cash	79,794	-	-	1,673	-	81,467
2.2	real properties	502,796	47	944,502	1,022,293	-	2,469,638
2.2.1	non-residential mortgage	477,820	47	38,416	360,599	-	876,882
2.2.2	land plots	15,056	-	7,468	259,151	-	281,675
2.2.3	residential mortgage	9,920	-	898,618	402,543	-	1,311,081
2.3	Guarantees	-	-	10,313	799,597	-	809,910
2.4	Other assets	127,258	405	883	839,829	-	968,375
2.4.1	movable property	53,325	-	-	-	-	53,325
2.4.2	goods in turnover	71,401	-	-	-	-	71,401
2.4.3	vehicles	2,532	405	883	839,829	-	843,649
3	Total gross exposure	797,000	570	1,021,095	3,227,616	29,129	5,075,410

Table 9.6. 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.

(in thousands of Ukrainian hryvnias)

Line	Description	Loans to corporate customers	Loans to entrepreneurs	Retail mortgage loans	Retail consumer loans	Other retail loans	Total
1	**2**						
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 properties	416,987	107	658,042	1,477,287	-	2,552,423
2.3.1	non-residential mortgage	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 gross exposure	840,104	379	684,653	2,769,581	26,706	4,321,423

Table 9.7. Loan portfolio quality analysis for 2014

(in thousands of Ukrainian hryvnias)

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 non-impaired loans:	410,381	421	291,199	483,908	3,847	1,189,756
1.1	Large borrowers with credit history over 2 years	191,260	-	-	-	-	191,260
1.2	Loans to medium-size businesses	218,660	-	-	-	-	218,660
1.3	Loans to small businesses	461	421	-	-	-	882
1.4	Other retail loans	-	-	291,199	483,908	3,847	778,954
2	Overdue, but not impaired:	286	-	42,840	25,017	103	68,246
2.1.	Overdue less than 30 days	286	-	21,887	17,740	20	39,933
2.2.	Overdue from 31 to 90 days	-	-	20,944	7,172	83	28,199
2.3.	Overdue from 91 to 180 days	-	-	9	91	-	100
2.4.	Overdue from 181 to 360 days	-	-	-	14	-	14
3	Impaired loans individually assessed for impairment:	386,333	149	687,056	2,718,691	25,179	3,817,408
3.1.	Overdue less than 30 days	151,650	-	11,490	34,462	-	197,602
3.2.	Overdue from 31 to 90 days	-	-	2,404	621	-	3,025

(in thousands of Ukrainian hryvnias)

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**
3.3.	Overdue from 91 to 180 days	12	-	48,418	40,161	103	88,694
3.4.	Overdue from 181 to 360 days	4,103	-	70,225	29,132	95	103,555
3.5.	Overdue over 361 days	230,568	149	554,519	2,614,315	24,981	3,424,532
4	Outstanding loans, gross	797,000	570	1,021,095	3,227,616	29,129	5,075,410
5	Provision for impairment of loans	(273,713)	(131)	(490,973)	(1,994,148)	(25,148)	(2,784,113)
6	Total loans less provisions	523,287	439	530,122	1,233,468	3,981	2,291,297

Table 9.8. Loan portfolio quality analysis for 2013

(in thousands of Ukrainian hryvnias)

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 non-impaired loans:	597,183	204	314,053	713,202	4,488	1,629,130
1.1.	Large borrowers with credit history over 2 years	144,990	-	-	-	-	144,990
1.2.	New large borrowers	280,928	-	-	-	-	280,928
1.3.	Loans to medium-size businesses	166,902	-	-	-	-	166,902
1.4.	Loans to small businesses	4,363	204	-	-	-	4,567
1.5.	Other retail loans	-	-	314,053	713,202	4,488	1,031,743
2	Overdue, but not impaired:	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	Impaired 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

(in thousands of Ukrainian hryvnias)

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
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 loans less provisions	705,922	250	482,356	1,452,489	4,572	2,645,589

Effect of collateral value on loan quality as at 31 December 2014 and 2013

As at 31 December 2014, loans to customers were secured by cash deposits in the amount of UAH 78,597 thousand, guarantees from financial institutions in the amount of UAH 1,108,055 thousand, real properties and land plots with the fair value of UAH 1,272,729 thousand, vehicles with the fair value of UAH 567,822 thousand, and equipment with the fair value of UAH 14,979 thousand. The effect of excess of discounted cash flows from collateral over carrying amount of loans as at 31 December 2014 is neglected in this analysis.

As at 31 December 2013, loans to customers were secured by cash deposits in the amount of UAH 52,126 thousand, real properties and land plots with the fair value of UAH 1,443,143 thousand, vehicles with the fair value of UAH 647,215 thousand and equipment with the fair value of UAH 21,422 thousand. The effect of excess of discounted cash flows from collateral over carrying amount of loans as at 31 December 2014 is neglected in this analysis.

During the year ended 31 December 2014, the Bank levied execution upon residential and non-residential properties pledged as collateral in the amount of UAH 53,606 thousand (during the year ended 31 December 2013: UAH 64,087 thousand)

Guarantees pledged as security are presented by guarantees from other banks with the credit rating not lower than investment level received as security on loans and advances. These guarantees are issued by other Intesa Sanpaolo S.p.A. Management decides on a case-by-case basis if guarantees from other banks rated not lower than investment level should be included in the impairment provision calculation. As at 31 December 2014, management of the Bank does not expect to call the repayment under guarantees of Intesa Sanpaolo S.p.A., as the shareholders have decided to issue additional share capital (see note 40) and, therefore, no receivable is recognized within the assets in these financial statements. At the same time, as at 31 December guarantees from Intesa Sanpaolo S.p.A. were included in the provision calculation under "Procedure for Calculation of the Loan Loss Provision by Ukrainian Banks" adopted by Resolution No. 23 of the Board of the National Bank of Ukraine dated 25 January 2012 ("Resolution No. 23") for regulatory purposes only. The provision calculated under Resolution No. 23 impacts the amount of the Bank's regulatory capital calculated in accordance with NBU's regulatory requirements.

10 Securities available-for-sale

Table 10.1 Securities available-for-sale

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Debt securities:	500,421	101,727
1.1	deposit certificates of the National Bank of Ukraine	500,421	-
1.2	corporate bonds	-	101,727
2	Corporate shares and other variable income 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	500,455	101,605

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

As at 31 December 2014, deposit certificates of the National Bank of Ukraine were classified as securities available-for sale in accordance with IAS 39, AG26, providing that on initial recognition of a financial asset that would otherwise be classified as a loan or receivable, the Bank may designate it as a financial asset available for sale depending on the Bank's intentions and investment strategy regarding such securities.

Table 10.2. Credit quality analysis of debt securities available-for-sale for 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Treasury bonds	Total
1	**2**	**3**	**4**
1	Not overdue and not impaired:	500,421	500,421
1.1	government institutions	500,421	500,421
2	Total debt securities available-for-sale less provision	500,421	500,421

Table 10.3. Credit quality analysis of debt securities available-for-sale for 2013

(in thousands of Ukrainian hryvnias)

Line	Description	Corporate 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 10.4. Movement in provision for impairment of securities available-for-sale in 2014

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Corporate bonds	Total
1	**2**	**3**	**4**
1	Balance as at 1 January 2014	(156)	(156)
2	Increase in provision for impairment during the period	156	156
3	Balance as at 31 December 2014	-	-

Table 10.5. Movement in provision for impairment of securities available-for-sale in 2013

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Corporate bonds	Total
1	2	3	4
1	Balance as at 1 January 2013	-	-
2	Increase in provision for impairment during the period	(156)	(156)
3	Balance as at 31 December 2013	(156)	(156)

Table 10.6. Major investments in shares and other securities available-for-sale with non-fixed payments

(in thousands of Ukrainian hryvnias)

Line	Company	Activity	Country of incorporation	Cost (if fair value cannot be reliably measured)	
				2014	2013
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

11 Investment property measured at fair value

Table 11.1. Investment property measured at fair value:

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the year	9,327	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 to non-current assets held-for-sale and disposal group assets	(1,057)	-
5	Transfer from non-current assets held-for-sale and disposal group assets	513	-
6	Transfer from constructions and buildings	4,553	-
7	Revaluation gain/(loss)	222	590
8	Fair value of investment property as at 31 December	13,558	9,327

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 2014 was appraised by LLC Kredytno Brokerske Agentstvo, an independent appraiser.

Fair value of investment property items was determined using comparison approach (method involving adjustment of comparable property values) and income approach (direct capitalisation approach).

Table 11.2. Amounts recognised in the statement of profit or loss and other comprehensive income

			(in thousands of Ukrainian hryvnias)
Line	**Income and expenses**	**2014**	**2013**
1	**2**	**3**	**4**
1	Rental income from investment property	555	-
2	Other direct costs related to property not generating any rental income	(58)	-

12 Property, equipment and intangible assets

Property, equipment and intangible assets are summarised as follows:

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipme nt	Other non-current tangible assets	Construction and intangibles in progress	Intangible assets	Total
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	Carrying value as at 31 December 2012	125	301,872	93,913	5,879	3,851	911	629	35,112	231,851	674,143
1.1	Historical (revalued) cost	125	306,749	236,236	11,201	10,919	6,467	33,714	35,112	289,713	930,236
1.2	Depreciation/ amortisation as at 31 December 2012 (1 January 2013)	-	(4,877)	(142,323)	(5,322)	(7,068)	(5,556)	(33,085)	-	(57,862)	(256,093)
2	Additions	-	15,150	2	-	-	-	-	23,562	-	38,714
3	Property, equipment and intangible assets put into operation	-	-	937	-	46	-	-	(9,612)	8,629	-
4	Improvements of property, equipment and intangible assets	-	280	1,024	-	2	-	35	(19,008)	17,667	-
5	Disposals (historical (revalued) cost)	-	(5,994)	(22,978)	-	(699)	(453)	(399)	-	(3,674)	(34,197)
6	Disposals (accumulated depreciation)	-	648	21,501	-	565	437	399	-	3,674	27,224
7	Depreciation charge	-	(14,525)	(24,847)	(993)	(1,272)	(298)	(439)	-	(35,446)	(77,820)
8	Revaluation	13	7 277	-	-	-	-	-	49	-	7 339

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction and intangibles in progress	Intangible assets	Total
8.1	Revaluation of historical cost	13	(6,032)	-	-	-	-	-	49	-	(5,970)
8.2	Revaluation of depreciation	-	13,309	-	-	-	-	-	-	-	13,309
9	Carrying value as at 31 December 2013	138	304,708	69,552	4,886	2,493	597	225	30,103	222,701	635,403
9.1	Historical (revalued) cost	138	310,153	215,221	11,201	10,268	6,014	33,350	30,103	312,335	928,783
9.2	Depreciation/ amortisation as at 31 December 2013 (1 January 2014)	-	(5,445)	(145,669)	(6,315)	(7,775)	(5,417)	(33,125)	-	(89,634)	(293,380)
10	Additions	-	-	-	-	-	13	-	16,523	-	16,536
11	Property, equipment and intangible assets put into operation	-	-	818	-	94	20	-	(2,320)	1,388	-
12	Improvements of property, equipment and intangible assets	-	13	1,013	-	-	-	-	(15,483)	14,457	-
13	Transfers to disposal group assets	-	(12,450)	(1,352)	-	(42)	(14)	-	(799)	-	(14,657)
14	Disposals at historical cost	-	(77)	(6 311)	(357)	(211)	(819)	(134)	(709)	(3,016)	(11,634)
15	Disposals (accumulated depreciation)	-	77	6,160	289	200	806	117	-	2,932	10,581
16	Depreciation charge	-	(13,669)	(18,159)	(946)	(932)	(266)	(90)	-	(38,124)	(72,186)
17	Revaluation	80	27,534	-	-	-	-	-	114	-	27,728
17.1	Revaluation of historical cost	80	14,173	-	-	-	-	-	114	-	14,367

Line	Description	Land plots	Buildings, constructions and transmission equipment	Machines and equipment	Vehicles	Fixtures and fittings (furniture)	Other property and equipment	Other non-current tangible assets	Construction and intangibles in progress	Intangible assets	Total
17.2	Revaluation of depreciation	-	13,361	-	-	-	-	-	-	-	13,361
18	Transfers to investment property	-	(4,553)	-	-	-	-	-	-	-	(4,553)
19	Other	-	-	1	(50)	51	(2)	-	-	-	-
20	Carrying value as at 31 December 2014	218	301,583	51,722	3,822	1,653	335	118	27,429	200,338	587,218
20.1	Historical (revalued) cost	218	306,724	205,974	10,744	10,016	4,975	33,215	27,429	325,164	924,459
20.2	Depreciation/ amortisation as at 31 December 2014 (1 January 2015)	-	(5,141)	(154,252)	(6,922)	(8,363)	,(4,640)	(33,097)	-	(124,826)	(337,241)

As at 31 December 2014 and 2013, there are no:

- property and equipment legally restricted for ownership, use, and disposal
- pledged property and equipment
- property and equipment temporary not in use (conservation, reconstruction, etc.);
- property and equipment restricted for ownership
- intangible assets generated internally
- withdrawn from operation.

In 2014, premises in the Autonomous Republic of Crimea and the city of Sevastopol were reclassified to non-current assets available-for-sale in the amount of UAH 18,338 thousand, and property and equipment of class 3 worth 4,553 thousand were transferred to investment property.

As at 31 December 2014, historical (revalued) cost of fully depreciated property, equipment, intangible assets and other non-current assets amounts to UAH 158,375 thousand (2013: UAH 144,142 thousand), including:

- property and equipment: UAH 90,961 thousand (2013: UAH 77,698 thousand)
- intangible assets: UAH 34,672 thousand (2013: UAH 34,107 thousand)
- other non-current assets: UAH 32,742 thousand (2013: UAH 32,337 thousand)

As at 31 December 2014, revaluation gains and losses are as follows:

- revaluation gain recognised directly in equity: UAH 30,606 thousand (31 December 2013: UAH 16,134 thousand),
- revaluation loss recognised in administrative and other operating expenses: UAH 2,877 thousand (31 December 2013: UAH 8,795 thousand).

The carrying value of buildings as at 31 December 2014, if the buildings had been recognised at historical cost less accumulated depreciation, would be UAH 81,269 thousand (31 December 2013: UAH 83,782 thousand).

In the process of assessment of the fair value of the land plots, in-built premises, residential property, and buildings and investment property and non-current assets held for sale, the Bank applied, as final, the comparison method of valuation (adjustment of values of comparable properties).

The comparison approach is based on the 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, area, etc.

Adjustments to comparables for residential premises (apartments):

- Total area, using formula: $K = (Sa/Soц)$, where Sa – area of the comparable property;
- Location (-20% to 20%);
- Bargain discount (-20%)
- Adjustment for impairment (-12.46%).

Adjustments to comparables for industrial premises (buildings):

- Total area, using formula: $K = (Sa/Soц)^{0.1}$, where Sa – area of the comparable property;

- Location (-20% to 20%);
- Bargain discount (-20%)
- Adjustment for impairment (-12.46%).

Adjustments to comparables for land plots:

- Total area, using formula: $К = (Sa/Soц)^{0,1}$, where Sa – area of the comparable property;
- Existence of engineering networks (-15% to 15%);
- Location (-20% to 20%);
- Bargain discount (-20%)
- Adjustment for impairment (-12,46%).

13 Other financial assets

Table 13.1. Other financial assets

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Due from customers	6,660	3,159
2	Amounts due on accrued income from cash and settlement services and other accrued income	4,699	5,607
3	Accounts receivable on credit and debit cards operations	17,292	20,376
4	Cash restricted for use	2,177	861
5	Withholding tax receivable	24,120	12,227
6	Other financial assets	887	882
7	Provision for impairment of other financial assets	(3,690)	(1,719)
8	Total other financial assets less provisions	52,145	41,393

Cash restricted for use comprises a savings account with the National Bank of Ukraine in the amount of UAH 2,153 thousand (2013 – UAH 859 thousand) and due from banks in the amount of UAH 24 thousand (2013 – UAH 2 thousand)

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

Table 13.2. Movement in provision for impairment of other financial assets in 2014

(in thousands of Ukrainian hryvnias)

Line	Movement in provisions	Due from customers	Amounts due on overdue accrued income from cash and settlement services, and other accrued income	Other	Total
1	2	3	4	5	6
1	Balance as at 1 January 2014	(725)	(125)	(869)	(1,719)
2	(Increase)/decrease in provision for impairment during the year	(1,760)	(160)	5	(1,915)
3	Bad debts written off	10	95	-	105
4	Forex differences on provisions	(161)	-	-	(161)
5	Balance as at 31 December 2014	(2,636)	(190)	(864)	(3,690)

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 profit or loss and other comprehensive income. The difference between the amounts of Provision for impairment of accounts receivable and other financial assets in the statement of profit or loss and other 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 2014 in the amount of UAH 86 thousand.

Table 13.3. Movement in provision for impairment of other financial assets in 2013

(in thousands of Ukrainian hryvnias)

Line	**Movement in provisions**	**Due from customers**	**Amounts due on overdue accrued income from cash and settlement services, 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 profit or loss and other comprehensive income. The difference between the amounts of Provision for impairment of accounts receivable and other financial assets in the statement of profit or loss and other 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 13.4. Credit quality of other financial assets for 2014

(in thousands of Ukrainian hryvnias)

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**	**Withholding tax receivable**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1	Not overdue and not impaired accounts receivable:	3,994	3,677	17,292	2,177	24,120	5	51,265
1.1	Corporate customers	-	3,677	-	-	24,120	-	27,797
1.2	Individuals	3,994	-	17,292	-	-	5	21,291
1.3	Savings account with the National Bank of Ukraine	-	-	-	2,177	-	-	2,177
2	Overdue, but not impaired accounts receivable:	-	659	-	-	-	-	659
2.1	Overdue up to 31 days	-	659	-	-	-	-	659
3	Accounts receivable with specific impairment:	2,666	363	-	-	-	882	3,911
3.1	Overdue up to 31 days	24	79	-	-	-	-	103
3.2	Overdue 32 to 92 days	20	203	-	-	-	-	223

(in thousands of Ukrainian hryvnias)

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	Withholding tax receivable	Other	Total
1	2	3	4	5	6	7	8	9
3.3	Overdue 93 to 183 days	4	43	-	-	-	88	135
3.4	Overdue 184 to 365 (366) days	1,716	34	-	-	-	-	1,750
3.5	Overdue more than 366 (367) days	902	4	-	-	-	794	1 700
4	Other financial assets, gross	6,660	4 699	17,292	2,177	24,120	887	55,835
5	Provision for impairment of other financial assets	(2,636)	(190)	-	-	-	(864)	(3,690)
6	Total other financial assets less provisions	4,024	4,509	17,292	2,177	24,120	23	52,145

Table 13.5. Credit quality of other financial assets for 2013

(in thousands of Ukrainian hryvnias)

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	Withholding 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

(in thousands of Ukrainian hryvnias)

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	Withholding tax receivable	Other	Total
1	2	3	4	5	6	7	8	9
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

14 Other assets

Table 14.1. Other assets

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Accounts receivable on purchase of assets	203	435
2	Prepaid services	13,863	12,265
3	Precious metals	24,805	16,662
4	Other	1,942	2,894
5	Provision for other assets	(343)	(1,427)
6	Total other assets less provisions	40,470	30,829

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 in 2014

				(in thousands of Ukrainian hryvnias)
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 2014	(409)	(1,018)	(1,427)
2	Decrease in provision for impairment during the year	404	680	1,084
3	Balance as at 31 December 2014	(5)	(338)	(343)

Table 14.3. Movement in provision for impairment of other assets in 2013

				(in thousands of Ukrainian hryvnias)
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)

15 Non-current assets held-for-sale

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Non-current assets held-for-sale:	107,622	74,653
1.1	Property and equipment	21,336	-
1.2	Other assets	86,286	74,653
2	Total non-current assets held-for-sale	107,622	74,653

Line 2 in Note 15 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, and its own properties that accommodated the Bank's branches in the Autonomous Republic of Crimea and Sevastopol worth UAH 21,336 thousand, which were closed according to Resolution No. 260 of the NBU's Management Board dated 06.05.20140 "On revocation and annulment of banking licenses and general licenses to foreign currency transactions issued to certain banks and on closure of banks' outlets located on the territories of the Autonomous Republic of Crimea and Sevastopol".

These assets are expected to be disposed via sale. During 2014, the Bank recognised revaluation surplus in administrative and other operating income expenses in the amount of UAH 5,732 thousand.

During 2013, gains less losses on revaluation recognised in administrative and other operating expenses amounted to 945 thousand.

Fair values of the non-current assets held-for-sale as at 31 December 2014 were appraised by LLC Kredytno Brokerske Agentstvo, an independent appraiser.

16 Due to banks

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Correspondent accounts and overnight deposits	912	2,896
2	Loans obtained:	236,591	80,444
2.1	Short-term loans	236,591	80,444
3	Total due to banks	237,503	83,340

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

Line 2 Loans obtained includes accrued expenses in the amount of UAH 63 thousand (2013: 517 thousand).

As at 31 December 2014 and 2013, due to banks in the amount of UAH 236,591 thousand and UAH 80,444 thousand, respectively, comprise amounts due to a related party and the Parent company, Intesa Sanpaolo S.p.A., which represents significant concentration.

17 Due to customers

Table 17.1. Due to customers

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Government and public organisations:	6,844	7,600
1.1	Current accounts	6,644	7,427
1.2	Term deposits	200	173
2	Other legal entities:	1,358,527	900,901
2.1	Current accounts	713,724	412,399
2.2	Term deposits	644,803	488,502
3	Individuals:	2,111,108	2,136,533
3.1	Current accounts	1,202,733	769,676
3.2	Term deposits	908,375	1,366,857
4	Total due to customers	3,476,479	3,045,034

Line 4 in Table 17.1 corresponds to Due to customers in the statement of financial position

Line 1 "State and public organisations" and Line 2 "Other legal entities" include accrued interest amounting to UAH 8 thousand (2013: UAH 7 thousand).

Line 3 "Individuals" includes accrued interest on call deposits of individuals amounting to UAH 594 thousand (2013: UAH 124 thousand) and term deposits of individuals amounting to UAH 22,854 thousand (2013: UAH 40,746 thousand).

As at 31 December 2014, due to customers in Bank's branches in Crimea, Donetsk region, and Lugansk region amounted to UAH 2,467 thousand, UAH 24,521 thousand, and UAH 30,158 thousand, respectively.

The Bank believes that potential concentration risk may arise when at least 10% of deposits of customers (net of subordinated debt) are attracted from a limited number of creditors. As at 31 December 2014 and 2013, deposits of 3 and 6 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

(in thousands of Ukrainian hryvnias)

Line	Type of activity	2014		2013	
		Amount	%	Amount	%
1	2	3	4	5	6
1	State authorities	48	0.01%	72	0.01%
2	Production and distribution of electricity, gas, and water	2,841	0.08%	4,938	0.16%
3	Real estate, lease, engineering and services	150,681	4.33%	64,035	2.10%
4	Trade, repair of vehicles, household equipment and items of personal use	380,796	10.95%	261,336	8.58%
5	Agriculture, hunting and forestry	11,063	0.32%	15,238	0.50%
6	Individuals	2,111,108	60.73%	2,136,533	70.16%
7	Processing industry	316,286	9.10%	230,635	7.57%
8	Financial and insurance activities	322,322	9.27%	180,255	5.92%
9	Other	181,334	5.21%	151,992	5.00%

(in thousands of Ukrainian hryvnias)					
Line	**Type of activity**	**2014**		**2013**	
		Amount	**%**	**Amount**	**%**
1	**2**	**3**	**4**	**5**	**6**
10	Total due to customers	3,476,479	100.00%	3,045,034	100.00%

As at 31 December 2014, guaranteed deposits amounting to UAH 126,846 thousand are pledged to secure:

- corporate and retail loans amounting to UAH 111,297 thousand;
- guarantees issued amounting to UAH 15,549 thousand.

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.

18 Debt securities issued by the Bank

(in thousands of Ukrainian hryvnias)			
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Deposit certificates	1	1
2	Total	1	1

As at 31 December 2014, the Bank has no convertible debt instruments.

Line 2 in Note 18 corresponds to Debt securities issued by the Bank in the statement of financial position.

19 Provisions

Table 19.1. Movement in provisions in 2014

(in thousands of Ukrainian hryvnias)					
Line	**Movement in provisions**	**Credit related commitments**	**Tax risks**	**Litigation contingencies**	**Total**
1	**2**	**3**	**4**	**5**	**6**
1	Balance as at 1 January 2014	1,496	165	247	1,908
2	Increase in provision for impairment during the year	313	14	86	413
3	Amounts recovered	-	(165)	(271)	(436)
4	Increase in provisions due to foreign exchange differences	708	-	-	708
5	Balance as at 31 December 2014	2,517	14	62	2 593

(a) Litigations

As at 31 December 2014, 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 60 thousand and UAH 2 thousand, respectively.

(b) Tax contingencies

As at 31 December 2014, the Bank has a risk of tax assessments that may arise from disputes with tax authorities brought to court totalling UAH 14 thousand.

Line 2 Table 19.1 corresponds to Provisions for liabilities in the statement of profit or loss and other comprehensive income.

Line 5 Table 19.1 corresponds to Provisions in the statement of financial position.

Table 19.2. Movement in provisions in 2013

					(in thousands of Ukrainian hryvnias)
Line	**Movement in provisions**	**Credit related commitments**	**Tax risks**	**Litigation contingencies**	**Total**
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	Increase in provisions due to foreign exchange differences	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 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 Provisions for liabilities in the statement of profit or loss and other comprehensive income.

Line 4 in Table 19.2 corresponds to Provisions in the statement of financial position.

20 Other financial liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	**2**	**3**	**4**
1	Accounts payable to customers	90,557	80,668
2	Accounts payable to other banks	267	-
3	Accounts payable for debit and credit cards	1,155	939
4	Foreign exchange transactions	20,539	5,986
5	Accounts payable for other financial instruments	-	3
6	Other accrued liabilities	529	407
7	Total other financial liabilities	113,047	88,003

Line 7 in Note 20 corresponds to Other financial liabilities in the statement of financial position.

21 Other liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	**2**	**3**	**4**
1	Taxes payable, other than income tax	13,583	11,182
2	Salaries payable	18,025	17,817
3	Accounts payable for assets purchased	4,485	5,518
4	Deferred income	2,149	2,497
5	Accounts payable for recruitment services	6,224	7,451
6	Accounts payable for software maintenance services	567	785
7	Accounts payable for services and security	4,951	4,920
8	Other	876	730
9	Total	50,860	50,900

Line 9 in Note 21 corresponds to Other liabilities in the statement of financial position.

22 Subordinated debt

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013	Nominal interest rate as at 31 December 2014 %	Origination	Maturity
1	2	3	4	5	7	8
1	Principal amount, including:	222,337	112,702			
	Loan received	47,306	23,979	5.6288	12.09.2000	21.09.2015
	Loan received	63,074	31,972	5.6288	21.11.2000	01.11.2015
	Loan received	70,959	35,969	5.6288	08.06.2006	01.06.2016
	Loan received	40,998	20,782	5.6288	07.08.2006	31.07.2016
2	Interest accrued on subordinated loan, including:	6,252	6,393			
	Interest accrued	1,330	1,360	-	-	-
	Interest accrued	1,774	1,814	-	-	-
	Interest accrued	1,995	2,040	-	-	-
	Interest accrued	1,153	1,179	-	-	-
	Total	228,589	119,095			

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 Subordinated debt in the statement of financial position.

23 Share capital

(in thousands of Ukrainian hryvnias)

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 2013	1,624,000	1,010,686	787,112	870	1,798,668
2	Contributions for new share issue	12,500	7,250	734,353	-	741,603
3	Closing balance as at 31 December 2013 (balance as at 1 January 2014)	1,636,500	1,017,936	1,521,465	870	2,540,271
4	Contributions for new share issue	-	-	-	-	-
5	Closing balance as at 31 December 2014	1,636,500	1,017,936	1,521,465	870	2,540,271

As at 31 December 2014 and 2013, preference shares outstanding amount to 1,500 shares.

As at 31 December 2014 and 2013, par value of shares is UAH 0.58 per share. 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 charter documents were registered by the state authorities on 19 June 2013, Register Number 10701050055003106.

As at 31 December 2014, the Bank's regulatory capital was less than its share capital, which is not in line with Article 32 of the Law of Ukraine "On Banks and Banking". During 2015, in accordance with Resolution No. 4/2014 dated 28 November 2014 of Shareholders Meeting, injection to capital amounting to UAH 615,000 thousand was already made.

New shares to be issued amount to 10,000,000 (temporary certificate No. 159/1/2014-T, date of registration 26 December 2014). As at 31 December 2014, registration of the increase in share capital is not completed.

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 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.

24 Revaluation reserves (components of other comprehensive income)

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

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
Components of comprehensive income that will not be reclassified into profit or loss:			
1	Balance as at 1 January	215,411	204,509
2	Revaluation of property and equipment	30,557	13,521
2.1	change in revaluation to fair value	30,606	16,134
2.2	realised gain/loss on revaluation recognised in retained earnings	49	(2,613)
3	Income tax related to revaluation of property and equipment	(5,792)	(2,619)
4	Total revaluation reserves (other comprehensive income), net of income tax	240,176	215,411

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

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
Components of comprehensive income that may be subsequently reclassified into profit or loss:			
1	Balance as at 1 January	(436)	261
2	Revaluation of securities available for sale:	532	(855)
2.1	change in revaluation to fair value	532	(855)
3	Income tax related to revaluation of securities available for sale	(96)	158
4	Total revaluation reserves (other comprehensive income), net of income tax	-	(436)

25 Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	Note	2014			2013		
			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	988,572	-	988,572	876,931	-	876,931
2	Mandatory reserves in the National Bank of Ukraine		-	-	-	110,524	-	110,524
3	Other financial assets at fair value through profit or loss	7	2,726	-	2,726	2,898	-	2,898
4	Due from banks	8	200	-	200	223,327	-	223,327
5	Loans and advances to customers	9	1,370,728	920,569	2,291,297	1,652,059	993,530	2,645,589
6	Securities available-for-sale	10	500,455	-	500,455	101,605	-	101,605
7	Investment property	11	-	13,558	13,558	-	9,327	9,327
8	Current income tax receivable		1,672	-	1,672	1,558	-	1,558
9	Property, equipment and intangible assets	12	30,672	556,546	587,218	28,634	606,769	635,403
10	Other financial assets	13	52,145	-	52,145	41,393	-	41,393
11	Other assets	14	40,470	-	40,470	30,829	-	30,829
12	Non-current assets held-for-sale and disposal group assets	15	107,622	-	107,622	74,653	-	74,653
13	Total assets		3,095,262	1,490,673	4,585,935	3,144,411	1,609,626	4,754,037
	LIABILITIES							
14	Due to banks	16	237,503	-	237,503	83,340	-	83,340
15	Due to customers	17	3,472,434	4,045	3,476,479	3,020,620	24,414	3,045,034

(in thousands of Ukrainian hryvnias)

Line	Description	Note	2014			2013		
			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**
16	Debt securities issued	18	1	-	1	1	-	1
17	Current income tax liability		-	-	-	1,673	-	1,673
18	Deferred tax liabilities		-	4,376	4,376	-	5,247	5,247
19	Provisions for liabilities	19	2,593	-	2,593	1,908	-	1,908
20	Other financial liabilities	20	112,937	110	113,047	87,889	114	88,003
21	Other liabilities	21	50,860	-	50,860	50,900	-	50,900
22	Subordinated debt	22	116,632	111,957	228,589	6,394	112,701	119,095
23	Total liabilities		3,992,960	120,488	4,113,448	3,252,725	142,476	3,395,201

Due to customers include term deposits from individuals (Note 17). In accordance with Ukrainian legislation, the Bank is obliged to repay such deposits or a part thereof upon the first demand of a depositor regardless of the type of the deposit (i.e. call or term deposit). In case of a depositor's demand to early repay the deposit, the Bank is obliged to repay the deposit within the term specified in the deposit agreement or the Bank's internal rules constituting an integral part thereof. If the repayment term is not specified in the deposit agreement or the Bank's internal rules, the Bank shall repay the deposit upon the depositor's demand within 7 days from the day when such demand was claimed in accordance with Part, 2, Article 530 of the Civil Code of Ukraine. However, the Bank does not expect that many customers will request repayment at dates earlier than their maturity. These balances are included above in accordance with their contractual maturity.

26 Interest income and expense

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
Interest income:			
1	Loans and advances to customers	508,296	542,024
2	Debt securities available-for-sale	22,384	17,391
3	Securities held to maturity	-	1,751
4	Due from banks	534	1,428
5	Cash and cash equivalents	436	1,016
6	Total interest income	531,650	563,610
Interest expense:			
7	Term deposits from legal entities	(58,091)	(32,071)
8	Debt securities issued	-	(4,744)
9	Term deposits from individuals	(123,602)	(202,686)
10	Term deposits due to banks	(7,211)	(11,909)
11	Current accounts	(116,600)	(64,298)
12	Other	(9,577)	(6,394)
13	Total interest expense	(315,081)	(322,102)
14	Net interest income	216,569	241,508

Line 14 in Note 26 corresponds to Net interest income in the statement of profit or loss and other comprehensive income.

27 Commission income and expense

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
COMMISSION INCOME:			
1	Cash payments and withdrawals	137,255	156,052
2	Commission for lease of safe deposit boxes	3,945	3,759
3	Commission for consulting services	3,189	3,476
4	Commission for insurance broker services	20,144	16,224
5	Commission for TaxFree check payments	483	264
6	Dealing in securities	62	97
7	Interbank operations with plastic cards	15,574	14,225
8	Guarantees issued	597	746
9	Other	339	533
10	Total commission income	181,588	195,590
COMMISSION EXPENSE:			
11	Cash payments and withdrawals	(10,617)	(7,467)
12	Commission for services and other	(1,938)	(2,817)
13	Trade finance transactions	(29,442)	(189)
14	Services provided by payment systems and operations with plastic cards	(5,709)	(6,147)
15	Total commission expense	(47,706)	(16,620)
16	Net commission income	133,882	178,970

Line 10 and Line 15 in Note 27 correspond to Commission income" and "Commission expense in the statement of profit or loss and other comprehensive income..

28 Other operating income

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Operating lease	709	231
2	Transactions with derivative financial instruments (spot foreign exchange transactions)	97	-
3	Penalties and fines received	5,450	9,189
4	Undrawn funds after limitation period	3,922	3,269
5	Cash collection services	408	497
6	Dividends	100	115
7	Shortages charged to responsible employees	1,353	2,032
8	Other	473	1,549
9	Total operating income	12,512	16,882

Line 9 in Note 28 corresponds to Other operating income in the statement of profit or loss and other comprehensive income.

29 Administrative and other operating expenses

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Personnel costs	259,590	258,077
2	Recruitment services	11,831	9,475
3	Depreciation of property and equipment	34,062	42,374
4	Impairment reversal/impairment loss arising from property and equipment revaluation	(2,877)	7,850
5	Amortisation of software and other intangible assets	38,124	35,446
6	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	90,745	94,853
7	Operating lease	34,378	28,926
8	Disposal of intangible assets and property and equipment	167	2,214
9	Cash collection and transportation	2,738	3,294
10	Services provided by payment systems on payment cards	3,466	3,411
11	Services on recovery of doubtful debts	1,397	2,408
12	Professional services	12,247	19,030
13	Marketing and advertising	1,529	1,384
14	Security	9,035	11,383
15	Taxes, other than income tax	35,650	25,918
16	Other	1,593	1,078
17	Total administrative and other operating expenses	533,675	547,121

Line 17 in Note 29 corresponds to Item "Administrative and other operating expenses" in in the statement of profit or loss and other operating income.

30 Income tax expense

Table 30.1. Income tax expense

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2014**	**2013**
1	**2**	**3**	**4**
1	Current income tax	219	1,673
2	Change in deferred income tax resulting from:	(6,758)	38,279
2.1	origination or reversal of temporary differences	(6,758)	38,279
3	Total income tax expense	(6,539)	39,952

Line 3 in Table 30.1 corresponds to Income tax expense in the statement of profit or loss and other comprehensive income.

Table 30.2. Reconciliation of accounting loss and taxable loss

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	(Loss) before tax	(918,138)	(290,759)
2	Income tax calculated applying current tax rate	(165,265)	(55,244)
3	Permanent tax differences	20,544	21,788
4	Changes in unrecognised deferred tax assets	138,182	73,408
5	Income tax expense	(6,539)	39,952

Table 30.3. Tax effects related to recognised deferred tax assets and liabilities for the year 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2013	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2014
1	2	3	4	5	6
1	Tax effect of temporary differences:				
1.1	Tax loss carried forward	82,688	102,627	-	185,315
1.2	Due from banks and loans to customers	248,376	143,482	-	391,858
1.3	Due to banks	7,932	(4,077)	-	3,855
1.4	Provisions for liabilities	5,258	947	-	6,205
1.5	Securities available-for-sale	(142)	(55)	(96)	(293)
1.6	Other assets	566	160	-	726
1.7	Due to customers	(111)	(40)	-	(151)
1.8	Property, equipment, intangible assets, and investment property	(11,113)	7,578	(5,792)	(9,327)
1.9	Provision for impairment of deferred tax assets	(338,701)	(243,863)	-	(582,564.0)
2	Deferred tax asset (liability), including:	(5,247)	6,759	(5,888)	(4,376)
3	Recognised deferred tax liability	(5,247)	-	-	(4,376)

Table 30.4. Tax effects related to recognised deferred tax assets and liabilities for the year 2013

(in thousands of Ukrainian hryvnias)

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)
3	Recognised deferred tax asset	36,725	-	-	-
4	Recognised deferred tax liability	(1,232)	-	-	(5,247)

31 Loss/earnings per ordinary share and preference share

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

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	Loss attributable to the holders of ordinary shares	(911,599)	(330,711)
2	Profit attributable to the holders of preference shares	157	157,
3	Loss for the year	(911,599)	(330,711)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1,635,000	1,629,212
5	Annual average number of preference shares outstanding (in thousands of shares)	1,500	1,500
6	Basic and diluted loss per ordinary share	(0.56)	(0.20)
7	Basic and diluted earnings per preference share	0.10	0.10

32 Dividends

(in thousands of Ukrainian hryvnias)

Line	Description	2014		2013	
		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	Increase in provisions from dividends	-	(157)	-	(157)
4	Balance as at 31 December	-	-	-	-

33 Financial risk 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 reorganisation, segregation of duties and responsibilities between business units and risk management subdivisions was implemented by the Bank in line with Intesa Sanpaolo S.p.A., Parent Company, 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 aimed to ensure 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 Head Business Department in development retail loan products.

The main principle underlying 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 Group regulations, establishment of risk management policy and risk limits to manage market, interest rate, liquidity, currency, 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 policy (segregation of duties in particular), recommendations on any changes to the Supervisory Board, as appropriate;
- determination of maximum risks by segment, area, product, terms, currency;
- 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 analyse 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 security 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 currency 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 Group.

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 of financial position and the Statement of profit or loss and other comprehensive income, as assets and liabilities denominated in foreign currencies are to be translated in 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 foreign exchange rate fluctuations.

The Bank applies the following limits:

Internal position limits:

- Limits for all currencies
- Limits for USD
- Limits for EUR

Internal position sublimits:

- Sublimits for non-trade operations (cash)
- Sublimits for precious metals

VaR Limit

NBU limits for foreign currency position:

- Limit for long foreign currency position
- Limit for short foreign currency 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 Intesa Sanpaolo SpA Group.

Risk management Department is responsible for:

- daily analysis of Bank’s net foreign currency position;
- determination of acceptable currency risk exposure and setting limits for net foreign currency 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

(in thousands of Ukrainian hryvnias)

Line	Currency	As at 31 December 2014			As at 31 December 2013		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
1	2	3	4	5	6	7	8
1	USD	1,318,760	1,734,224	(415,465)	864,996	1,044,500	(179,504)
2	EUR	136,743	211,013	(74,270)	85,954	131,371	(45,417)
3	GBP	736	942	(206)	2,309	534	1,775
4	Other	39,653	38,634	1,019	42,088	37,609	4,479
5	Total	1,495,891	1,984,814	(488,922)	995,347	1,214,014	(218,667)

Table 33.2. Sensitivity of net 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

(in thousands of Ukrainian hryvnias)

Line	Description	As at 31 December 2014		As at 31 December 2013	
		Effect on profit/(loss)	Effect on equity	Effect on profit/(loss)	Effect on equity
1	2	3	4	5	6
1	20% strengthening of USD (31 December 2014: 5%)	(83,093)	(83,093)	(8,975)	(8,975)
2	20% weakening of USD 31 December 2014: 5%)	83,093	83,093	8,975	8,975
3	20% strengthening of EUR (31 December 2014: 5%)	(14,854)	(14,854)	(2,271)	(2,271)
4	20% weakening of EUR 31 December 2014: 5%)	14,854	14,854	2,271	2,271
5	20% strengthening of GBP (31 December 2014: 5%)	(41)	(41)	89	89
6	20% weakening of GBP (31 December 2014: 5%)	41	41	(89)	(89)
7	20% strengthening of other currencies (31 December 2014: 5%)	204	204	224	224
8	20% weakening of other currencies (31 December 2014: 5%)	(204)	(204)	(224)	(224)

Table 33.3. Sensitivity of profit or loss and equity to potential changes in official weighted average UAH exchange rates, assuming that all other variables remain constant

(in thousands of Ukrainian hryvnias)

Line	Description	As at 31 December 2014		As at 31 December 2013	
		Effect on profit/(loss)	Effect on equity	Effect on profit/(loss)	Effect on equity
1	2	3	4	5	6
1	20% strengthening of USD (31 December 2014: 5%)	39,642	39,642	(9,051)	(9,051)
2	20% weakening of USD 31 December 2014: 5%)	164,916	164,916	9,051	9,051

(in thousands of Ukrainian hryvnias)

Line	Description	As at 31 December 2014		As at 31 December 2013	
		Effect on profit/(loss)	**Effect on equity**	**Effect on profit/(loss)**	**Effect on equity**
1	**2**	**3**	**4**	**5**	**6**
3	20% strengthening of EUR (31 December 2014: 5%)	1,444	1,444	(3,725)	(3,725)
4	20% weakening of EUR 31 December 2014: 5%)	25,719	25,719	955	955
5	20% strengthening of GBP (31 December 2014: 5%)	9	9	117	117
6	20% weakening of GBP (31 December 2014: 5%)	75	75	(63)	(63)
7	20% strengthening of other currencies (31 December 2014: 5%)	328	328	656	656
8	20% weakening of other currencies (31 December 2014: 5%)	(142)	(142)	174	174

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;
- analyses asset and liability structure on a daily basis;
- calculates and analyses 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. Interest rate risk overview

Financial assets and liabilities insensitive to interest rate fluctuations, such as mandatory reserves with the NBU, other financial assets, and other financial liabilities were not included in the overview of interest rate risk as at 31 December 2014 and 2013.

(in thousands of Ukrainian hryvnias)

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
	2014					
1	Total financial assets	2,149,666	462,140	247,949	920,569	3,780,324
2	Total financial liabilities	2,719,623	748,296	358,652	116,002	3,942,573
3	Net interest rate gap as at the end of previous period	(569,957)	(286,156)	(110,703)	804,567	(162,249)
	2013					
4	Total financial assets	1,319,424	334,649	574,473	1,619,029	3,847,575
5	Total financial liabilities	1,738,731	1,219,237	265,186	24,316	3,247,470
6	Net interest rate gap as at the end of previous period	(419,307)	(884,588)	309,287	1,594,713	600,105

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

An analysis of sensitivity of profit before tax and equity to interest rate risk is presented below. The analysis covers floating interest rate assets and liabilities.

(in thousands of Ukrainian hryvnias)

Line	Description	For the year ended 31 December 2014		For the year ended 31 December 2013	
		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	-	-	-	-
2	Subordinated debt	(2,223)	2,223	-	-
3	**Net effect on profit before tax and equity**	**(2,223)**	**2,223**	-	-

Table 33.5. Interest rates on financial instruments

(%)

Line	Description	2014				2013			
		UAH	USD	EUR	Other	UAH	USD	EUR	Other
1	2	3	4	5	6	7	8	9	10
	Assets								
1	Cash and cash equivalents	0.10	0.003	-	-	-	-	-	0.01
2	Due from banks	-	-	-	-	6.26	3.00	-	-
3	Loans and advances to customers	17.17	13.84	13.66	-	14.81	10.86	10.70	-
4	Debt securities available for sale	11.20	-	-	-	15.06	-	-	-
	Liabilities								
5	Due to banks	-	9.60	-	-	-	6.29	-	-
6	Due to customers:								
6.1	current accounts	4.13	5.51	4.00	-	1.99	1.07	0.94	-
6.2	term deposits	17.68	6.73	5.74	-	16.13	6.34	4.22	4.50
7	Subordinated debt	-	5.63	-	-	-	5.58	-	-

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 that influence on the borrower's position and is a component of credit risk.

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

Table 33.6 Analysis of geographic concentration of financial assets and financial liabilities for 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Assets				
1	Cash and cash equivalents	305,791	680,788	1,993	988,572
2	Other financial assets at fair value through profit or loss	-	2,726	-	2,726
3	Due from banks	200	-	-	200
4	Loans and advances to customers	2,240,386	8,936	41,975	2,291,297
5	Securities available-for-sale	500,455	-	-	500,455
6	Other financial assets	28,013	24,123	9	52,145
7	Total financial assets	3,074,845	716,573	43,977	3,835,395

Line	Description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	Liabilities				
8	Due to banks	912	236,591	-	237,503
9	Due to customers	3,449,346	9,681	17,452	3,476,479
10	Debt securities issued by the Bank	1	-	-	1
11	Other financial liabilities	112,383	587	77	113,047
12	Subordinated debt	-	-	228,589	228,589
13	Total financial liabilities	3,562,642	246,859	246,118	4,055,619
14	Net balance sheet position	(487,797)	469,714	(202,141)	(220,224)
15	Credit-related obligations	27,194	-	-	27,194

Table 33.7 Analysis of geographic concentration of financial assets and financial liabilities for 2013

(in thousands of Ukrainian hryvnias)

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 balance sheet position	682,188	180,244	(195,638)	666,794
16	Credit-related obligations	10,124	-	-	10,124

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 will 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 outflows by funds or marketable assets received, as well as due to its own ability to obtain 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 that 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 2014

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2014 are as follows:

(in thousands of Ukrainian hryvnias)

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	238,005	-	-	-	238,005
2	Due to customers:	2,485,739	421,144	602,168	-	3,509,081
2.1	Due to individuals	1,411,095	343,677	383,968	-	2,138,740
2.2	Other	1,074,643	77,467	218,231	-	1,370,341
3	Debt securities, issued by the Bank	1	-	-	-	1
4	Subordinated debt	7,315	2,023	9,429	224,037	242,804
5	Other financial liabilities	110 759	681	1 505	102	113 047
6	Financial guarantees	20 701	-	-	-	20 701
7	Other credit-related obligations	27 194	-	-	-	27 194
8	Total potential future payments per financial obligations	2,889,713	423,848	613,133	224,139	4,150,833

Table 33.9. 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:

(in thousands of Ukrainian hryvnias)

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 33.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2014

							(in thousands of Ukrainian hryvnias)
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	988,572	-	-	-	-	988,572
2	Other financial assets at fair value through profit or loss	2,726	-	-	-	-	2,726
2	Due from banks	200	-	-	-	-	200
3	Loans and advances to customers	50,706	114,975	828,801	618,638	678,177	2,291,297
4	Securities available-for-sale	500,455	-	-	-	-	500,455
5	Other financial assets	51,640	505	-	-	-	52,145
6	Total financial assets	1,594,299	115,480	828,801	618,638	678,177	3,835,395
	Liabilities						
7	Due to banks	237,503	-	-	-	-	237,503
8	Due to customers	2,249,710	437,267	670,352	119,150	,	3,476,479
9	Debt securities issued by the Bank	1				-	1
10	Other financial liabilities	110,759	681	1,505	102	,	113,047
11	Subordinated debt	6,252		110,380	111,957	-	228,589
12	Total financial liabilities	2,604,225	437,948	782,237	231,209	,	4,055,619
13	Net liquidity gap as at 31 December	(1,009,926)	(322,468)	46,564	387,429	678,177	(220,224)
14	Cumulative liquidity gap as at 31 December	(1,009,926)	(1,332,394)	(1,285,830)	(898,401)	(220,224)	-

Table 33.11. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2013

(in thousands of Ukrainian hryvnias)

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 customers	807,739	281,702	562,621	659,489	334,038	2,645,589
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 from 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 2013	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	-

Operational risk

The Group and the Bank determine an operational risk as the risk of losses resulting from inconsistency or failure to fulfil any procedures, incorrect actions of staff or internal systems, or because of external events. Such definition applies to a legal risk; however, strategic and reputation risks are not taken into account.

Operational risk management is a part of the Bank's general risk management system. The necessity of operational risk management is determined by the essential value of losses caused by the operational risk that may threaten to the Bank's financial stability.

The Bank's operational risk management is a structural set of processes, functions, obligations and resources for determination (identification), evaluation (measurement), monitoring and reporting about operational risk, as well as taking of relevant actions by management.

The key purposes of ORM is timely identification and minimization of operational risk, as well as its prevention. A priority is to ensure protection of assets and capital based on reduction or prevention of possible losses.

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;
– optimisation of assets and liabilities structure by ageing and investment of funds.

As at 31 December 2014, the National Bank of Ukraine requires banks to maintain a capital adequacy ratio of 10% of risk weighted assets computed in accordance with the regulations of the National Bank of Ukraine (31 December 2013: 10%).

As at 31 December 2014, regulatory capital adequacy ratio (R2) was 10.27% (the regulatory ratio is no less than 10%) (31 December 2013: 17.54%). The Bank maintained the regulatory capital adequacy ratio as at 31 December 2014 та 31 December 2013.

As at 31 December 2014, the Bank did not comply with the following statutory ratios: R7 (maximum credit risk per counterparty) (regulatory ratio 30.88%, limit <25%) and L13-2 (general short open currency position limit) (regulatory rate 11.97%, limit <10%), mainly due to an increase of foreign currency to UAH exchange rate.

On 26 August 2014, the National Bank of Ukraine resolved not to impose temporarily any penalties on banks for violation of ratios and limits related to general (long/short) open currency position caused by the situation in Crimea and war tensions in Donetsk and Lugansk regions and by devaluation of Ukrainian hryvnia. Under NBU Board Resolution "On Certain Issues of Banking Activities" No. 529 of 26 August 2014 ("Resolution No. 529") the NBU allowed banks not to comply with the obligatory rate of all regulatory ratios, including capital adequacy ratio for the period until 1 January 2015, provided that such non-compliance is caused by losses related to activities in the above mentioned regions, under condition that banks comply with certain requirements. The Bank complies with such requirements as at 31 December 2014 and, therefore, the above non-compliance with the ratios is waived by the scope of this Resolution.

Table 34.1. Structure of regulatory capital based on NBU requirements

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
	Core regulatory capital	248,759	489,494
1	Share capital	949,170	949,170
2	Share premium	1,521,161	1,521,161
3	Total reserves under Ukrainian legislation	1,332	1,332
4	Intangible assets	(328,166)	(312,238)
5	Amortisation of intangible assets	127,757	89,634
6	Capital investments in intangible assets	(21,405)	(24,227)
7	Uncovered losses of past years	(1,648,362)	(1,546,962)
8	Estimated loss	(352,728)	(188,376)
	Additional capital	211,505	242,804
9	Provisions for standard indebtedness	5,676	43,097
10	Retained earnings of past years	-	1,745
11	Fixed assets revaluation result	138,970	141,531
12	Subordinated debt	66,859	56,431
	Deductions	(2,847)	(2,670)
13	Transactions with insiders	(121)	(121)
14	Corporate shares and other securities without fixed income issued by the Bank, held for trade and available for sale	(2,726)	(2,549)
15	Total regulatory capital	457,417	729,628

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

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	**2**	**3**	**4**
1	Tier I capital	8,662	896,919
2	Tier II capital	124,419	143,301
3	Total	133,081	1,040,220
4	Risk-weighted assets	2,373,081	2,622,621
5	Market risk	505,714	218,363
6	Tier I capital adequacy ratio	0.30%	31.57%
7	Capital adequacy ratio	4.62%	36.61%

35 Contingent liabilities

Capital investments commitments.

As at 31 December 2014, PJSCCB "PRAVEX-BANK" had contractual obligations on purchase of property and equipment, and intangible assets amounting to UAH 1,506 thousand (31 December 2013: 1,419 thousand).

Table 35.1. Structure of credit related commitments

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	**2**	**3**	**4**
1	Outstanding credit related commitments	19,341	1,598
2	Undrawn credit lines	1,239,789	573,331
3	Export letters of credit	-	16,590
4	Import letters of credit	3,902	6,477
5	Guarantees issued	18,815	18,315
6	Provision for credit related commitments	(2,517)	(1,496)
7	Total credit related commitments less provision	1,279,330	614,815

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

(in thousands of Ukrainian hryvnias)

Line	Description	2014	2013
1	2	3	4
1	UAH	836,201	326,728
2	USD	351,956	211,148
3	Euro	91,173	74,768
4	Other	-	2,171
5	Total	1,279,330	614,815

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 the market does not operate on a regular basis, that is, it has no sufficient volatility and constant number of transactions, while the difference between purchase price and selling price is insufficient, fair value measurement is mainly based on valuation techniques aimed at establishing of the price of a hypothetic commercial transaction on an arm’s length basis as at the measurement date.

Table 36.1. Analysis of fair value of financial instruments

(in thousands of Ukrainian hryvnias)

Line	Description	2014		2013	
		Fair value	Book value	Fair value	Book value
1	2	3	4	5	6
	FINANCIAL ASSETS				
1	Cash and cash equivalents	988,572	988,572	876,931	876,931
1.1	Cash	273,565	273,565	303,471	303,471
1.2	Balances with the NBU (other than mandatory reserves)	28,739	28,739	392,495	392,495
1.3	Corresponding accounts due from banks:	686,268	686,268	180,965	180,965
2	Obligatory reserves with the NBU	-	-	110,524	110,524
3	Other financial assets at fair value, through profit or loss	2,726	2,726	2,898	2,898
4	Due from banks	200	200,	223,327	223,327
4.1	Deposits due from banks:	200	200	200	200

(in thousands of Ukrainian hryvnias)

Line	Description	2014		2013	
		Fair value	Book value	Fair value	Book value
1	2	3	4	5	6
4.2	Loans, issued to other banks:	-	-	223,127	223,127
5	Loans and advances to customers	2,231,083	2,291,297	2,538,530	2,645,589
6	Securities available for sale	500,455	500,455	101,605	101,605
6.1	State bonds	500,421	500,421	101,571	101,571
6.2	Corporate shares and other securities without fixed income	34	34	34	34
7	Other financial assets (except measured at fair value, through profit or loss)	52,145	52,145,	38,495	38,495
	FINANCIAL LIABILITIES				
8	Due to banks	237,503	237,503	83,340	83,340
8.1	Correspondent accounts, deposits and overnight loans due to banks	912	912	2,896	2,896
8.2	Loans received	236,591	236,591	80,444	80,444
9	Due to customers	3,478,723,	3,476,479	3,037,212	3,045,034
10	Debt securities issued by the Bank	1	1	1	1
10.1	Deposit certificate	1	1	1	1
11	Subordinated debt	228,589	228,589	119,095	119,095
12	Other financial liabilities	113,047	113,047	88,003	88,003

Table 36.2. Analysis of carrying value of financial instruments by hierarchy level as at 31 December 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Fair value by measurement method as at 31 December 2014			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	-	988,572	-	988,572	988,572
2	Other financial assets at fair value, through profit or loss	2,726	-	-	2,726	2,726
3	Due from banks	-	200	-	200	200
4	Loans and advances to customers	-	-	2,231,083	2,231,083	2,291,297
	Securities available for sale	500,455	-	-	500,455	500,455
	FINANCIAL LIABILITIES					
6	Due to banks	-	237,503	-	237,503	237,503
7	Due to customers	-	3,478,723	-	3,478,723	3,476,479

(in thousands of Ukrainian hryvnias)

Line	Description	Fair value by measurement method as at 31 December 2014			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
8	Debt securities issued by the Bank	-	1	-	1	1
9	Subordinated debt	-	228,589	-	228,589	228,589

Table 36.3. Analysis of fair value of financial instruments by hierarchy level as at 31 December 2013

(in thousands of Ukrainian hryvnias)

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

The Bank uses the following hierarchy when measuring the fair value of financial instruments and disclosing based on the inputs used in the valuation techniques:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments 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

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**
2014	Loans and advances to customers	2,231,083	Cash flow discounting	Discount rate	5.99 – 30.18%	Significant increase of discount rate results in lower values of fair value
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

37 Presentation of financial instruments by measurement category

Table 37.1. Financial assets by measurement category for 2014

(in thousands of Ukrainian hryvnias)

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	988,572	-	-	988,572
2	Other financial assets at fair value through profit or loss	-	-	2,726	2,726
3	Due from banks:	200	-	-	200
3.1	Deposits due from banks	200	-	-	200
4	Loans and advances to customers:	2,291,297	-	-	2,291,297
4.1	corporate loans	797,000	-	-	797,000
4.2	loans to individual entrepreneurs	570	-	-	570
4.3	mortgage loans to individuals	1,021,095	-	-	1,021,095
4.4	consumer loans to individuals	3,227,616	-	-	3,227,616
4.5	other retail loans	29,129	-	-	29,129
4.6	loan impairment provision	(2,784,113)	-	-	(2,784,113)
5	Securities available-for-sale	-	500,455	-	500,455
6	Other financial assets:	52,145	-	-	52,145
6.1	Receivables on transactions with customers	6,660	-	-	6,660

(in thousands of Ukrainian hryvnias)

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
6.2	Receivables on accrued income on cash payments and other accrued income	4,699	-	-	4,699
6.3	receivables on payment card transactions	17,292	-	-	17,292
6.4	Cash restricted for use	2,177	-	-	2,177
6.5	Receivables on withholding tax recovery	24,120	-	-	24,120
6.6	Other financial assets	887	-	-	887
6.7	Impairment loss provision on other financial assets	(3,690)	-	-	(3,690)
7	Total financial assets	3,332,214	500,455	2,726	3,835,395

Table 37.2. Financial assets by measurement category for 2013

(in thousands of Ukrainian hryvnias)

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

(in thousands of Ukrainian hryvnias)

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
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 recovery	12,227	-	-	12,227
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

38 Transactions with related parties

Table 38.1. Balances with related parties as at 31 December 2014

(in thousands of Ukrainian hryvnias)

Line	**Description**	**UAH**	**%**	**Maturity**	**USD**	**%**	**Maturity**	**EUR**	**%**	**Maturity**	**Other**	**%**	**Maturity**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**
	Major shareholders												
1	Cash and cash equivalents	-	-	-	587,345	-	on demand	57,379	-	on demand	397	-	on demand
2	Other financial assets at fair value through profit or loss-	-	-	-	-	-	-	2,726	-	on demand	-	-	-
3	Other assets	-	-	-	2	-	from 32 to 92 days	22	-	from 93 to 183 days	-	-	-
4	Due to banks	-	-	-	236,591	9,6%	Overnight or for 1 day	-	-	-	-	-	-
5	Other financial assets	2	-	on demand – up to 21 days	24,120	-	on demand	-	-	-	-	-	-
6	Other financial liabilities	5	-	on demand	-	-	-	561	-	on demand	-	-	-
7	Other liabilities	-	-	-	-	-	-	4,590	-	on demand	-	-	-

(in thousands of Ukrainian hryvnias)

Line	Description	UAH	%	Maturity	USD	%	Maturity	EUR	%	Maturity	Other	%	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Key management												
8	Loans and advances to customers	339	12 - 18,5 %	from 8 days - over 10 years	45	10%	from 8 to 92 days	-	-	-	-	-	-
	Due to customers	720	0 - 17%	on demand – up to 7 days	1,624	0 - 8%	on demand – up to 1,5 years	44	0 - 7%	on demand up to 7 days	-	-	-
9	Other liabilities	618	-	on demand	-	-	-	-	-	-	-	-	-
	Other related parties												
10	Cash and cash equivalents	-	-	-	4,586	-	on demand	-	-	-	1,959	-	on demand
11	Other financial liabilities	-	-	-	15	-	on demand	-	-	-	-	-	-
12	Other liabilities	-	-	-	-	-	-	711	-	on demand	-	-	-

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

Table 38.2. Income and expenses at transactions with related parties for 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Major shareholders	Key management	Other related parties
1	2	3	4	5
1	Interest income	-	46	-
2	Interest expense	(1,746)	(166)	(815)
3	Revaluation surplus on other financial instruments at fair value through profit or loss	2,389	-	-
4	Gains less losses from foreign currency translation	35	-	-
5	Revaluation surplus on foreign currency transactions	88,182	(530)	(5,908)
6	Commission income	6	32	-
7	Commission expense	(28,500)	-	(231)
8	Other operating income	100	-	-
9	Administrative and other operating expenses	(13,349)	(14,386)	(915)

Table 38.3. Other rights and liabilities on transactions with related parties as at 31 December 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Major shareholders
1	2	3
1	Guarantees received	925

Table 38.4. Loans granted to and repaid by related parties during 2014

(in thousands of Ukrainian hryvnias)

Item	Description	Key management
1	2	3
1	Loans repaid by related parties during the year	233

Table 38.5. Balances with related parties as at 31 December 2013

(in thousands of Ukrainian hryvnias)

Li-ne	Description	UAH	%	Maturity	USD	%	Maturity	EUR	%	Maturity	Other	%	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 to 1,5 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 – to 90 days	-	-	-

(in thousands of Ukrainian hryvnias)

Li-ne	Description	UAH	%	Maturity	USD	%	Maturity	EUR	%	Maturity	Other	%	Maturity
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	Key management												
7	Due to customers	601	0 - 17%	On demand to 1.5 years	498	0 - 7%	On demand 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	-	-	-

Table 38.6. Income and expenses at transactions with related parties for 2013

(in thousands of Ukrainian hryvnias)

Item	Description	Major shareholders	Key management	Other related parties
1	2	3	4	5
1	Interest expenses	(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 38.7. Remuneration to key management

(in thousands of Ukrainian hryvnias)

Item	Description	2014		2013	
		Costs	Accrued liabilities	Costs	Accrued liabilities
1	2	3	4	5	6
1	Short-term employee benefits	12,365	618	4 396	236
2	Post-employment benefits	-	-	-	-
3	Dismissal costs	10	-	-	-

The shareholder of PJSCCB "PRAVEX-BANK" is the Italian Intesa Sanpaolo Group.

39 Subsequent events

Events after 31 December 2014 do not require any changes to financial statements.

The Bank's registered shares amounting to UAH 615 000 thousand were placed under securities purchase agreement No.1/15 of 29 January 2015. As at 23 February 2015 this amount was fully paid in.

In February 2015, the official exchange rate of national currency to US dollar has devaluated by 79.8% as compared to the official exchange rate at 31 December 2014. As at the date of issue of these financial statements, 23 February 2015, the official UAH/USD exchange rate was UAH 28.348066 for USD 1.00.

40 Additional information pursuant to the requirements of 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 2014 and 2013 and for the years ended at that date:

- The Bank's assets and liabilities as at 31 December 2014 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 2014 in these financial statements, information about the Bank's capital is presented in note 23;
- Net assets amount is lower 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 2014 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 securities 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 owning 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 reorganisation 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, appointment 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 organisational structure and checking the control implementation. The Internal Audit Department reports directly to the Supervisory Board.

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

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

DATE: 23 FEBRUARY 2015

ex. Melnyk T.I.
(044)-201-17-57

JSC KPMG Audit
Business center "Senator"
32/2 Moskovska str.,
17th floor,
Kyiv, Ukraine, 01010

Telephone +380 (44) 490 5507
Telefax +380 (44) 490 5508
Internet www.kpmg.ua

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 in Kyiv, Klovskiy Uzviz 9/2, registered in Kyiv on 29 December 1992), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and 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. 304/1 dated 24 December 2014 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 relevant 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 2014, 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 include the following: regional tensions that made impossible the Bank's operations in the Crimea and in a significant part of Donetsk and Lugansk regions; deterioration of economic and business environment in Ukraine; significant devaluation of Ukrainian hryvnia; reduced liquidity of the Ukrainian banking sector; massive deposits run and financial difficulties encountered by a number of Ukrainian banks. These events have adversely affected, and could further 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 № 208-SA/2014 dated 17 November 2014. Our audit was conducted between 24 November 2014 and 23 February 2015.

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:

- Article 155, Part Three, of the Civil Code of Ukraine requires that net assets value should be not lower than the amount of share capital. As at 31 December 2014 net assets of the Bank are lower than its share capital. As at 31 December 2013 the amount of net assets was higher than amount of share capital.

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 2014, 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 making those risk assessments, we considered internal control relevant to the 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 Bank's internal control, including the controls aimed at the detection and prevention of fraud. Accordingly, we do not express such opinion.

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

- As at 31 December 2014 the Bank is not an issuer of mortgage bonds;
- As at 31 December 2014 registered share capital in amount of UAH 949,170 thousand corresponds to foundation 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 2 days to 7 days", "from 8 days to 31 days", "from 93 days to 183 days", and "from 275 days to 365 (366) days";

  positive – "from 32 days to 92 days", "from 184 days to 274 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", and "over 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 10 of Supervisory board of the Bank dated 22 December 2014.

  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 2014, the Bank recorded in the accompanying financial statements prepared in accordance with IFRS the loan impairment allowance of UAH 2,784,113 thousand, securities impairment allowance of UAH 0, and allowance for impairment of other financial assets and other assets of UAH 4,033 thousand.

  Furthermore, 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 2014 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 983,917 thousand, or 27.1% of total loans and advances to customers;
- securities impairment allowance in the amount of UAH 0, or 0.0% of total securities available-for-sale; and
- allowance for impairment of other financial assets and other assets in the amount of UAH 27,810 thousand and UAH 343 thousand, respectively.

The Bank determined that its regulatory capital as at 31 December 2014 calculated in accordance with the regulatory requirements of the National Bank of Ukraine amounted to UAH 457,417 thousand, or 10.3%, and, therefore, the Bank determined that it complied with the regulatory requirements on capital adequacy. 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 (R9) as 2.7% and the ratio of maximum total loans, guarantees and warranties to insiders (R10) as 3.3% as at 31 December 2014). In addition, the Bank determined that as at 31 December 2014, the Bank did not comply with the following statutory ratios: R7 (maximum credit risk per counterparty) (regulatory ratio 30.88%, limit <25%) and L13-2 (general short open currency position limit) (regulatory rate 11.97%, limit <10%), mainly due to an increase of foreign currency to UAH exchange rate.

On 26 August 2014, the National Bank of Ukraine resolved not to impose temporarily any penalties on banks for violation of ratios and limits related to general (long/short) open currency position caused by the situation in Crimea and war tensions in Donetsk and Lugansk regions and by devaluation of Ukrainian hryvnia. Under NBU Board Resolution "On Certain Issues of Banking Activities" No. 529 of 26 August 2014 ("Resolution No. 529"), the NBU allowed banks not to comply with the obligatory rate of all regulatory ratios, including capital adequacy ratio for the period until 1 January 2015, provided that such non-compliance is caused by losses related to activities in the above mentioned regions, under condition that banks comply with certain requirements. The Bank complies with such requirements as at 31 December 2014 and, therefore, the above non-compliance with the ratios is waived by the scope of this Resolution.

As at 31 December 2014, the Bank's regulatory capital was less than its share capital, which is not in line with Article 32 of the Law of Ukraine "On Banks and Banking". During 2015, in accordance with Resolution No. 4/2014 dated 28 November 2014 of Shareholders Meeting, injection to capital amounting to UAH 615,000 thousand was already made.

- **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, non-compliance 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

м. Київ * Україна * Приватне акціонерне товариство «КПМГ Аудит» Ідентифікаційний код 31032100

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

Anna Parkhomenko
Deputy Director

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

23 February 2015