PUBLIC JOINT-STOCK COMPANY
COMMERCIAL BANK
"PRAVEX-BANK"

Annual financial statements
31 December 2015

Contents

(in thousands of Ukrainian hryvnias)

Item	Notes	2015	2014
1	2	3	4
ASSETS			
Cash and cash equivalents	6	440,124	988,572
Financial assets at fair value through profit or loss	7	2,633	2,726
Due from banks	8	-	200
Loans and advances to customers	9	1,826,285	2,291,297
Securities available-for-sale	10	1,813,143	500,455
Investment property	11	112,914	13,558
Current income tax receivable		1,489	1,672
Property, equipment and intangible assets	12	606,060	587,218
Other financial assets	13	41,393	52,145
Other assets	14	64,071	40,470
Non-current assets held-for-sale and disposal group assets	15	32,525	107,622
Total assets		**4,940,637**	**4,585,935**
LIABILITIES			
Due to banks	16	24,060	237,503
Due to customers	17	2,991,844	3,476,479
Debt securities issued by the Bank	18	1	1
Deferred tax liabilities	30	16,464	4,376
Provisions for liabilities	19	11,146	2,593
Other financial liabilities	20	115,628	113,047
Other liabilities	21	47,985	50,860
Subordinated debt	22	-	228,589
Total liabilities		**3,207,128**	**4,113,448**
EQUITY			
Share capital	23	1,038,007	1,018,806
Share premium/discount	23	3,502,964	1,521,465
Accumulated deficit		(3,124,547)	(2,309,292)
Reserves and other finds		1,332	1,332
Revaluation reserves		315,753	240,176
Total equity		**1,733,509**	**472,487**
Total liabilities and equity		**4,940,637**	**4,585,935**

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

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 19 FEBRUARY 2016

м. Київ * Україна * Публічне акціонерне товариство

(in thousands of Ukrainian hryvnias)			
Item	**Notes**	**2015**	**2014**
1	2	3	4
Interest income	26	517,468	531,650
Interest expenses	26	(240,455)	(315,081)
Net interest income		**277,013**	**216,569**
Net increase in provisions for impairment of loans and due from banks	9	(553,241)	(594,262)
(Net interest expenses) after creation of provisions for impairment of loans and due from banks		**(276,228)**	**(377,693)**
Commission income	27	176,312	181,588
Commission expense	27	(70,096)	(47,706)
Gains less losses from dealing in financial instruments at fair value through profit or loss		103	2,389
Gains less losses arising from sale of securities available-for-sale		1,337	-
Gains less losses from dealing in foreign currencies		26,053	60,698
Gains less losses arising from foreign currency translation		(93,388)	(208,359)
Gains less losses arising from revaluation of investment properties		975	222
Gains/(losses) from initial recognition of financial assets at interest rates higher or lower than market rates		(1,036)	(6,374)
Gains/(losses) from initial recognition of financial liabilities at interest rates higher or lower than market rates		287	(737)
Net (increase) in provisions for impairment of accounts receivable and other financial assets	13, 14	(7,993)	(746)
Net (increase)/decrease in provisions for impairment of securities available-for-sale	10	(31)	156
Net (increase) in provisions for liabilities	19	(9,780)	(413)
Other operating income	28	34,749	15,222
Administrative and other operating expenses	29	(580,025)	(536,385)
Loss before tax		**(798,761)**	**(918,138)**
Income tax expense	30	245	6,539
Loss from continuing operations		**(798,516)**	**(911,599)**
OTHER COMPREHENSIVE INCOME:			
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS			

(in thousands of Ukrainian hryvnias)

Item	Notes	2015	2014
Revaluation of property and equipment	24	71,244	30,606
Income tax related to items of other comprehensive income that will not be reclassified to profit or loss	24	(12,496)	(5,792)
ITEMS THAT WILL BE RECLASSIFIED TO PROFIT OR LOSS			
Revaluation of securities available-for-sale	24	110	532
Income tax related to items of other comprehensive income that will be reclassified to profit or loss	24	(20)	(96)
Other comprehensive income after tax		**58,838**	**25,250**
Total comprehensive income for the year		**(739,678)**	**(886,349)**
(Loss) attributable to shareholders		(798,516)	(911,599)
Total comprehensive income attributable to shareholders		**(739,678)**	(886,349)
(Loss) per share from continuing operations:			
Basic (loss) per ordinary share	31	(0.49)	(0.56)
Diluted (loss)/earnings per ordinary share	31	(0.49)	(0.56)
(Loss) per share attributable to shareholders:			
Basic (loss) per ordinary share for the year	31	(0.49)	(0.56)
Diluted (loss) per ordinary share for the year	31	(0.49)	(0.56)

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

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 19 FEBRUARY 2016

(in thousands of Ukrainian hryvnias)

Item	Notes	2015	2014
1	2	3	4
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest income received		316,892	195,619
Interest expenses paid		(255,089)	(343,214)
Commission income received		175,524	189,885
Commission expense paid		(70,054)	(47,781)
Gains/losses from dealing in foreign currencies		26,053	60,698
Other operating income received		9,731	12,948
Administrative and other operating expenses paid		(507,635)	(467,307)
Income tax paid		-	(1,787)
Cash paid in operating activities before changes in operating assets and liabilities		**(304,578)**	**(400,939)**
Net decrease in mandatory reserves with the National Bank of Ukraine		-	110,524
Net decrease in due from banks		43	222,956
Net decrease in loans and advances to customers		448,863	570,487
Net decrease in other financial assets		21,347	3,536
Net (decrease)/increase in due to banks		(195,276)	143,054
Net decrease in due to customers		(1,070,223)	(280,256)
Net increase/(decrease) in other financial liabilities		9,684	(17,901)
Net cash flows (used in)/from operating activities		**(1,090,140)**	**351,461**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of securities available-for-sale		(34,677,000)	(12,979,000)
Proceeds from sale of securities available-for-sale		33,389,606	12,581,720
Purchase of financial assets at fair value through profit or loss		-	1,380
Purchase of property and equipment		(1,359)	(2,046)
Proceeds from disposal of property, equipment and intangible assets		22,345	886
Purchase of intangible assets		(38,184)	(17,763)
Dividends received		46	100
Net cash flows used in investing activities		**(1,304,546)**	**(414,723)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of ordinary shares		2,007,000	-
Repayment of subordinated debt		(317,009)	-
Net cash flows from financing activities		1,689,991	-
Effect of changes in NBU exchange rates on cash and cash equivalents		156,247	174,903
Net (decrease)/increase in cash and cash equivalents		(548,448)	111,641

(in thousands of Ukrainian hryvnias)

Item	Notes	2015	2014
1	2	3	4
Cash and cash equivalents at the beginning of the year	6	988,572	876,931
Cash and cash equivalents at the end of the year	6	440,124	988,572

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

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE: 19 FEBRUARY 2016

(in thousands of Ukrainian hryvnias)

Item	Notes	Attributable to the shareholders							Total equity
		share capital	share premium/discount and other additional capital	unregistered share capital	reserves and other funds	revaluation reserves	retained earnings	total	
1	2	3	4	5	6	7	8	9	11
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									
Revaluation of property and equipment		-	-	-	-	24,765	49	24,814	24,814
Revaluation of securities		-	-	-	-	436	-	436	436
Closing balance as at 31 December 2014 (balance as at 1 January 2015)		1,018,806	1,521,465	-	1,332	240,176	(2,309,292)	472,487	472,487
Total comprehensive income		-	-	-	-	53,976	(793,654)	(739,678)	(739,678)
(loss) for 2015		-	-	-	-	-	(798,516)	(798,516)	(798,516)
other comprehensive income		-	-	-	-	53,976	4,862	58,838	58,838
Revaluation of property and equipment		-	-	-	-	53,886	4,862	58,748	58,748
Revaluation of securities		-	-	-	-	90	-	90	90
Other movements		-	-	-	-	21,601	(21,601)	-	-
Issue of shares:									
nominal value		19,201	-	-	-	-	-	19,201	19,201
share premium		-	1,981,499	-	-	-	-	1,981,499	1,981,499
Balance as at 31 December 2015		1,038,007	3,502,964	-	1,332	315,753	(3,124,547)	1,733,509	1,733,509

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

Chief Accountant
PJSCCB "PRAVEX-BANK" **O.Yu. Kibets**
DATE 19 FEBRUARY 2016

Note 1. Background

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 2015
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.

During 2015, the Ukrainian economy experienced a recession resulting from a combination of factors such as the on-going conflict in East Ukraine, low export demand due to deterioration of Ukraine’s economic ties with its key trading partners, low-profile credit activity of both the public and the investors, as well as deterioration of top Ukrainian companies’ financial performance, which ultimately affected the growth of the GDP. Furthermore, the negative trends in the Ukrainian economy directly triggered an upturn in inflation and rapid devaluation of the national currency, the Ukrainian hryvnia (‘UAH’).

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.

The above factors forced the Bank to focus on the solvency issues, giving the highest priority to:

- liquidity management and foreign exchange risks;
- additional effort in dealing with problem loans;
- network and Head Office reorganisation/optimisation;
- operational efficiency and financial performance improvement;
- strengthening the Bank’s position both in the corporate and retail segments, particularly by expanding its product line and introducing new banking products.

In accordance with the above key priorities, the Bank took the following actions:

- closed the open currency position that resulted in a significant loss due to the increase in the foreign currency exchange rate against Ukrainian hryvnia;
- focused on increasing the volume of liquid assets and investing in the NBU’s deposit certificates to avoid liquidity risks and ensure risk-free interest income;
- created additional loan loss provisions as a result of deterioration of the customers’ creditworthiness;
- limited its lending operations with corporate customers mainly to agro-industrial sector entities;

- starting from mid-summer, reduced the borrowing costs in several steps without significant impact on the liquid assets;
- from Q3 of 2015,the Bank took active steps to sell the foreclosed collateral and idle spaces;
- reduced its general administrative and capital expenses through:
  - workforce optimisation both at the Head Office and branches;
  - optimisation and improvement of the network operations, particularly through relocation of the outlets;
  - close-down of unprofitable branches;
  - tight cost control; and
  - suspension of almost all non-strategic investments.

To improve its financial position, PJSCCB "PRAVEX-BANK" increased its capital by UAH 2,001 million via additional shareholder contributions.

However, the above measures were not sufficient to compensate the adverse effect of the external factors, which lead to a negative financial result in the amount of UAH 799 million in 2015.

Note 2. Ukrainian business environment

Ukraine's political and economic situation has deteriorated significantly since 2014. Following political and social unrest in early 2014, in March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation, which was not recognised by Ukraine and many other countries. This event resulted in a significant deterioration of the relationship 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 those regions escalated into military clashes and armed conflict between supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces, which continued as at the date of these financial statements. As a result of this conflict, part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics, and Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

Political and social unrest combined with the military conflict in the Donetsk and Lugansk regions has deepened the ongoing economic crisis, caused a fall in the country's gross domestic product and foreign trade, deterioration in state finances, depletion of the National Bank of Ukraine's foreign currency reserves, significant devaluation of the national currency and a further downgrading of the Ukrainian sovereign debt credit ratings. Following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions, which among others included restrictions on purchases of foreign currency by individuals and companies, the requirement to convert 75% of foreign currency proceeds to national currency, a ban on payment of dividends abroad, a ban on early repayment of foreign loans and restrictions on cash withdrawals from banks. These events had a negative effect on Ukrainian companies and banks, significantly limiting their ability to obtain financing on domestic and international markets.

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.

Note 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.

Note 4. Accounting policies of PJSCCB "PRAVEX-BANK" for 2015

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, 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.

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.

Changes in accounting policies

During 2015, there were no changes in the accounting policies.

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. The bad debt is recognised, and the debt balance is written off against the provision in the following cases:

- the limitation period on the debt has expired, and no repayments of the debt were made for a three-year period;
- overdue debt of a deceased person possessing no inheritable property upon which the execution could be levied;
- overdue debt of missing or deceased persons recognised as such by court decision;
- forgiven overdue debt of a retail borrower, unless such individual is the creditor's associate, or if he or she is, or was employed by the creditor;
- overdue debt of a corporate or retail borrower outstanding due to insufficiency of the borrower's property, to the extent that the relevant enforcement measures in respect of the borrower's property did not result in payoff of the debt;
- cancellation of the debt collection proceedings as a result of their inefficiency, i.e. when the Bank's related legal expenses may exceed the collectible amount;
- debt uncollectible due to impediments of extraordinary nature (force majeure) as determined by the law, including:
- • extraordinary weather conditions and natural disasters (e.g. hurricane, storm, flood, snow blockage, glaze ice, earthquake, fire, subsidence or landslide), unless such weather conditions and natural disasters are insurance events covered by an insurance policy in respect of the pledged property;
- • extraordinary situations caused by a party other than a party to the relevant agreement (e.g. strike, lockout, declared or undeclared war, threat of war, act of terror, blockade, revolution, conspiracy, uprising, mass unrest, public rallies, illegal acts of third parties, fire or explosion);
- • conditions brought under regulation of relevant executive authorities, as well as those related to clean-up and remediation operations with regard to natural disasters and extraordinary situations;
- debt of business entities that were recognised bankrupt or liquidated in a due course of the law;
- debt outstanding upon completion of the bankruptcy procedure, unless the Bank's expenses have been fully recovered or there is a possibility to collect any other type of security;
- debt outstanding upon decision of the court not in the Bank's favour and/or decision of the Bank to abandon any further claims in respect of the debt;
- debt recognised fraudulent as a result of the line-of-duty investigation.

Bad debt is recognised and written off against the provision at the decision of the Management Board. Once the bad debt is written off against the provision, it is carried on the off-balance sheet accounts during the period specified by Ukrainian law.

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 assets

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 arrangement have been received. Renegotiated loans subject to individual impairment review are subject to ongoing reviews to determine whether they remain impaired.

Financial assets are assessed for impairment in accordance with the IFRS impairment assessment methodology based on the loan's classification. Al loans classified to Non-performing loans as Past due, Unlikely to pay and Doubtful are deemed to be impaired. Adjustment for impairment loss on a financial instrument is calculated for the same period for which the provision has been created.

The credit indebtedness categories are reviewed on a monthly basis using the available objective and subjective criteria.

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 for mandatory reserves held on a special account with the NBU and 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 1 November 2015, the Bank's properties revaluation was carried out by independent certified appraiser, LLC "Kredytno Brokerske Agentstvo". The fair value assessment was 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 the 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	4-15
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 2015, 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 2015, 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 2015, 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:

Description	**Useful lives, years**
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 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.

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.

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 2014 (as at 31 December 2014) and 2015 (as at 31 December 2015) the corporate income tax rate was 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 2015	31 December 2014
US Dollar	24.00	15.77
Euro	26.22	19.23

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 2015, fair value measurement was applied to land plots and buildings appraised by an independent entity at the end of the year applying the comparable sales method or income capitalisation to property and cost approach to certain infrastructure objects or specialised property with limited market information.

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.

Note 5. New and revised standards

The following new Standards, *amendments to Standards* and Interpretations are not yet effective as at 31 December 2015, 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 finalised 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.

IFRS 15 *Revenue from Contracts with Customers* provides a comprehensive framework of the determination, extent and timing of revenue recognition. This standard replaces the current standards on revenue recognition, including IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and IFRIC 13 *Customer Loyalty Programs*. IFRS 15 will be effective for the annual periods beginning on or after 1 January 2018, with early application permitted.

The following new or amended standards are not expected to have significant impact on the consolidated financial statements of the Group.

- IFRS 14 *Regulatory Deferral Accounts.*
- *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11).
- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38).
- *Annual Improvements of IFRS (2012-2014) – various standards.*
- *Disclosure Initiative* (Amendments to IAS 1).

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments that result in accounting changes relating to presentation, recognition or measurement will take effect no earlier than on 1 January 2016.

Note 6. Cash and cash equivalents

Table 6.1. Cash and cash equivalents

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2015**	**2014**
1	**2**	**3**	**4**
1	Cash on hand	259,430	273,565
2	Provision for cash balances located on temporarily occupied territories	(1,428)	-
3	Balances with the National Bank of Ukraine	8,205	28,739
4	**Correspondent accounts with:**	**173,917**	**686,268**
4.1.	domestic banks	3,894	3,488
4.2.	foreign banks	170,023	682,780
5	**Total cash and cash equivalents**	**440,124**	**988,572**

Line 5 in Table 6.1 corresponds to "Cash and cash equivalents" caption in the statement of financial position.

From August 2014, the NBU has changed certain requirements on the mandatory reserve. The banks are no longer required to hold their mandatory reserve balances on a separate account with the NBU; they can be placed on a current account with the NBU used for day-to-day operations without any restriction.

In accordance with Resolution No. 820 of the Management Board of the National Bank of Ukraine dated 18 December 2014 ("On Modification of the Procedure for Establishment and Safekeeping of Mandatory Provisions"), the Bank transfers and keeps the mandatory reserves on the correspondent account in the National Bank of Ukraine according to the ratios in effect during respective holding period. As at 31 December 2015 the statutory amount of the mandatory reserve was UAH 62,950 thousand (2014 – UAH 63,421 thousand). In addition, the banks are allowed to apply assets recognized in lines 1, 2, and 3 of table in Note 6 to establish the mandatory reserves held in the National Bank of Ukraine.

As at 31 December 2015, placement in the correspondent account with Intesa Sanpaolo S.p.A. amounted to UAH 110,209 thousand (2014 – UAH 651,666 thousand), representing a significant concentration.

As at 31 December 2015 and 2014, balances in correspondent accounts were neither overdue, nor impaired.

As at 31 December 2014, the Bank's the balances in the outlets located on the 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. As at 31 December 2015, the Bank established a provision for cash balances located in Donetsk Oblast (13 thousand), Lugansk Oblast (UAH 1,307 thousand) and Autonomous Republic of Crimea (UAH 108 thousand).

Note 7. Financial assets at fair value through profit or loss

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2015**	**2014**
1	2	3	4
1	Corporate shares	2,633	2,726
2	Total other financial assets at fair value through profit or loss	2,633	2,726

The figures in line 2 of Note represent item "Financial assets at fair value through profit or loss" of the statement of financial position.

The fair value specified in line 1 was determined based on the quotations published by Italian Stock Exchange "Borsa Italiana".

Note 8. Due from banks

Table 8.1. Due from banks

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	**Deposits due from banks:**	**-**	**200**
1.1	Short-term deposits	-	200
2	Provision for impairment	-	-
3	**Total due from banks less provision**	**-**	**200**

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	**Provision for impairment of due from banks**	**-**	**-**
3	**Total due from banks less provision**	**200**	**200**

Note 9. Loans and advances to customers

Table 9.1. Loans and advances to customers

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2015**	**2014**
1	**2**	**3**	**4**
1	Loans to corporate customers	650,162	797,000
2	Loans to entrepreneurs	468	570
3	Retail mortgage loans	1,081,379	1,021,095
4	Retail consumer loans	2,043,870	3,227,616
5	Other retail loans	21,472	29,129
6	Provision for impairment	(1,971,066)	(2,784,113)
7	**Total outstanding loans less provisions**	**1,826,285**	**2,291,297**

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 2015 would be UAH 18,263 thousand lower/higher (31 December 2014: UAH 22,913 thousand).

Line 7, Total outstanding loans less provisions as at 31 December 2015 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 4,092 thousand, due from individuals in the amount of UAH 26,091 thousand;

- Donetsk region – due from individuals in the amount of UAH 3,382 thousand;

- Lugansk region – due from individuals in the amount of UAH 1,222 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 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 per one customer may arise when at least 10% of net loan portfolio is attributable to a limited number of customers. As at 31 December 2015 and 2014 loans to two customers account for 13% i 12%, respectively (UAH 235,647 thousand and UAH 279,291 thousand, respectively).

Table 9.2. Movements in provisions for loans impairment for 2015

(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 01 January 2015	(273,713)	(131)	(490,973)	(1,994,148)	(25,148)	(2,784,113)
2	Increase in provision for impairment during the period	(83,024)	(74)	(111,129)	(394,924)	(1,670)	(590,821)
3	Bad debt written off against provision	295,003	-	279,141	1,414,784	7,976	1,996,904
4	Interest accrued on impaired loans	22,535	-	30,337	112,362	-	165,234
5	Foreign exchange differences on provisions	(80,993)	-	(212,184)	(464,157)	(936)	(758,270)
6	Balance as at 31 December 2015	(120,192)	(205)	(504,808)	(1,326,083)	(19,778)	(1,971,066)

Balance of line 2 in Table 9.2 discloses caption “Net (increase) of loans for impairment of loans and due from customers and banks” of the statement of profit or loss and other comprehensive income. The difference between the amount recognized in caption “Net (increase) of loans for impairment of loans and due from customers and banks” of the statement of profit or loss and other comprehensive income, and the figure in line 2 of Table 9.2 represents the bad debt written off against provision in the prior reporting periods and repaid in 2015 (UAH 37,580 thousand) and 2014 (UAH 13 thousand).

Table 9.3. 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 in provision for impairment during 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	Foreign exchange 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)

Table 9.4. Loans by economy sector

(in thousands of Ukrainian hryvnias)

Line	Sector	2015		2014	
1	2	3	4	5	6
1	Public administration				
2	Production and distribution of electricity, gas and water	16,159	0.43%	-	-
3	Real estate operations, leasing, engineering and provision of services	29,211	0.77%	43,461	0.86%
4	Trade, repair of vehicles, household equipment and items of personal use	227,733	6.00%	487,374	9.60%
5	Agriculture, hunting and forestry	164,702	4.34%	65,540	1.29%
6	Processing industry	212,415	5.58%	200,625	3.95%
7	Individuals	3,146,721	82.87%	4,277,840	84.29%
8	Other	410	0.01%	570	0.01%
9	Total loans and advances to customers less provisions	**3,797,351**	**100.00%**	**5,075,410**	**100.00%**

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

Table 9.5. Loans by type of collateral for 2015

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	66,517	-	18	45,177	21,472	**133,184**
2	Loans secured by:	583,645	468	1,081,361	1,998,693	-	**3,664,167**
2.1	Cash	67,018	-	-	510	-	**67,528**
2.2	real properties	402,912	224	1,081,361	1,404,607	-	**2,889,104**
2.2.1	non-residential	287,731	28	6,690	657,453	-	**951,902**

(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
	mortgage						
2.2.2	land plots	102,623	-	8,951	283,730	-	**395,304**
2.2.3	residential mortgage	12,558	196	1,065,720	463,424	-	**1,541,898**
2.3	Other assets	113,715	244	-	593,576	-	**707,535**
2.3.1	Equipment	33,967	-	-	-	-	**33,967**
2.3.2	goods in turnover	79,631	-	-	-	-	**79,631**
2.3.3	vehicles	117	244	-	593,576	-	**593,937**
3	**Total gross exposure**	**650,162**	**468**	**1,081,379**	**2,043,870**	**21,472**	**3,797,351**

Table 9.6. 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 9.7. Loan portfolio quality analysis for 2015

(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:	440,625	214	217,936	191,564	1,063	**851,402**
1.1.	Large borrowers with credit history over 2 years	249,067	-	-	-	-	**249,067**
1.2.	New large borrowers	63,649	-	-	-	-	**63,649**
1.3.	Loans to medium-size businesses	126,186	-	-	-	-	**126,186**
1.4.	Loans to small businesses	1,723	214	-	-	-	**1,937**
1.5.	Other retail loans	-	-	217,936	191,564	1,063	**410,563**
2	Overdue, but not impaired:	1	27	24,858	17,649	616	**43,151**
2.1.	Overdue less than 30 days	1	27	11,989	11,178	199	**23,394**
2.2.	Overdue from 31 to 90 days	-	-	12,869	6,471	417	**19,757**
3	Loans with specific impairment:	209,536	227	838,585	1,834,657	19,793	**2,902,798**
3.1.	Overdue less than 30 days	112,243	196	8,373	17,783	-	**138,595**
3.2.	Overdue from 31 to 90 days	7,944	-	403	7,305	-	**15,652**
3.3.	Overdue from 91 to 180 days	-	-	15,603	10,253	101	**25,957**
3.4.	Overdue from 181 to 360 days	24,039	-	90,839	7,336	17	**122,231**
3.5.	Overdue over 361 days	65,310	31	723,367	1,791,980	19,675	**2,600,363**
4	Outstanding loans, gross	650,162	468	1,081,379	2,043,870	21,472	**3,797,351**
5	*Provision for impairment of loans*	(120,192)	(205)	(504,808)	(1,326,083)	(19,778)	**(1,971,066)**
6	**Total loans less provisions**	**529,970**	**263**	**576,571**	**717,787**	**1,694**	**1,826,285**

Table 9.8. 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

(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
1.3	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	Loans with specific 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
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

Effect of collateral value on loan quality as at 31 December 31 December 2015 and 2014

As at 31 December 2015, loans to customers were secured by cash deposits in the amount of UAH 65,998 thousand, real properties and land plots with the fair value of UAH 1,149,453 thousand, vehicles with the fair value of UAH 319,547 thousand, and equipment with the fair value of UAH 23,057 thousand. This analysis was prepared net of the impact of excess of the expected cash flows generated by the collateral over the carrying amount of the loans as at 31 December 2015.

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. This analysis was prepared net of the impact of excess of the expected cash flows generated by the collateral over the carrying amount of the loans as at 31 December 2014.

Note 10. Securities available-for-sale

Table 10.1 Securities available-for-sale

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
1	Debt securities:	1,813,140	500,421
1.1	deposit certificates of the National Bank of Ukraine	1,813,140	500,421
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	(31)	-
4	Total securities available-for-sale less provision	1,813,143	500,455

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

As at 31 December 2015, 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 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Treasury bonds	Total
1	2	3	4
1	Not overdue and not impaired:	1,813,140	1,813,140
1.1	government institutions	1,813,140	1,813,140
2	Total debt securities available-for-sale less provision	1,813,140	1,813,140

Table 10.3. 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 10.4. Movement in provision for impairment of securities available-for-sale in 2015

(in thousands of Ukrainian hryvnias)

Line	Movements in provisions	Corporate stocks	Total
1	2	3	4

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Corporate stocks**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2015	-	-
2	Increase in provision for impairment during the period	(31)	(31)
3	**Balance as at 31 December 2015**	**(31)**	**(31)**

Table 10.5. Movement in provision for impairment of securities available-for-sale in 2014

			(in thousands of Ukrainian hryvnias)
Line	**Movements in provisions**	**Corporate bonds**	**Total**
1	**2**	**3**	**4**
1	Balance as at 1 January 2014	(156)	(156)
2	Decrease in provision for impairment during the period	156	156
3	Balance as at 31 December 2014	-	-

Table 10.6. Major investments in shares and other variable income securities available-for-sale

					(in thousands of Ukrainian hryvnias)
Line	**Company**	**Activity**	**Country of incorporation**	**Cost (if fair value cannot be reliably measured)**	
				2015	**2014**
1	**2**	**3**	**4**	**5**	**6**
1	CJSC Crimean Stock Exchange	Financial markets management	Ukraine	11	11
2	CJSC Ukrainian Inter-Bank Currency Exchange	Financial markets management	Ukraine	2	2
3	Crimean Inter-Bank Currency Exchange	Financial markets management	Ukraine	20	20
4	UCE “UICE Contracting House”	Financial markets management	Ukraine	1	1
5	**Total**			**34**	**34**

Note 11. Investment property

Table 11.1. Investment property measured at fair value:

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2015**	**2014**
1	**2**	**3**	**4**
1	Fair value of investment property at the beginning of the year	13,558	9,327
2	Transfer to non-current assets held-for-sale and disposal group assets	-	(1,057)
3	Transfer from non-current assets held-for-sale and disposal group assets	104,247	513
4	Transfer to owner occupied buildings category	(5,866)	-
5	Transfer from owner occupied buildings category	-	4,553
6	Fai value revaluation gain	975	222
7	**Fair value of investment property as at 31 December**	**112,914**	**13,558**

Line 7 in Table 11.1 corresponds to Investment property in the statement of financial position.

Fair value of investment property items was determined to be equal to the market value net of the value added tax. The targets' market value was appraised applying the comparison approach (method of adjustment of value similar properties).

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**	**2015**	**2014**
1	**2**	**3**	**4**
1	Rental income from investment property	897	555
2	Other direct costs related to property not generating any rental income	(46)	(58)

Note 12. Property, equipment and intangible assets

Property, equipment and intangible assets are summarised as follows:

(in thousands of Ukrainian hryvnias)

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
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
1	**Carrying value as at 1 January 2014**	**138**	**304,708**	**69,552**	**4,886**	**2,493**	**597**	**225**	**30,103**	**222,701**	**635,403**
1.1.	Historical (revalued) cost	**138**	**310,153**	**215,221**	**11,201**	**10,268**	**6,014**	**33,350**	**30,103**	**312,335**	**928,783**
1.2	Depreciation/ amortisation as at 1 January 2014	**-**	**(5,445)**	**(145,669)**	**(6,315)**	**(7,775)**	**(5,417)**	**(33,125)**	**-**	**(89,634)**	**(293,380)**
2	Additions	**-**	**-**	**-**	**-**	**-**	**13**	**-**	**16,523**	**-**	**16,536**
3	Property, equipment and intangible assets put into operation	**-**	**-**	**818**	**-**	**94**	**20**	**-**	**(2,320)**	**1,388**	**-**
4	Improvements of property, equipment and intangible assets	**-**	**13**	**1,013**	**-**	**-**	**-**	**-**	**(15,483)**	**14,457**	**-**
5	Transfers to disposal group assets	**-**	**(12,450)**	**(1,352)**	**-**	**(42)**	**(14)**	**-**	**(799)**	**-**	**(14,657)**
6	Disposals at historical cost	**-**	**(77)**	**(6,311)**	**(357)**	**(211)**	**(819)**	**(134)**	**(709)**	**(3,016)**	**(11,634)**
7	Disposals (accumulated depreciation)	**-**	**77**	**6,160**	**289**	**200**	**806**	**117**	**-**	**2,932**	**10,581**
8	Depreciation charge	**-**	**(13,669)**	**(18,159)**	**(946)**	**(932)**	**(266)**	**(90)**	**-**	**(38,124)**	**(72,186)**
9	Revaluation	**80**	**27,534**	**-**	**-**	**-**	**-**	**-**	**114**	**-**	**27,728**
9.1	Revaluation of historical cost	**80**	**14,173**	**-**	**-**	**-**	**-**	**-**	**114**	**-**	**14,367**
9.2	Revaluation of depreciation	**-**	**13,361**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,361**
10	Reclassification to investment property	**-**	**(4,553)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,553)**
11	Other	**-**	**-**	**1**	**(50)**	**51**	**(2)**	**-**	**-**	**-**	**-**
12	**Carrying value as at 31 December 2014 (1 January 2015)**	**218**	**301,583**	**51,722**	**3,822**	**1,653**	**335**	**118**	**27,429**	**200,338**	**587,218**
12.1	Historical (revalued)	**218**	**306,724**	**205,974**	**10,744**	**10,016**	**4,975**	**33,215**	**27,429**	**325,164**	**924,459**

(in thousands of Ukrainian hryvnias)

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
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
	cost										
12.2	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)**
13	Additions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25,131**	**-**	**25,131**
14	Property, equipment and intangible assets put into operation	**-**	**-**	**628**	**-**	**94**	**-**	**-**	**(22,944)**	**22,222**	**-**
15	Improvements of property, equipment and intangible assets	**-**	**125**	**484**	**28**	**-**	**-**	**-**	**(16,599)**	**15,962**	**-**
16	Transfers to disposal group assets	**-**	**(3,062)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,062)**
17	Disposals at historical cost	**-**	**(5,188)**	**(14,881)**	**-**	**(1,250)**	**(651)**	**(12,860)**	**(6,197)**	**(663)**	**(41,690)**
18	Disposals (accumulated depreciation)	**-**	**169**	**12,783**	**-**	**1,204**	**631**	**12,819**	**-**	**591**	**28,197**
19	Depreciation charge	**-**	**(14,741)**	**(13,946)**	**(931)**	**(654)**	**(185)**	**(45)**	**-**	**(40,668)**	**(71,170)**
20	Revaluation	**(15)**	**75,585**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75,570**
20.1	Revaluation of historical cost	**(15)**	**60,915**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**60,900**
20.2	Revaluation of depreciation	**-**	**14,670**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,670**
21	Other	**-**	**5,866**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,866**
22	**Carrying value as at 31 December 2015**	**203**	**360,337**	**36,790**	**2,919**	**1,047**	**130**	**32**	**6,820**	**197,782**	**606,060**
22.1	Historical (revalued) cost	**203**	**365,331**	**192,206**	**10,773**	**8,846**	**4,337**	**20,356**	**6,820**	**362,684**	**971,556**

(in thousands of Ukrainian hryvnias)

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**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
22.2	Depreciation/ amortisation as at 31 December 2015 (1 January 2016)	**-**	**(4,994)**	**(155,416)**	**(7,854)**	**(7,799)**	**(4,207)**	**(20,324)**	**-**	**(164,902)**	**(365,496)**

As at 31 December 2015 and 2014 there are no:

- property and equipment legally restricted for ownership, use, and disposal;
- pledged property and equipment;
- property and equipment restricted for ownership;
- intangible assets generated internally by the Bank;

As at 31 December 2015, historical (revalued) cost of fully depreciated property, equipment, intangible assets and other non-current assets amounts to UAH 197,783 thousand (2014: 158,375 thousand), including:

- property and equipment: UAH 111,239 thousand (2014: UAH 90,961 thousand)
- intangible assets: UAH 66,356 thousand (2014: UAH 34,672 thousand)
- other non-current assets: UAH 20,188 thousand (2014: UAH 32,742 thousand)

The comparison approach is based on the analysis of the results of comparable sales of similar buildings or land plots. For each item, three to five comparables were selected based on the following criteria: location, type, condition, area, etc.

Note 13. Other financial assets

Table 13.1. Other financial assets

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
1	Due from customers	13,688	6,660
2	Amounts due on accrued income from cash and settlement services and other accrued income	3,853	4,699
3	Accounts receivable on credit and debit card operations	30,888	17,292
4	Cash restricted for use	3,458	2,177
5	Withholding tax receivable	-	24,120
6	Other financial assets	297	887
7	Provision for impairment of other financial assets	(10,791)	(3,690)
8	Total other financial assets less provisions	41,393	52,145

Cash restricted for use comprises a savings account with the National Bank of Ukraine in the amount of UAH 3,277 thousand (2014 – UAH 2,153 thousand) and due from banks in the amount of UAH 181 thousand (2014 – UAH 24 thousand).

Table 13.2. Movements in provision for impairment of other financial assets during 2015

(in thousands of Ukrainian hryvnias)

Line	Movements 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 2015	(2,636)	(190)	(864)	(3,690)
2	(Increase)/decrease in provision for impairment during the year	(8,623)	(51)	570	(8,104)
3	Bad debts written off against the provision	1,437	64	-	1,501
4	Foreign exchange differences on provisions	(498)	-	-	(498)
5	Balance as at 31 December 2015	(10,320)	(177)	(294)	(10,791)

Total of Line 2 balances in Table 13.2 and Table 14.2 corresponds to Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income. The difference of UAH 30 thousand between the amount of Net (increase) in provision for impairment of accounts receivable and other financial assets in the Statement of profit or loss and other comprehensive income and total of Line 2 balances in Table 13.2 and Table 14.2 comprises bad debt written off against the provision for bad debt during prior reporting periods and recovered during 2015.

Table 13.3. Movements in provision for impairment of other financial assets during 2014

(in thousands of Ukrainian hryvnias)

Line	Movements 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	Foreign exchange differences on provisions	(161)	-	-	(161)
5	Balance as at 31 December 2014	(2,636)	(190)	(864)	(3,690)

Table 13.4. Credit quality of other financial assets in 2015

(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 card operations**	**Cash restricted for use**	**Other**	**Total**
1	**2**	**3**	**4**	**5**	**6**		**8**
1	**Not overdue and not impaired accounts receivable:**	**3,348**	**3,123**	**30,888**	**3,459**	**1**	**40,819**
1.1	Corporate customers	-	3,123	-	-	**-**	**3,123**
1.2	Individuals	3,348	-	30,888	-	1	**34,237**
1.3	Savings account with the National Bank of Ukraine	-	-	-	3,459	**-**	**3,459**
2	**Overdue, but not impaired accounts receivable:**	**-**	**442**	**-**	**-**	**-**	**442**
2.1	Overdue up to 31 days	-	442	-	-	**-**	**442**
3	**Accounts receivable with specific impairment:**	**10,340**	**287**	**-**	**-**	**296**	**10,923**
3.1	Overdue up to 31 days	-	61	-	-	**-**	**61**
3.2	Overdue 32 to 92 days	8	107	-	-	2	**117**
3.3	Overdue 93 to 183 days	80	38	-	-	1	**119**
3.4	Overdue 184 to 365 (366) days	8,002	56	-	-	-	**8,058**
3.5	Overdue more than 366 (367) days	2,250	25	-	-	293	**2,568**
4	**Other financial assets, gross**	**13,688**	**3,852**	**30,888**	**3,459**	**297**	**52,184**
5	Provision for impairment of other financial assets	(10,320)	(177)	-	-	(294)	**(10,791)**
6	Total other financial assets less provisions	**3,368**	**3,675**	**30,888**	**3,459**	**3**	**41,393**

Table 13.5. Credit quality of other financial assets in 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
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)

(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**
6	Total other financial assets less provisions	4,024	4,509	17,292	2,177	24,120	23	52,145

Note 14. Other assets

Table 14.1. Other assets

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
1	Accounts receivable on purchase of assets	1,411	203
2	Prepaid services	22,280	13,863
3	Precious metals	33,887	24,805
4	Taxes recoverable, other than income tax	5,424	-
5	Other	1,329	1,942
6	Provision for other assets	(260)	(343)
7	Total other assets less provision	**64,071**	**40,470**

Line 7 in Table 14.1 corresponds to Other assets in the Statement of financial position.

Table 14.2. Movement in provision for impairment of other assets during 2015

(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 1 January 2015	(5)	(338)	(343)
2	(Increase)/Decrease in provision for impairment during the year	(69)	150	81
3	Bad debt written off	-	2	2
4	Balance as at 31 December 2015	(74)	(186)	(260)

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

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

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

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Non-current assets held-for-sale:	32,525	107,622
1.1	Property and equipment	1,408	21,336
1.2	Other assets	31,117	86,286
2	**Total non-current assets held-for-sale**	**32,525**	**107,622**

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

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

Bank's branches in the Autonomous Republic of Crimea and Sevastopol amounting to UAH 81,408 thousand, which were closed according to Resolution No. 260 of the NBU's Management Board dated 6 May 2014 "On revocation and annulment of banking licenses and general licenses for 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 of via sale.

Table 15.2. Sale of assets and liabilities included within a disposal group

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Property and equipment	81,408	21,336
2	Other assets	31,112	86,286
3	Proceedings from property and equipment	3,220	-
4	Proceedings from other assets sold	9,257	-

Note 16. Due to banks

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Correspondent accounts and overnight deposits	38	912
2	**Loans obtained:**	**24,022**	**236,591**
2.1	Short-term loans	24,022	236,591
3	**Total due to banks**	**24,060**	**237,503**

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 22 thousand (2014: 63 thousand).

As at 31 December 2015 and 2014, due to banks in the amount of UAH 24,022 thousand (due to JSC Bank Avangard) and UAH 236,591 thousand (due to the Parent company, Intesa Sanpaolo S.p.A.) represent significant concentration.

Note 17. Due to customers

Table 17.1. Due to customers

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	**Government and public organisations:**	**9,553**	**6,844**
1.1	Current accounts	9,432	6,644
1.2	Term deposits	121	200
2	**Other legal entities:**	**1,279,898**	**1,358,527**
2.1	Current accounts	1,031,395	713,724
2.2	Term deposits	248,503	644,803
3	**Individuals:**	**1,702,393**	**2,111,108**
3.1	Current accounts	1,006,504	1,202,733
3.2	Term deposits	695,889	908,375
4	**Total due to customers**	**2,991,844**	**3,476,479**

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

As at 31 December 2015, due to customers in the Bank's branches in Crimea, Donetsk region, and Lugansk region amounted to UAH 1,835 thousand, UAH 13,310 thousand, and UAH 20,897 thousand, respectively.

As at 31 December 2014, due to customers in the 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 from customers (net of subordinated debt and loans from international financial institutions) are attracted from a limited number of creditors. As at 31 December 2015 and 2014, deposits of 17 and 3 Bank's customers represented 10% and 10% of total due to customers, respectively.

Table 17.2. Due to customers by type of activity

(in thousands of Ukrainian hryvnias)

Line	Type of activity	2015		2014	
		Amount	%	Amount	%
1	2	3	4	5	6
1	State authorities	160	0.01%	48	0.01%
2	Production and distribution of electricity, gas, and water	11,034	0.37%	2,841	0.08%
3	Real estate, lease, engineering and services	209,709	7.01%	150,681	4.33%
4	Trade, repair of vehicles, household equipment and items of personal use	269,188	9.00%	380,796	10.95%
5	Agriculture, hunting and forestry	25,827	0.86%	11,063	0.32%
6	Individuals	1,702,393	56.90%	2,111,108	60.73%
7	Processing industry	223,134	7.45%	316,286	9.10%
8	Construction of buildings and specific construction works	297,017	9.93%	322,322	9.27%
9	Other	253,382	8.47%	181,334	5.21%
10	**Total due to customers**	**2,991,844**	**100%**	**3,476,479**	**100%**

As at 31 December 2015, guaranteed deposits amounting to UAH 82,032 thousand are pledged to secure:

- corporate and retail loans amounting to UAH 69,160 thousand;
- guarantees issued amounting to UAH 12,872 thousand.

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.

Note 18. Debt securities issued by the Bank

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Certificates of deposit	1	1
2	**Total**	**1**	**1**

As at 31 December 2015, 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.

Note 19. Provisions for liabilities

Table 19.1. Movement in provisions for liabilities during 2015

(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 2015**	**2,517**	**14**	**62**	**2,593**
2	Increase/(decrease) in provision for impairment during the year	(282)	5,900	4,162	**9,780**
3	Amounts recovered	-	-	(373)	**(373)**
4	Foreign exchange differences on provisions	(854)	-	-	**(854)**
5	**Balance as at 31 December 2015**	**1,381**	**5,914**	**3,851**	**11,146**

(a) Litigations

As at 31 December 2015, 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 52 thousand and UAH 3,799 thousand, respectively.

(b) Tax contingencies

The Bank has a risk of tax assessments that may arise from disputes with tax authorities brought to court totalling UAH 5,914 thousand.

Line 2 in Table 19.1 corresponds to Net (increase) in provisions for liabilities in the Statement of profit or loss and other comprehensive income.
Line 5 in Table 19.1 corresponds to Provisions for liabilities in the Statement of financial position.

Table 19.2. Movement in provisions for liabilities during 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

(in thousands of Ukrainian hryvnias)					
Line	**Movement in provisions**	**Credit related commitments**	**Tax risks**	**Litigation contingencies**	**Total**
1	**2**	**3**	**4**	**5**	**6**
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 in Table 19.2 corresponds to Provisions for liabilities in the Statement of profit or loss and other comprehensive income.
Line 5 in Table 19.2 corresponds to Provisions for liabilities in the Statement of financial position.

Note 20. Other financial liabilities

(in thousands of Ukrainian hryvnias)			
Line	**Description**	**2015**	**2014**
1	**2**	**3**	**4**
1	Accounts payable to customers	90,883	90,557
2	Accounts payable to other banks	2,492	267
3	Accounts payable on debit and credit cards	2,068	1,155
4	Foreign exchange transactions	19,484	20,539
5	Accounts payable for other financial instruments	2	-
6	Other accrued liabilities	699	529
7	**Total other financial liabilities**	**115,628**	**113,047**

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

Note 21. Other liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
1	Taxes payable, other than income tax	12,814	13,583
2	Salaries payable	15,732	18,025
3	Accounts payable for assets purchased	325	4,485
4	Deferred income	3,749	2,149
5	Accounts payable for recruitment services	4,320	6,224
6	Accounts payable for software maintenance services	1,574	567
7	Accounts payable for services and security	8,814	4,951
8	Other	657	876
9	**Total**	**47,985**	**50,860**

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

Note 22. Subordinated debt

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014	Nominal interest rate as at 31 December 2014, %	Effective interest rate as at 31 December 2014, %	Origination	Maturity
1	2	3	4	5	6	7	8
1	**Principal amount, including:**	-	**222,337**				
	Loan received	-	47,306	5.6288	5.6288	12.09.2000	21.09.2015
	Loan received	-	63,074	5.6288	5.6288	21.11.2000	01.11.2015
	Loan received	-	70,959	5.6288	5.6288	08.06.2006	01.06.2016
	Loan received	-	40,998	5.6288	5.6288	07.08.2006	31.07.2016
2	Interest accrued on subordinated debt, including:	-	**6,252**				
	Interest accrued	-	1,330	-	-	-	-
	Interest accrued	-	1,774	-	-	-	-
	Interest accrued	-	1,995	-	-	-	-
	Interest accrued	-	1,153	-	-	-	-
3	**Total**	-	**228,589**	-	-	-	-

During 2015, the Bank entered into a supplementary agreement on early repayment of the subordinated debt.

Note 23. Share capital

(in thousands of Ukrainian hryvnias)

Line	Description	Outstanding shares (thousand)	Ordinary shares	Share premium/discount	Preference shares	Total
1	2	3	4	5	6	7
1	**Balance as at 1 January 2014**	**1,636,500**	**1,017,936**	**1,521,465**	**870**	**2,540,271**
2	Contributions for new share issue	-	-	-	-	-
3	**Balance as at 31 December 2014 (balance as at 1 January 2015)**	**1,636,500**	**1,017,936**	**1,521,465**	**870**	**2,540,271**
4	Contributions for new share issue	33,104	19,201	1,981,499	-	2,000,700
5	**Balance as at 31 December 2015**	**1,669,604**	**1,037,137**	**3,502,964**	**870**	**4,540,971**

As at 31 December 2015 and 2014, preference shares outstanding amount to 1,500 shares.

As at 31 December 2015 and 2014, the par value of the shares is UAH 0.58 per share. In accordance with Shareholder Resolution No. 4/2014 dated 28 November 2014 and amendments to the Bank's Charter, during 2015, the Bank increased its share capital by issuing additional ordinary registered shares with the same par value due to additional contributions. In accordance with Resolution of the General Meeting of the Shareholders No. 4/2015 dated 16 November 2015, share capital of the Bank was increased by issuing additional ordinary registered shares with the same par value due to additional contributions. Changes in Bank's charter documents were registered with the state authorities on 30 December 2015, Register Number 10701050061003106.

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.

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

Table 24.1. Revaluation reserve on securities available-for-sale

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2		3
Components of comprehensive income that may be reclassified to profit or loss:			
1.	Balance as at 1 January	-	(436)
2	Revaluation of securities available for sale:	110	532
2.1	change in fair value revaluation	1,244	1,145
2.2	impairment	(1,134)	(613)
3	Income tax related to change in revaluation reserve on securities available for sale	(20)	(96)
4	Total revaluation reserves (other comprehensive income), net of income tax	90	-

Table 24.2. Movements in revaluation reserve on property and equipment

			(in thousands of Ukrainian hryvnias)
Line	**Description**	**2015**	**2014**
1	**2**	**3**	**4**
Components of comprehensive income that will not be reclassified to profit or loss:			
1	Balance as at 1 January	240,176	215,411
2	Revaluation of property and equipment	66,382	30,557
2.1	change in fair value revaluation	74,186	50,348
2.2	impairment	(2,942)	(19,742)
2.3	realised gain/loss on revaluation recognised in retained earnings	(4,862)	(49)
3	Income tax related to revaluation of property and equipment	(12,496)	(5,792)
4	Other adjustments	21,601	-
4	Total revaluation reserves (other comprehensive income), net of income tax	315,663	240,176

Note 25. Analysis of contractual maturities of assets and liabilities

(in thousands of Ukrainian hryvnias)

Line	Description	Note	2015 Less than 12 months	2015 Over 12 months	2015 Total	2014 Less than 12 months	2014 Over 12 months	2014 Total
1	2	3	4	5	6	7	8	9
	ASSETS							
1	Cash and cash equivalents	6	440,124	-	**440,124**	988,572	-	**988,572**
2	Financial assets at fair value through profit or loss	8	2,633	-	**2,633**	2,726	-	**2,726**
3	Due from banks	9	-	-	**-**	200	-	**200**
4	Loans and advances to customers	10	1,388,227	438,058	**1,826,285**	1,370,728	920,569	**2,291,297**
5	Securities available-for-sale	11	1,813,143	-	**1,813,143**	500,455	-	**500,455**
6	Investment property	14	-	112,914	**112,914**	-	13,558	**13,558**
7	Current income tax receivable		1,489	-	**1,489**	1,672	-	**1,672**
8	Property, equipment and intangible assets	16	2,998	603,062	**606,060**	30,672	556,546	**587,218**
9	Other financial assets	17	41,393	-	**41,393**	52,145	-	**52,145**
10	Other assets	18	64,071	-	**64,071**	40,470	-	**40,470**
11	Non-current assets held-for-sale and disposal group assets	19	32,525	-	**32,525**	107,622	-	**107,622**
12	**Total assets**		**3,786,603**	**1,154,034**	**4,940,637**	**3,095,262**	**1,490,673**	**4,585,935**
	LIABILITIES							
13	Due to banks	20	24,060	-	**24,060**	237,503	-	**237,503**
14	Due to customers	21	2,920,506	71,338	**2,991,844**	3,472,434	4,045	**3,476,479**
15	Debt securities issued	22	1	-	**1**	1	-	**1**
16	Deferred tax liabilities		-	16,464	**16,464**	-	4,376	**4,376**
17	Provisions for liabilities		11,146	-	**11,146**	2,593	-	**2,593**
18	Other financial liabilities		115,539	89	**115,628**	112,937	110	**113,047**
19	Other liabilities	26	47,985	-	**47,985**	50,860	-	**50,860**
20	Subordinated debt	27	-	-	**-**	116,632	111,957	**228,589**
21	**Total liabilities**		**3,119,237**	**87,891**	**3,207,128**	**3,992,960**	**120,488**	**4,113,448**

Due to customers include term deposits from individuals (Note 17). In accordance with Ukrainian legislation and contractual terms, 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 has been claimed. However, the Bank does not expect that many customers would request repayment at dates earlier than their maturity. These balances are included above in accordance with their contractual maturity.

Note 26. Interest income and expense

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
	Interest income		
1	Loans and advances to customers	368,755	508,296
2	Debt securities available-for-sale	148,649	22,384
3	Due from banks	64	534
4	Cash and cash equivalents	-	436
5	**Total interest income**	**517,468**	**531,650**
	Interest expense		
6	Term deposits from legal entities	(37,688)	(58,091)
7	Term deposits from individuals	(84,921)	(123,602)
8	Term deposits due to banks	(4,396)	(7,211)
9	Current accounts	(97,680)	(116,600)
10	Other	(15,770)	(9,577)
11	Total interest expense	**(240,455)**	**(315,081)**
12	**Net interest income**	**277,013**	**216,569**

Line 12 in Note 26 corresponds to Net interest income in the Statement of profit or loss and other comprehensive income.

Note 27. Commission income and expense

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
	COMMISSION INCOME:		
1	Cash payments and withdrawals	137,761	137,255
2	Commission for lease of safe deposit boxes	5,698	3,945
3	Commission for consulting services	2,530	3,189
4	Commission for insurance broker services	12,921	20,144
5	Commission for TaxFree check payments	973	483
6	Dealing in securities	49	62
7	Interbank operations with plastic cards	13,331	15,574
8	Commission for dealing in non-cash foreign currency for other banks	2,390	-
9	Guarantees issued	119	597
10	Other	540	339
11	**Total commission income**	**176,312**	**181,588**
	COMMISSION EXPENSE:		
12	Cash payments and withdrawals	(15,233)	(10,617)
13	Commission for services and other commissions	(2,057)	(1,938)
14	Guarantee expenses	(47,691)	(29,442)
15	Services provided by payment systems and operations with plastic cards	(5,115)	(5,709)
16	**Total commission expense**	**(70,096)**	**(47,706)**
17	**Net commission income**	**106,216**	**133,882**

Line 11 and Line 16 in Note 27 correspond to Commission income and Commission expense in the Statement of profit or loss and other comprehensive income.

Note 28. Other operating income

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Operating lease	834	709
2	Transactions with derivative financial instruments (spot foreign exchange transactions)	-	97
3	Penalties and fines received	2,900	5,450
4	Undrawn funds upon expiration of limitation period	7,644	3,922
5	Cash collection services	506	408
6	Dividends	46	100
7	Shortages charged to responsible employees	1,141	1,353
8	Other operating income from subordinated debt waiver	7,064	-
9	Reversal of impairment of property and equipment, non-current assets held-for-sale, disposal group assets, and investment property due to revaluation	(5,618)	(2,877)
10	Disposal of intangible assets and property and equipment	(8,852)	167
11	Other	144	473
12	Total operating income	**34,749**	**15,222**

Line 12 in Note 28 corresponds to Other operating income in the Statement of profit or loss and other comprehensive income.

Note 29. Administrative and other operating expenses

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Personnel costs	246,018	259,590
2	Recruitment services	16,261	11,831
3	Depreciation of property and equipment	30,502	34,062
4	Amortisation of software and other intangible assets	40,668	38,124
5	Maintenance of property, equipment and intangible assets, telecommunication and other operational services	127,397	90,745
6	Operating lease	33,046	34,378
7	Cash collection and transportation	2,063	2,738
8	Services provided by payment systems on payment cards	3,585	3,466
9	Services on recovery of doubtful debts	1,271	1,397
10	Professional services	36,842	12,247
11	Marketing and advertising	1,063	1,529
12	Security	8,146	9,035
13	Taxes, other than income tax	32,545	35,650
14	Other	618	1,593
15	Total administrative and other operating expenses	**580,025**	**536,385**

Line 15 in Note 29 corresponds to Administrative and other operating expenses in the Statement of profit or loss and other operating income.

Note 30. Income tax expense

Table 30.1. Income tax expense

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	**Current income tax**	**182**	**219**
2	**Change in deferred income tax resulting from:**	**(427)**	**(6,758)**
2.1	origination or reversal of temporary differences	(427)	(6,758)
2.2	increase or decrease in tax rate	-	-
3	**Total income tax expense**	**(245)**	**(6,539)**

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	2015	2014
1	**2**	**3**	**4**
1	(Loss) before tax	(798,761)	(918,138)
2	Income tax at applicable tax rate	(143,777)	(165,265)
3	Effect of permanent tax differences	1,044	20,544
4	Changes in unrecognised deferred tax assets	142,488	138,182
5	**Income tax expense**	**(245)**	**(6,539)**

Table 30.3. Tax effects of deferred tax assets and liabilities recognized during 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Balance as at 31 December 2014	Recognised in profit or loss/or due to changes in tax legislation during the year	Recognised in other comprehensive income during the year	Balance as at 31 December 2015
1	**2**	**3**	**4**	**5**	**6**
1	**Tax effect of temporary differences:**				
1.1	Tax loss carried forward	185,315	169,447	-	354,762
1.2	Due from banks and loans to customers	391,858	440,439	-	832,297
1.3	Due to banks	3,855	(3,855)	-	-
1.4	Provisions for liabilities	6,205	(1,190)	-	5,015
1.5	Securities available-for-sale	(293)	293	(20)	(20)
1.6	Other assets	726	(726)	-	-
1.7	Due to customers	(151)	151	-	-
1.8	Property, equipment, intangible assets, and investment property	(9,327)	1,961	(12,496)	(19,862)
1.9	Provision for impairment of deferred tax assets	(582,564)	(606,092)	-	(1,188,656)
2	Deferred tax asset (liability), including:	(4,376)	428	(12,516)	(16,464)
3	Recognised deferred tax liability	(4,376)	-	-	(16,464)

Table 30.4. Tax effects of deferred tax assets and liabilities recognized during 2014

(in thousands of Ukrainian hryvnias)

Line	Description	31 December 2013	Recognised in profit or loss during the year	Recognised in other comprehensive income during the year	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)
2	Deferred tax asset (liability), including:	(5,247)	6,759	(5,888)	(4,376)
3	Recognised deferred tax liability	(5,247)	-	-	(4,376)

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

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
1	Loss attributable to holders of ordinary shares	(798,516)	(911,599)
2	Profit attributable to holders of preference shares	157	157
3	Loss for the year	(798,516)	(911,599)
4	Annual average number of ordinary shares outstanding (in thousands of shares)	1,641,675	1,635,000
5	Annual average number of preference shares outstanding (in thousands of shares)	1,500	1,500
6	Basic and diluted (loss) per ordinary share	(0.49)	(0.56)
7	Basic and diluted earnings per preference share	0.10	0.10

Note 32. Dividends

(in thousands of Ukrainian hryvnias)

Line	Description	2015		2014	
		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
3	Increase in provisions due to dividends	-	-	-	(157)
4	**Balance as at 31 December**	-	-	-	-

Note 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 the proper process of authorisation of retail and corporate loans for the Bank as a whole, proper process of monitoring and pre-trial distance 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 of the Bank. 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 individual 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 into functional currency as at each reporting date.

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

In compliance with the NBU requirements, the Bank set currency risk limits and sublimits for its subdivisions for currency risk management purposes. Such limits are necessary to avoid unexpected losses from significant 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 2015			As at 31 December 2014		
		Monetary assets	Monetary liabilities	Net position	Monetary assets	Monetary liabilities	Net position
1	2	3	4	5	6	7	8
1	USD	872,768	937,815	(65,047)	1,318,759	1,734,224	(415,465)
2	EUR	140,305	164,743	(24,438)	136,743	211,013	(74,270)
3	GBP	2,140	597	1,543	736	942	(206)
4	Other	53,635	47,528	6,107	39,653	38,634	1,019
5	Total	1,068,848	1,150,683	(81,835)	1,495,891	1,984,813	(488,922)

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	Weighted average currency rate for 2015		Weighted average currency rate for 2014	
		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: 20%)	(10,668)	(10,668)	(83,093)	(83,093)
2	20 % weakening of USD (31 December 2014: 20%)	10,668	10,668	83,093,	83,093
3	20 % strengthening of Euro (31 December 2014: 20%)	(4,008)	(4,008)	(14,854)	(14,854)
4	20 % weakening of Euro (31 December 2014: 20%)	4,008	4,008	14,854	14,854
5	20 % strengthening of GBP (31 December 2014: 20%)	253	253	(41)	(41)
6	20 % weakening of GBP (31 December 2014: 20%)	(253)	(253)	41	41
7	20 % strengthening of other currencies (31 December 2014: 20%)	1,002	1,002	204	204
8	20 % weakening of other currencies (31 December 2014: 20%)	(1,002)	(1,002)	(204)	(204)

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 7.0 million in general for the banking portfolio and the limits for each time interval: short-term, medium-term and long-term. The limits were adopted by the Bank and are 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 2015 and 2014.

(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**
	2015					
1	Total financial assets	2,279,731	303,335	330,644	1,016,823	3,930,533
2	Total financial liabilities	2,486,594	421,372	27,269	63,380	2,998,615
3	**Net interest rate gap as at the end of previous period**	**(206,863)**	**(118,037)**	**303,375**	**953,443**	**931,918**
	2014					
4	Total financial assets	2,149,666	462,140	247,949	920,569	3,780,324
5	Total financial liabilities	2,719,623	748,296	358,652	116,002	3,942,573
6	**Net interest rate gap as at the end of previous period**	**(569,957)**	**(286,156)**	**(110,703)**	**804,567**	**(162,249)**

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 2015		For the year ended 31 December 2014	
			1% decrease in interest rate	1% increase in interest rate	1% decrease in interest rate
1	**2**	**3**	**4**	**5**	**6**

					(in thousands of Ukrainian hryvnias)
Line	**Description**	**For the year ended 31 December 2015**		**For the year ended 31 December 2014**	
			1% decrease in interest rate	**1% increase in interest rate**	**1% decrease in interest rate**
1	Subordinated debt	-	-	(2,223)	2,223
2	**Net effect on profit before tax and equity**	**-**	**-**	**(2,223)**	**2,223**

Table 33.5. Interest rates on financial instruments

									%
Line	**Description**	**2015**				**2014**			
		UAH	**USD**	**EUR**	**Other**	**UAH**	**USD**	**EUR**	**Other**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
	Assets								
1	Cash and cash equivalents	0.15	0.03	-	-	0.10	0.003	-	-
2	Loans and advances to customers	18.17	11.44	12.27	-	17.17	13.84	13.66	-
3	Debt securities available for sale	20.42	-	-	-	11.20	-	-	-
	Liabilities								
4	Due to banks	17.00	-	-	-	-	9.60	-	-
5	Due to customers:								
5.1	current accounts	4.67	0.77	0.36	-	4.13	5.51	4.00	-
5.2	term deposits	16.50	3.47	2.57	-	17.68	6.73	5.74	-
6	Subordinated debt	-	-	-	-	-	5.63	-	-

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 thereafter 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. Then 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 2015

					(in thousands of Ukrainian hryvnias)
Line	**Description**	**Ukraine**	**OECD**	**Other countries**	**Total**
1	**2**	**3**	**4**	**5**	**6**
	Assets				
1	Cash and cash equivalents	270,101	168,951	1,072	440,124

(in thousands of Ukrainian hryvnias)

Line	Description	Ukraine	OECD	Other countries	Total
1	**2**	**3**	**4**	**5**	**6**
2	Other financial assets at fair value through profit or loss	-	2,633	-	2,633
3	Loans and advances to customers	1,779,911	4,760	41,614	1,826,285
4	Securities available-for-sale	1,813,143	-	-	1,813,143
5	Other financial assets	40,628	762	3	41,393
6	**Total financial assets**	**3,903,783**	**177,106**	**42,689**	**4,123,578**
	Liabilities				
7	Due to banks	24,060	-	-	24,060
8	Due to customers	2,964,581	7,705	19,558	2,991,844
9	Debt securities issued by the Bank	1	-	-	1
10	Other financial liabilities	107,925	7,701	2	115,628
11	**Total financial liabilities**	**3,096,567**	**15,406**	**19,560**	**3,131,533**
12	**Net balance sheet position**	**807,216**	**161,700**	**23,129**	**992,045**
13	Credit-related obligations	78,381	-	-	78,381

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

Table 33.7 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
	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

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 that 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 2015

Contractual maturities of undiscounted cash flows (including interest payments) on financial liabilities as at 31 December 2015 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	29,184	-	-	-	29 184
2	Due to customers:	2,339,064	325,732	270,964	73,185	3,008,945
2.1	Due to individuals	1,240,110	219,077	232,762	9,008	1,700,957
2.2	Other	1,098,954	106,655	38,202	64,177	1,307,988
3	Debt securities, issued by the Bank	1	-	-	-	1
4	Other financial liabilities	131,985	682	1,631	89	134,387
5	Financial guarantees	12,477	-	-	-	12,477
6	Other credit-related obligations	78,381	-	-	-	78,381
7	**Total potential future payments per financial obligations**	**2,591,092**	**326,414**	**272,595**	**73,274**	**3,263,375**

Table 33.9. 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:	2,485,738	421 144	602,199	-	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 33.10. Analysis of financial assets and liabilities based on contractual maturities as at 31 December 2015

(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	440,124	-	-	-	-	440,124
2	Other financial assets at fair value through profit or loss	2,633	-	-	-	-	2,633

(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
3	Loans and advances to customers	515,470	193,063	381,076	394,438	342,238	1,826,285
4	Securities available-for-sale	1,797,664	15,479	-	-	-	1,813,143
5	Other financial assets	41,107	286	-	-	-	41,393
6	Total financial assets	2,796,998	208,828	381,076	394,438	342,238	4,123,578
	Liabilities						
7	Due to banks	24,060	-	-	-	-	24,060
8	Due to customers	2,356,993	314,308	249,205	71,338	-	2,991,844
9	Debt securities issued by the Bank	1	-	-	-	-	1
10	Other financial liabilities	113,226	682	1 631	89	-	115,628
11	**Total financial liabilities**	**2,494,280**	**314,990**	**250,836**	**71,427**	**-**	**3,131,533**
12	Net liquidity gap as at 31 December 2015	302,718	(106,162)	130,240	323,011	342,238	992,045
13	Cumulative liquidity gap as at 31 December	302,718	196,556	326,796	649,807	992,045	-

33.11. 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

(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
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)	

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.

Note 34. Capital management

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

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

– highly profitable use of own assets;

– covering of all risks accepted by the Bank;

- optimisation of assets and liabilities structure by ageing and investment of funds

As at 31 December 2015, the National Bank of Ukraine (the NBU) requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets computed in accordance with the NBU regulations

As at 31 December 2015 and 2014, the Bank was in compliance with regulatory capital adequacy ratio (R2).

In addition, as at 31 December 2015, the Bank maintained all economic ratios and NBU limits.

In 2015, PJSCCB “PRAVEX-BANK” increased its capital by UAH 2,001 million additional shareholder contributions in order to improve its financial stability.

Table 34.1. Structure of regulatory capital based on the NBU requirements

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	2	3	4
	Core regulatory capital	**1,251,903**	**248,759**
1	Share capital	968,371	949,170
2	Share premium	3,502,688	1,521,161
3	Total reserves under Ukrainian legislation	1,332	1,332
4	Intangible assets	(362,663)	(328,166)
5	Amortisation of intangible assets	164,904	127,757
6	Capital investments in intangible assets	(1,975)	(21,405)
7	Uncovered losses of past years	(2,256,091)	(1,648,362)
8	Estimated loss	(764,663)	(352,728)
	Additional capital	**159,453**	**211,505**
9	Provisions for standard indebtedness	46,093	5,676
10	Fixed assets revaluation result	113,360	138,970
11	Subordinated debt	-	66,859
	Deductions	**-**	**(2,847)**
12	Transactions with insiders	-	(121)
13	Corporate shares and other securities without fixed income issued by the Bank, held for trade and available for sale	-	(2,726)
14	**Total regulatory capital**	**1,411,356**	**457,417**

Note 35. Contingent liabilities

Capital investments commitments

As at 31 December 2015, PJSCCB “PRAVEX-BANK” had contractual obligations on purchase of property and equipment, and intangible assets amounting to UAH 4,901 thousand (31 December 2014: UAH 1,506 thousand).

Table 35.1. Structure of credit related commitments

(in thousands of Ukrainian hryvnias)

Line	Description	2015	2014
1	**2**	**3**	**4**
1	Outstanding credit related commitments	79,574	19,341
2	Undrawn credit lines	1,429,009	1,239,789
3	Export letters of credit	84,485	-
4	Import letters of credit	-	3,902
5	Guarantees issued	12,477	18,815
6	Provision for credit related commitments	(1,381)	(2,517)
7	**Total credit related commitments less provision**	**1,604,164**	**1,279,330**

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	2015	2014
1	**2**	**3**	**4**
1	UAH	641,841	836,201
2	USD	666,926	351,956
3	Euro	295,397	91,173
4	**Total**	**1,604,164**	**1,279,330**

Note 36. Fair value of financial instruments

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

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

When 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	2015		2014	
		Fair value	Book value	Fair value	Book value
1	2	3	4	5	6
	FINANCIAL ASSETS				
1	Cash and cash equivalents	440,124	440,124	988,572,	988,572
1.1	Cash	258,002	258,002	273,565	273,565
1.2	Balances with the NBU (other than mandatory reserves)	8,205	8,205	,28,739	28,739
1.3	Corresponding accounts due from banks:	173,917	173,917	686,268	686,268
2	Financial assets at fair value, through profit or loss	2,633	2,633	2,726	2,726
3	Due from banks	-	-	200	200
3.1	Deposits due from banks:	-	-	200	200
4	Loans and advances to customers	1,819,416	1,826,285	2,231,083	2,291,297
5	Securities available for sale	1,813,143	1,813,143	500,455	500,455
5.1	Deposit certificates of NBU	1,813,140	1,813,140	500,421	500,421
5.2	Corporate shares and other securities without fixed income	3	3	34	34
6	Other financial assets (except measured at fair value, through profit or loss)	41,393	41,393	52,145	52,145,
	FINANCIAL LIABILITIES				
7	Due to banks	24,022	24,022	237,503	237,503
7.1	Correspondent accounts, deposits and overnight loans due to banks	38	38	912	912
7.2	Loans received	24,060	24,060	236,591	236,591
8	Due to customers	2,979,090	2,991,844	3,478,723	3,476,479
9	Debt securities issued by the Bank	1	1	1	1
9.1	Deposit certificate	1	1	1	1
10	Subordinated debt	-	-	228,589	228,589
11	Other financial liabilities	115,628	115,628	113,047	113,047

Table 36.2. Analysis of financial instruments at amortized value by hierarchy level as at 31 December 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Fair value by different measurement methods as at 31 December 2015			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	-	440,124	-	440,124	440,124
2	Other financial assets at fair value, through profit or loss	2,633	-	-	2,633	2,633
3	Due from banks	-	200	-	200	200
4	Loans and advances to customers	-	-	1,900,869	1,900,869	1,826,285
5	Securities available for sale	-	1,813,143	-	1,813,143	1,813,143
	FINANCIAL LIABILITIES					
6	Due to banks	-	24,060	-	24,060	24,060
7	Due to customers	-	2,979,090	-	2,979,090	2,991,844
8	Debt securities issued by the Bank	-	1	-	1	1

Table 36.3. Analysis of financial instruments at amortized value by hierarchy level as at 31 December 2014

(in thousands of Ukrainian hryvnias)

Line	Description	Fair value by different measurement methods 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
8	Debt securities issued by the Bank	-	1	-	1	1
9	Subordinated debt	-	228,589	-	228,589	228,589

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 financial markets.

Table 36.4. Significant unobservable inputs used in the measuring instruments categorised 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
2015	Loans and advances to customers	1,826,285	Cash flow discounting	Discount rate	5.00 – 31.96%	Significant increase of discount rate results in lower values of fair value
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

Note 37. Presentation of financial instruments by measurement category

Table 37.1. Financial assets by measurement category for 2015

(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	440,124	-	-	440,124
2	Other financial assets at fair value through profit or loss	-	-	2,633	2,633
3	Loans and advances to customers:	1,826,285	-	-	1,826,285
3.1	corporate loans	650,162	-	-	650,162
3.2	loans to individual entrepreneurs	468	-	-	468
3.3	mortgage loans to individuals	1,081,379	-	-	1,081,379
3.4	consumer loans to individuals	2,043,870	-	-	2,043,870
3.5	other retail loans	21,472	-	-	21,472
3.6	loan impairment provision	(1,971,066)	-	-	(1,971,066)
4	Securities available-for-sale	-	1,813,143	-	1,813,143
5	Other financial assets:	41,393	-	-	41,393
5.1	receivables on transactions with customers	13,688	-	-	13,688
5.2	receivables on overdue accrued income on cash payments and other accrued income	3,853	-	-	3,853
5.3	receivables on payment card transactions	30,888	-	-	30,888
5.4	cash restricted for use	3,458	-	-	3,458

(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
5.5	other financial assets	297	-	-	297
5.6	impairment loss provision on other financial assets	(10,791)	-	-	(10,791)
6	Total financial assets	2,307,802	1,813,143	2,633	4,123,578

Table 37.2. 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
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

Note 38. Transactions with related parties

Table 38.1. Balances with related parties as at 31 December 2015

(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	-	-	-	54,787	-	on demand	40,759	-	on demand	1,871	-	on demand
2	Financial assets at fair value through profit or loss	-	-	-	-	-	on demand	2,633	-	on demand	-	-	on demand
3	Other financial liabilities	4,381	-	on demand	-	-	-	765	-	on demand	-	-	-
4	Other liabilities	-	-	-	-	-	-	3,542	-	on demand	-	-	-
	Key management												
5	Loans and advances to customers	255	12%	from 32 days – up to 10 years	-	-	-	-	-	-	-	-	-
6	Loan loss provisions as at 31 December	4	-	on demand – up to 32 days	-	-	-	-	-	-	-	-	-
7	Due to customers	301	0 - 14%	on demand – up to 7 days	78	0.5 – 1.5%	on demand – up to 365 days	133	0.5 - 2%	on demand – up to 92 days	-	-	-
8	Other liabilities	713	-	on demand	-	-	-	-	-	-	-	-	-
	Other related parties												
9	Cash and cash equivalents	-	-	-	11,723	-	on demand	-	-	-	1,069	-	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**
10	Other financial liabilities	-	-	-	53	-	on demand	-	-	-		-	
11	Other liabilities	-	-	-	-	-	-	323	-	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 on transactions with related parties for 2015

(in thousands of Ukrainian hryvnias)

Line	Description	Major shareholders	Key management	Other related parties
1	**2**	**3**	**4**	**5**
1	Interest income	-	39	-
2	Interest expense	(4,081)	(99)	-
3	Revaluation surplus on other financial instruments at fair value through profit or loss	103	-	-
4	Gains less losses arising from sale of securities available-for-sale	1,337	-	-
5	Gains less losses from foreign currency translation	208	-	-
6	Commission income	2,425	32	-
7	Commission expense	(48,746)	-	(388)
8	Other operating income	46	-	-
9	Administrative and other operating expenses	(18,099)	(16,756)	(1,271)

Table 38.3. Loans granted to and repaid by related parties during 2015

Item	Description	Key management
1	**2**	**3**
1	Loans repaid by related parties during the year	183

Table 38.4. 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	-	-	-
	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												

(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
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	-	-	-

Table 38.5. Income and expenses on 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	Commission income	6	32	-
6	Commission expense	(28,500)	-	(231)
7	Other operating income	100	-	-
8	Administrative and other operating expenses	(13,349)	(14,386)	(915)

Table 38.6. 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 38.7. Loans granted to and repaid by related parties during 2014

(in thousands of Ukrainian hryvnias)

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

Table 38.8. Remuneration to key management

(in thousands of Ukrainian hryvnias)

Line	Description	2015		2014	
		Costs	Accrued liabilities	Costs	Accrued liabilities
1	2	3	4	5	6
1	Short-term employee benefits	13,527	713	12,365	618
2	Dismissal costs	-	-	10	-

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

Note 39. Subsequent events

Events after 31 December 2015 do not require any changes to financial statements.

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

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

DATE: 19 FEBRUARY 2016

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"

We have audited the accompanying financial statements of PUBLIC JOINT-STOCK COMPANY COMMERCIAL BANK "PRAVEX-BANK" (the Bank), which comprise the statement of financial position as at 31 December 2015, 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 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.320/1 dated 29 December 2015. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

JSC KPMG Audit

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

21 February 2016

Anna Parkhomenko
Deputy Director

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