

**“PRAVEX-BANK” PJSCCB**  
Annual financial statements for 2011

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## General information about „PRAVEX-BANK” PJSCCB

### Information about „PRAVEX-BANK” PJSCCB

Full name of the bank	Public Joint Stock Company Commercial Bank „PRAVEX-BANK”
Short name of the bank	„PRAVEX-BANK” PJSCCB
EDRPOU code	14360920
Legal address	9/2, Klovsky Uzviz, Kyiv, 01021, Ukraine
Date and № of state registry	December 29, 1992. State registry № 139
Form of incorporation	Public Joint-Stock Company
Reporting period	Since January, 1 till December 31, 2011
Currency of reporting and units	UAH, thousand
Reporting date	As of 31.12.2011

“PRAVEX-BANK” PJSCCB (hereinafter referred to as "the Bank") is formed by renaming “PRAVEX-BANK” Joint-Stock Commercial Bank (incorporated by the Resolution of the Constituent Meeting, Minutes No. 1 dated September 20, 1992 registered by the National Bank of Ukraine on December 29, 1992 under Registration No. 139) by virtue of the Resolution adopted by the General Meeting of Shareholders of the Bank (Minutes No. 3 dated September 07, 2009) and is a legal successor to rights, duties and obligations .

The Bank is a universal bank existing in the form of a Public Joint-Stock Company.

The strategic aim of the Bank is to create a universal bank that provides full range of banking services for corporate and retail customers.

The Bank is a foreign capital bank.

In 2011 the Bank progressed in its strategy, in order to become a universal bank in the medium term, even if in the last months of the year the turmoil on the financial markets had some impacts on its activity and its performance.

Till autumn 2011 in particular, Corporate business was further developed, with a significant increase of the customer base and of the loan portfolio; with reference to Retail business, the new organizational model was fully implemented and this allowed the re-start of the lending activity, based on new standards of risk management.

At the same time, the bank kept reducing administrative costs, as well as optimizing of the structure of personnel.

In the second part of the year, the turmoil on the international financial markets had consequences on the Ukrainian banking system as well, and the bank strongly reacted, in order to keep (and improve) its risk profile. Customer deposits were increased significantly, and as well the bank acted in order to reduce its FX position.

New actions were taken as well in the area of credit risk, setting up dedicated units and processes to improve the quality of the assets, and strong actions were taken to control costs.

The Bank is a member of Intesa SanPaolo S.p.A. Group; as its member the Bank shall comply (within applicable legislation) with the instructions, regulations and guidelines of Intesa SanPaolo S.p.A. that may exercise its powers to manage and coordinate the business of the Bank and to act in line with the guidelines of the Bank of Italy designated to support the financial steadiness of the Group.

The Bank is a member of the Individual’s Deposit Guaranty Fund (IDGF) and has a Fund Membership Certificate No. 115 dated November 3, 2009 confirming the registration of the Bank (registration entry No. 125 dated September 2, 1999) in the Register of Member Banks of the Individual’s Deposit Guaranty Fund (IDGF).

According to NBU license No. 7 dd. September 30, 2009, the Bank conducts banking operations defined by Section I and clauses 5-11 of Section II of Article 47 of the Law of Ukraine “On banks and banking activity”, in particular:

- accepting deposits from legal entities and individuals;
- opening and maintenance of current accounts of its clients and correspondent banks, including money transfer from these accounts by means of payment instruments and crediting those accounts;
- placement of attracted funds on its own behalf, under its own conditions and under its own risk;
- granting guarantees and commitments, as well as other third party liabilities, which envisage their fulfillment in monetary form;
- acquiring of right of claim for discharge of obligations in monetary form for goods delivered or services rendered, taking the risk of satisfying such claims and payments receipt (factoring);
- leasing;
- services on safekeeping and renting out safes for keeping valuables and documents;
- issue, purchase, sale and servicing of cheques, bills and other negotiable payment instruments;
- issue of bank payment cards and carrying out related transactions;
- rendering the advisory and informational services as for bank operations.

Moreover, according to NBU permit No. 7-2 dd. September 30, 2009 the Bank has obtained a right to perform activities defined by clauses 1-4 of Section II and Section IV of Article 47 of the Law of Ukraine “On banks and banking activity”, in particular:

- Currency values transactions:
  - non-trading transactions with currency values;
  - foreign cash and cheque transactions (purchase, sale, exchange and collection) through cash desk offices and foreign currency exchange desks of the banks;
  - foreign cash transactions (purchase, sale and exchange) through foreign currency exchange desks acting by virtue of agency agreements signed between banks and resident entities;
  - maintaining of clients’ accounts (both residents and non-residents) in foreign currency, and non-resident clients in national currency of Ukraine;
  - maintaining of foreign currency correspondent accounts of banks (both residents and non-residents);
  - maintaining of correspondent accounts of banks (non-residents) in national currency of Ukraine;
  - opening of foreign currency correspondent accounts with duly authorized Ukrainian banks and support of related transactions;
  - opening of foreign currency correspondent accounts with non-resident banks and support of related transactions;
  - attraction and allocation of foreign currency at foreign exchange market of Ukraine;
  - attraction and allocation of foreign currency at international markets;
  - foreign currency trading at foreign exchange market of Ukraine (except for FX transactions)
  - foreign currency trading at international markets;
  - banking metals transactions at foreign exchange market of Ukraine;
  - banking metals transactions at international markets;
  - other transactions with currency values at international markets;
  - other transactions with currency values at foreign exchange market of Ukraine.
- Issue of own securities.
- Arrangement for securities purchase and sale by client’s order.
- Conducting transactions at securities market on its own behalf (including underwriting).
- Investments into authorized funds and shares of other legal entities.
- Transportation of currency values and funds encashment.
- Transactions by client’s order or on its own behalf:
  - with money-market instruments;
  - with instruments, which are based on exchange rates and interests;
  - with financial futures and options.

- Entrusted management of funds and securities under agreements with legal entities and individuals.
- Depository activity of a custodian.
- Keeping registers of inscribed securities holders.

Moreover, the Bank carries out all kinds of stock market related transactions under the license of the State Committee of Securities of Sock Exchange:

- series АГ No. 579931 dd. 07.10.2011 – on professional activity at stock market – securities trading activity – broker activity;
- series АГ No. 579932 dd. 07.10.2011 – on professional activity at stock market – securities trading activity – dealer activity;
- series АГ No. 579933 dd. 07.10.2011 – on professional activity at stock market – securities trading activity – underwriting;
- series АГ No. 579934 dd. 07.10.2011 – on professional activity at stock market – custody activity – depository activity of a custodian.

The Bank has the right to perform the following operations:

- professional activity at stock market – depository activity: activity regarding keeping its own register of the nominal securities holders;
- professional activity at stock market – depository activity: activity of a custodian;
- professional activity at stock market – securities trading activity: broker activity;
- professional activity at stock market – securities trading activity: dealer activity;
- professional activity at stock market - securities trading activity: securities management activity;
- professional activity at stock market – securities trading activity: underwriting.

The Bank has the right to perform international activity in accordance with the effective legislation of Ukraine.

Within the reporting year the Bank experienced no merger, amalgamation, split or separation.

### **Results from banking and other transactions in 2011**

In 2011 the positive trend towards the recovery of adequate levels of profitability continued, even if in the last part of the year the performance has been strongly affected by the turmoil on the international financial markets that also impacted the Ukrainian market.

During the first months of 2011 the Bank registered improvements, as a result of the actions taken starting from 2010 (interventions in cost efficiency and cost of funding, together with the decrease of non-necessary liquidity), of the commercial development and also thanks to a non-recurring transaction (sale of unsecured non-performing loans) that took place in February.

The strategy of Pravex, aimed at becoming a universal bank in the medium term, was confirmed, and several actions were taken in this regard.

The bank fully implemented in 2011 the new branch model, that includes not only the modernization of the branches, but also the organization of work, splitting bank's staff into sales advisors and tellers as well as sharing responsibilities. It is estimated that the project of total IT change-over will be finished in 2012.

In 2011 started the implementation of Constellation project, aimed at changing completely the IT systems of the bank, and in particular the Core Banking System and the accounting systems. This project will allow to be competitive in terms of products and services, and significantly increase the efficiency of the bank in the next years.

The bank worked more actively both with Corporate clients (large national companies and medium-size corporates with reliable business reputation) and Retail (the bank was very active in Car Loan programs, and, at the end of the year, in deposits attraction).

The progressive growth of the loan portfolio was driven by Corporate, as a result of a deliberate strategy to establish a stronger presence in this segment. The increase of portfolio has been very selective in terms of risk.

As a result, corporate loan portfolio increased from UAH 1036.2 mil. in 2010 to UAH 1685.2 mil. in 2011) or by 63%. Market share of corporate lending increased by 0.08% in 2010, as per NBU data.

The management of assets and liabilities as well improved, and further actions (anticipating the market) in order to cut the cost of funding were realized. With the purpose of strengthening the liquidity of the Bank, a domestic bond issue has been realized in June, but the actual placement has not yet taken place, also because of the deterioration of the market conditions.

The capital base as well has been reinforced, thanks to the completion (on July 22nd 2011) of the process of capital increase (by 30 mln euro) that started in 2010.

As mentioned, in February a sale of unsecured non-performing loans took place that resulted in a significantly positive result for the Bank.

The market environment strongly deteriorated since summer, as a consequence of the global financial turmoil; moreover fears of devaluation of the local currency started to appear.

Therefore the Bank focused its activity on improving of the open FX position indicators as well as on increasing of liquidity (mostly in local currency). It also speeded up some already planned activities aimed at cost cutting.

In order to decrease its FX short position (and in general reduce the risk profile) the bank started many activities, mostly in the second part of the year, among which:

- The transfer to off-balance sheet of loans in foreign currencies, fully provisioned (according to local GAAPs);
- The conversion of loans denominated in foreign currencies into local currency ones (performing and non performing), also in order to de-dollarize the assets of the bank;
- The increase of the activity in collection of non-performing loans;
- The limitation, and eventually the block of lending activity in local currency and partially in foreign currency (in the last months of 2011).
- The set-up of dedicated units and processes, aiming at better manage the non performing loans.

The Bank as well concentrated many efforts in strengthening its liquidity (mostly in local currency), achieving satisfactory increases of deposits in a very short period, thanks to coordinated actions on the network.

The above mentioned actions (reduction of FX short position and increase of liquidity) had negative impact on the financial results of the Bank, mostly on the net interest income (because of the decrease of loans and the increase of cost of funding).

In order to compensate these negative impacts, the Bank has also reinforced its interventions in cost cutting, namely:

- The further rationalization of the network, with consequent reduction in HQ staff (- 66 outlets in 2011, - 674 headcounts);
- Strong control on costs, with the blocking of all non-strategic investments.

Traditionally, the main source of financing Bank's operating activity is customers' funds. The total liabilities consist of almost 67% of customers' funds. However, in 2011 the Bank had high level of excessive liquidity and therefore implemented the strategy aimed at reducing value of resources that from one side led to expected reducing of expensive deposit portfolio, particularly in foreign currency, and on the other hand - significantly improved interest margin.

Thus, total customers' funds increased by 12% during 2011 (UAH 3.169 billion vs. UAH 2.834 billion in 2010), where the main part of this inflow was in local currency of almost 21%.

This activity contributed in a significant way to the reduction of administrative costs that took place in 2011 (-8% , UAH 564.1 mil. vs. UAH 611.5 mil. in 2010).

Loan-loss provisions created within the year decreased by 31% (UAH 119.2 mil. vs. UAH 173.1 mil. in 2010).

This dynamics allowed the bank to contain the losses to UAH 124 mil. vs. UAH 273 mil. in 2010.

On 22.07.2011 took place the final step of the process of capital increase (started in 2010). The net equity of the bank has been increased by 326,3 UAH mil., out of which 31,5 UAH mil. of authorized capital and 294,8 UAH mil. of issuer differences.

Throughout the year of 2011 the Bank had no debts relating to timely fulfillment of customers' payment documents.

The business results of banking and other transactions appear in the Financial Statements of the Bank in conformity with the principles set out in the applicable Accounting Policy.

The Accounting Policy of the Bank for 2011 defined and established the unified Bank's transaction accounting procedures, common principles and procedures of interpretation and construing of timely, true and reliable records of banking transactions to be applied to preparation and submission of the relevant Financial Statements for all regional directorates, branches, subdivisions of the Head Office. No separate type of banking operations was discontinued in 2011. No restrictions of assets possession were seen.

No Consolidated Financial Statements as of December 31, 2011 is prepared, since the Bank has no subsidiaries or associated companies.

### **Counterparty segments of the BANK**

The bank is active with almost all kinds of counterparties, i.e. banks, non-banking organizations, represented by households (individuals) and business entities (companies, businesses and undertakings of different ownership patterns), and governmental or state owned institutions and organizations.

In view of the Bank's objective towards formation of a universal bank, there were some changes in the structure of customer funds as the main source of loan resources generation. The amount of corporate customers' funds on current and thrift accounts increased by 13% as compared to that in 2010, thus resulting in the increased share of corporate customers' funds in the total liabilities of the Bank, viz. 14.4% (vs. 12.7 % in 2010).

The core source of funding is still the money obtained from individuals; they made up 52.4 % (vs. 46.8% in 2010) of the total liabilities towards customers.

As of December 31, 2011 the Bank's available-for-sale portfolio includes stocks and other variable income deposits, amounting to UAH 34 ths. (depositions to Stock Exchanges and Depositaries).

As of December 31, 2011 due to banks makes up 25.5% (vs. 33.7% in 2010) in the Bank's total liabilities.

### **Risk Management**

Risk management is aimed at protecting the bank from all kinds of risks inherent in the banking activity, as well as allocating the resources of the bank in the most efficient way, and correctly planning the needs of resources.

The Bank continuously improves risk management methodologies: credit, liquidity, market, operational, strategic, legal, reputation and other risks which the Bank is imposed to.

Key risk categories attributable to the Bank's business are: credit risk, liquidity risk, market risk: risk of interest rate change, currency risk, operational risk and reputational risk. Risk management policy of the Bank makes it possible to indicate and analyze the above mentioned risks, establish acceptable limits and perform respective monitoring on an ongoing basis using advanced administrative and informational systems. The Bank performs risk management based on the principles of continuity, prudence and hedging. Risk management methods and systems used by the Bank are constantly being modified reflecting the changes in market conditions and products.

In accordance with requirements of Art. 44 of the Law of Ukraine "On banks and banking", the Bank has a risk management system including standing committees: Credit Committee (incl. assets quality Session); Assets and Liabilities Management Committee; Tariff Committee.

The units of the Bank dealing with risk management are: Methodology, market and operational risks department, Retail risk management department, Corporate risk management department, Financial restructuring department which compose Risk Management Division.

Supervisory Board of the Bank defines the general risk management strategy, approves and revises the risk management Concept (Policy), sets the general level of risk tolerance.

Management Board of the Bank is responsible for all the risks accepted by the Bank, and partially delegates its functions to appropriate standing Committees.

The Bank's management, including risk management is performed by its Management Board based on guidelines approved by the Supervisory Board within the general strategy.

Risk management policy, monitoring and control are performed by the Credit Committee and Assets and Liabilities Committee under the guidance of the Supervisory Board as the highest supervisory body of the bank.

Risk management units are independent from the heads of business divisions which is proved by the fact that CRM is subordinated to CEO of the Bank.

Credit Committee is the highest body for considering credit issues within established ones by Supervisory Board of the Bank. Credit Committee is headed by Chairperson of the Management. In case of his/her absence, the Committee is chaired by the Head of Risk management division. While voting at the Credit Committee, Chairperson of the Management Board or Acting Chairperson has "veto" right.

Voting Members of the Credit Committee are: Chairperson of Management Board, Head of Risk management division, Head of Corporate division, Head of Retail division, CFO (Chief Financial Officer), Head of Workout Department.

Asset Quality Committee Session is a wider meeting of Credit Committee and is aimed at taking of the necessary measures for preventing and mitigating credit related losses. Asset Quality Committee Session examines loan portfolio and its quality, recommends methodology of borrower classification and is responsible for Bank rating system.

The main goal of Asset & Liability Management Committee (hereinafter referred to as ALCO) is to protect Bank capital and its allocation, to manage assets and liabilities of the Bank taking into consideration pricing structures and payment profiles in accordance with the legislation or relevant internal regulations as well as the instructions of Parent Company.

Voting members of ALCO are: Chairperson of Management Board, Head of Risk Management Division, Head of Treasury and Investment Banking Division, Head of Corporate Division, Head of Retail Division, CFO (Chief Financial Officer).



At the current stage of the Bank's development, the most significant financial risks are credit risk and liquidity risk, currency risk and interest rate risk, among non-financial risks are operational, strategic risk and reputational risk.

Since the Bank joined Intesa Sanpaolo International Banking Group, and in line with the general risk policy of the Group and best international practice, the Bank began implementing new procedures designated to identify and assess risks based on the new organizational structure.

Risk management strategy is based on non-loss principle and is aimed at providing with optimum proportion of the Bank's business profitability and level of risks acceptable for the Bank.

Risk management strategy is aimed at achievement of the following goals:

- reaching its business objectives which allow to increase the Bank's value by means of risks optimization;
- establishment of effective support system in managerial decision making considering risks the Bank is exposed to;
- optimization of the expected revenues and costs, and decrease of unexpected losses;
- ensuring the Bank's activity support in case of crisis.

Risk management strategy envisages the usage of all types of instruments for risk decrease and the management each single instrument depending on type of risk.

The core objective of Risk Management Division is to guarantee the total split between organizational units that deal with banking products sale and risk management. The Division independently analyses and decides, within its competencies, or suggests the relevant competent unit or bodies certain decisions, whenever such a decision is beyond its respective powers, responsibilities and competencies.

The Bank is exposed to risk in every business direction of its activity. In order to minimize the risk, the Bank implemented the risk assessment and control system functioning in line with the applicable Internal Regulations of the Bank, as well as requirements and NBU recommendation, Intesa Sanpaolo Group, internal auditors, Basel Committee on Banking Supervision, and business experience of the leading financial institutions.

**Credit risk management** is performed at the strategic level by the Supervisory Board, Management Board and relevant organizational units of Intesa Sanpaolo Group, which define directions and targets of development for approval:

- General credit risk limit for the Bank;
- Credit risk limits for Bank products;
- Credit risk limits for one borrower.

Credit risk management is performed by Credit risk management office of Methodology, market and operational risks department of Risk management division jointly with Corporate division and Retail division:

- a) establishes recommendations on credit risk management that cover methodology, processes, control, data collection and IT systems, which support credit risk assessment, establishing integral rating, rules on loans' approval, credit monitoring and reporting;
- b) develops methodology and manages processes on calculation of general and specific provisions for credit risks both in national and IFRS standards;
- c) establishes limits for approval methods for preventing credit risks (PCR) as per established business and regulative standards.

**The liquidity management** has always allowed the Bank to be in compliance with the standards of liquidity and capital adequacy established by the National Bank of Ukraine.

The aim of liquidity management is also:

- timely and complete fulfillment of obligations;

- taking all the necessary steps to cover top priority needs in cash resources;
- ensuring liquid assets any time by means of borrowings from the market at average rate or sale of its own assets w/o loss in their price.

The Bank is constantly searching the best assets/liabilities ratio in terms of liquidity requirements, as well as their profitability and cost.

### **Market risk management.**

The Bank is exposed to market risk when interest, currency and securities exchange rates, basic goods and services prices are subject to changes. The Bank limits the impact of the mentioned type of risk on its activity via constant monitoring of the external environment and integration of efficient means of possible negative consequences minimizing.

Market risk management is performed by Office of Market Risk and Middle Office.

- a) Establishes internal provisions of market risk management, which cover procedure, management measures, data collection and IT systems, which take into consideration the evaluation of market (and related) risks, monitoring and reporting on market risk;
- b) Proposes strategies and determination of structure and hierarchy of system of limits, granted to different units;
- c) Monitoring of compliance of limits, determined for centers of risk assumption, establishment of procedure on solving problems on higher level in case of limit violation, on informing the top management of the Bank on exceeding and (if available) violation;
- d) Develops, approves (via back testing) and manages measuring systems for liquidity, interest rates and currency exchange risk on the level of overall balance.

While managing the market risk the Bank's actions are namely aimed at prevention of the losses on balance and off-balance trading items.

**Currency risk management** is based on daily monitoring of currency position by: type of currency; kind of transactions bank's; organizational units.

For the purposes of currency risk assessment the bank applies currency position standards established by the National Bank of Ukraine. The decision regarding restriction of open currency position (in case of need) shall be taken by ALCO.

The key factors of market risk are: risk of FX rate change, conversion risk related to limits of exchange transactions and open currency position. Currency risk is controlled by the Bank considering the balancing the total open currency position and the position regarding different types of FX. Treasury performs a daily monitoring of the open currency position of the Bank to meet NBU requirements.

The indication of **interest risk** and its evaluation are performed in split by types of banking products and services via analysis of interest spread in terms of currencies, internal cost of banking services, time structure of assets and liabilities, profit sensitivity to interest rates and interest margin policy identification aimed at decreasing of risk impact on the Bank's activities.

Daily control over interest risk is based on managerial reporting data using average weighted interest rates for interest bearing assets and liabilities per each kind of currency.

The main task of interest risk management is to avoid loss from interest rate fluctuation relating to assets/liabilities not included into the trading portfolio.

**Operational risk management** is performed by Quantitative modeling and operational risk management office of the Risk management division according to operational risk management policy of the Bank approved by the Management Board of the Bank (Decision #23 dd. 15.07.2010).

In the course of evaluating and measuring the operational risk, the Key indicator approach is used, according to the policies of Intesa Sanpaolo Group, as well as the Standardized approach for capital need measurement.

Operational risk management (ORM) consists of:

- definition and integration of actions aimed at risk decrease and its transfer, in accordance with risk position defined by the Management Board, and also regarding goals of capital allocation;
- rationalization and optimization in terms of P&L of the insurance reimbursements and other forms of risk transmission approved by the Group;
- definition of the priority action plan for critical points appeared in the course of analysis, and for taking all possible decisions, which simplify the process of decision making and are based on P&L logics, and there will be indicated the most appropriate decisions on the Group level for risk profile support, according to risk position also defined regarding goals of capital allocation approved by the Management Board.

During previous years the Bank:

- has formalized involvement of the Supervisory Board into the operational management process;
- has formalized involvement of the top management in the ORM process with help of the Management Board with the responsibility for general structure of operational risk management, management of the events with special impact and relevancy or even of the reputation nature, and also periodical evaluation of the risk profile according to approved procedures;
- has assigned the management and control over ORM process of the Bank to Methodology, market and operational risks department of risk management division

With reference to **reputational risk management** Compliance Office is in charge of:

- estimating current processes in the Bank, aimed at detection of available and potential compliance risks;
- developing the action plan on elimination of detected incompliance and on potential risks decrease;
- further control over completeness and effective use of internal processes.

The main aim of reputational risk management is the minimization of risks related to image of the Bank image by clients, contractors, shareholders (participants) or by supervisory bodies.

Reputational risk management is performed through the interaction of the Management of the Bank and all organizational units.

### **Strategic risk management.**

The main aim of strategic risk management is the reduction or the minimization of risk to which the Bank is exposed, as well as ensuring maximum protection of assets and capital on the bases of possible loss minimization (exclusion) by means of introduction of reasonable grounded system of strategic planning and control over decisions implementation at all organization levels.

The system of strategic risk management allows a better coordination of the activity of Management and units of the Bank regarding Bank's development strategy realization.

The Bank uses the process of business planning in order to manage strategic risk.

Planning and Control Department coordinates planning process, which includes analysis of scenarios, where potential risks and their effect on financial and human resources are identified.

To minimize strategic risk, the Bank uses the following management methods:

- business planning;
- control over implementation of the approved plans;
- analysis of changes in market environment;
- monitoring of banking services market with the purpose to determine new possible directions of Bank's activity and to determine new strategic tasks;
- system of authorities and decisions taking;
- standardization of main banking operations;
- monitoring of changes in the legislation and in current regulatory acts.

Moreover, the planning process includes all levels of Bank's organizational structure:

- strategic plan and budget at the level of the Bank in whole;

- plans of main organizational units of the Bank.

### Solvency of the Bank

Risk regulation concerning allocation and involvement of financial resources is made by means of daily (decadal) control over the actual indicators of special calculation indices and their compliance to fixed normative indicators (NBU Regulation No. 368 dd. 28.08.2001 as amended).

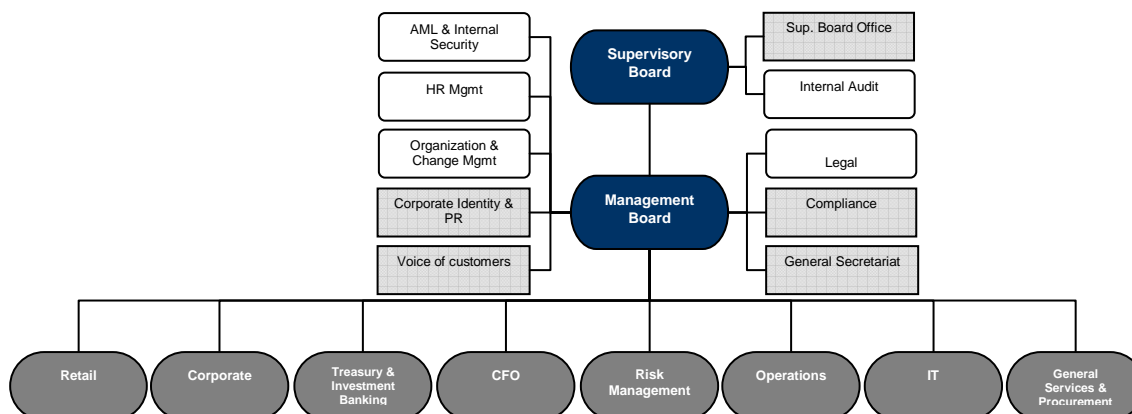
As of 31.12.2011 normative and actual indices are as follows:

Normative of	Index	
	Normative	Fact
Regulatory capital	Not less than UAH 240 mln	UAH 883 219 ths.
Adequacy of regulatory capital (solvency)	Not less than 10%	14.96%
Ratio of regulatory capital to aggregate assets (coefficient)	Not less than 9%	13.49%
Instant liquidity	Not less than 20%	42.46%
Current liquidity	Not less than 40%	62.40%
Short-term liquidity	Not less than 60%	87.85%
Maximal level of credit risk per one contractor	Not more than 25%	21.35%
“Big” credit risks	Not more than 800%	130.05%
Maximal level of loans, guarantees and warranties granted to one insider	Not more than 5%	0.06%
Maximal total level of loans, guarantees and warranties, granted to insiders	Not more than 30%	0.59%
Investments into securities by each single establishment	Not more than 15%	0.00%
Total amount of investments	Not more than 60%	0.01%

Calculation of compulsory economic standards is made in the bank on the daily basis according to normative documents of the National Bank of Ukraine.

### Corporate governance

Aiming at ensuring adequate levels of performance and to increase efficiency of all the Bank’s units, in 2009 a new organizational structure was implemented, which was in place and was fine-tuned in 2010 (no major changes took place in 2011):



According to the Articles of Association, the Bank shall be managed by:

- General Meetings of Shareholders in the Bank;
- Supervisory Board of the Bank;

- Management Board of the Bank, headed by the Chairperson of the Management Board.

General Meeting of Shareholders is the supreme governing body of the Bank. The Supervisory Board shall be elected among Shareholders in the Bank or among their representatives to represent interests of shareholders in between General Meetings, to protect the rights of shareholders of the Bank, and, within the competence defined by the legislation and the Articles of Association, to supervise and regulate activities of Bank's Management Board.

The Supervisory Board shall be responsible for the following issues:

- 1) Approval of the draft annual financial statements of the Bank before their final approval by the General Meeting and approval of quarterly financial statements of the Bank;
- 2) Adoption of resolutions regarding participation of the Bank in the creation of associations of banks and participation in industrial and financial groups and other associations subject to compliance with the requirements of the applicable laws of Ukraine;
- 3) Reviewing and evaluating the underlying principles of the Bank's business and risk management policy and approval of the Bank's business and risk management policy; delegating powers to administer Bank's property and funds to other boards of the Bank or officials;
- 4) Establishment of procedures for checks and supervision over business of the Bank;
- 5) Supervision over activities of the Bank's Management Board and reviewing reports of the Management Board of the Bank;
- 6) Determination of organizational structure of the Bank and functions of the organizational units of the Bank;
- 7) Management of and supervision over the Internal Audit Service of the Bank, approval of the Regulation on the Internal Audit Service;
- 8) Election and recall of powers of Chairperson and members of the Bank's Management Board, Heads of Divisions, Departments and Offices which are directly subordinated to Chairperson of the Bank's Management Board, as well as Head of the Internal Audit Service of the Bank;
- 9) Appointment of the Deputies Chairperson of the Management Board as an Acting Chairperson in cases provided for by the Articles of Association and/or the Regulation on the Management Board;
- 10) Approval of terms of employment, civil agreements and labour agreements, including remuneration and material incentive terms, and labour agreements (contracts) with members of the Management Board, including the Chairperson of the Management Board, and authorization of the Chairperson of the Supervisory Board to sign civil and labour agreements (contracts) with members of the Management Board, including the Chairperson of the Management Board;
- 11) Passing decisions on suspension of authorities of the members of the Management Board, including the Chairperson of the Management Board; adoption of decision on suspension of the Chairperson of the Management Board from performing the functions and election of the person who will temporarily be in charge of performing the functions of the Chairperson of the Management Board of the Bank;
- 12) Election of an external auditor of the Bank; resolving on appointment/dismissal thereof; defining the conditions of the contract, to be concluded with the auditor, defining the amount to be paid for the services;
- 13) Ensuring due functioning of the adequate system of internal and external control over financial and business activities of the Bank; finding out faults in the system of control, and development of proposals and recommendations regarding their elimination; exercising of control over efficiency of the external audit, objectiveness and independence of the auditor; exercising control over elimination of drawbacks revealed during audits by the Audit Commission of the Bank, the Internal Audit Service of the Bank and/or the external auditor;

- 14) Passing a resolution on organization, reorganization and liquidation of subsidiaries, other legal entities, affiliates, branches and representations of the Bank with approval of their by-laws and regulations or licenses for transactions;
- 15) Preparation of proposals on matters to be submitted for consideration of a General Meeting; approval of resolutions of the Management Board pertaining to the convocation of ordinary and extraordinary General Meeting, including their agenda, approval of resolutions of the Management Board regarding changes in the agenda of any ordinary or extraordinary General Meeting;
- 16) Passing resolutions on bringing officials from governing and controlling bodies of the Company to property accountability;
- 17) Resolving on covering of losses in compliance with procedures for reimbursement of losses as approved by the General Shareholders Meeting;
- 18) Informing the Management Board about the list of banks or group of banks, which can cooperate with the Bank on the interbank market;
- 19) Passing resolutions on placement of securities of the Bank (shares excluded) in conformity with requirements of legislation for the time being in force in Ukraine;
- 20) Setting up committees dealing inter alia, with the approval of loans, property, personnel and audit issues, namely: Credit Committee, Assets and Liabilities Committee, Tariff Committee, AML Committee, Change Management Committee, other committees; adopting regulations on such committees;
- 21) Passing resolutions on establishment of committees in the Supervisory Council Board or the Management Board for working on specific issues. Working procedure and competence of the committees shall be determined by the Supervisory Council Board while establishing such committees;
- 22) approval, within its competence, of regulations, applicable to the issues related to the activity of the Bank;
- 23) adoption of decision on cancellation of the shares or on sale of shares previously repurchased by the Bank;
- 24) adoption of decision on repurchase of other securities placed by the Bank, excluding shares;
- 25) approval of market price of property in cases stipulated by the legislation and these Articles of Association;
- 26) defining the date of drawing a list of persons who have the right to receive dividends, procedure and terms of payment of dividends according to the effective legislation;
- 27) solving issues, defined by legislation in case of merger, takeover, split-off, separation or transformation of the Bank;
- 28) adoption of decision on significant agreements in cases defined by legislation and these Articles of association;
- 29) defining probability of recognition of Bank's insolvency caused by undertaking obligations or fulfilling them, including payment of dividends or repurchase of shares;
- 30) adoption of decision on choosing the appraiser of the Bank's property and approval of the terms of the contract, defining the amount to be paid for the services of the appraiser;
- 31) adoption of decision on election (change) of registrar of the owners of registered securities of the Bank or depository of securities and approval of the terms of the contract to be signed, defining the amount to be paid for the provided services;

32) sending, in accordance with the procedure defined by the legislation, of proposals to the shareholders regarding purchase by person (or persons dealing together) of a significant holding of shares;

33) Resolution of any other matters delegated by General Meetings to the Supervisory Board's terms of reference.

Management Board of the Bank shall be an executive board of the Bank and shall manage everyday business of the Bank, formation of funds required to perform business of the Bank as provided for in these Articles of Association, and shall be responsible for efficiency of its business in conformity with principles and procedures to be established by the Bank's Articles of Association, resolutions of General Meetings and Supervisory Board of the Bank.

Management Board of the Bank shall be elected by the Bank's Supervisory Board and shall consist of Chairperson, Chairperson's deputies and members of the Management Board, including an employee of the Bank responsible for financial monitoring of the Bank's employees, whose candidacy was approved by the National Bank of Ukraine.

Management Board of the Bank shall be entitled:

- to consider and approve reports on activities of organizational units in the Bank;
- to consider and resolve any other matters submitted for consideration by Chairperson of the Management Board or his/her deputies, members of the Management Board, except for the powers in exclusive terms of reference of General Meetings and Supervisory Board of the Bank;
- to attend General Meetings with the right of an advisory vote through representatives of the Management Board such as its Chairperson or any other member of the Management Board;
- to approve "The Book of Authorized Signatures" defining limits, competences and authorities of the relevant functions and employees of the Bank;
- to administer property and funds of the Bank.

Chairperson of the Bank's Management Board manages the whole activity of the Bank, takes personal responsibility for the Bank's tasks, appears as a representative of the Bank and act on behalf of the Bank before all or any organizations as inside Ukraine, so abroad, signs agreements and other financial and property obligations on behalf of the Bank, issues powers of attorneys for representation, conclusion of agreements and other acts, submits for consideration and approval of the Bank's Supervisory Board draft prospective and yearly credit, foreign currency and other plans of the Bank, plans of income, loss and profit of the Bank, appoints managers and employees of the Bank not in the competence of the Supervisory Board, arrange the work of the Management Board. Additional powers of Chairperson of the Management Board are defined by the Articles of Association.

The units formed along the business directions of the Bank are reporting to the Chairperson of the Board. Such units comprise the relevant departments further divided in divisions, groups, teams, etc. In general, the organisational conforms to the internal standards of Intesa SanPaolo S.p.A.

The financial and economic activity of the Bank is verified by the Audit Committee.

The Audit Committee:

- 1) ensures Bank's compliance with applicable Ukrainian laws and regulatory acts of the National Bank of Ukraine;
- 2) considers reports of internal and external auditors and prepares relevant proposals to the General Shareholders' Meeting;
- 3) submits to consideration of the General Shareholders' Meeting or Supervisory Board the proposals regarding any issues within the scope of its competence related to financial security and steadiness of the Bank and protection of customers' interests.

The Internal Audit Department of the Bank is the ongoing control and supervision body of the Supervisory Board of the Bank.

The following Committees have been formed and functioning in the Bank in compliance with the requirements set forth in the currently effective applicable Ukrainian laws and International Subsidiary Bank Management Guidelines of Intesa SanPaolo S.p.A.:

- the Credit Committee which is the supreme body in charge of loan related issues within the scope determined by the Supervisory Board;
- the Assets and Liabilities Management Committee which is mainly focused on the protection and securing of the Bank's equity capital and allocation thereof, congruence of the assets and liabilities of the Bank, taking into consideration the price structure and redemption profile according to the applicable laws or relevant Internal Regulations, and instructions of the Parent Company;
- the Tariff Committee designated to analyse the correspondence between the cost of services offered and competitiveness of the current tariffs and rates, and being in charge of the Operating Profit Policy (that is, the service pricing policy) of the Bank;
- the AML Committee.

In order to provide optimum organization and effective corporate governance "PRAVEX-BANK" PJSCCB developed corporate culture in line with the following main factors:

- High quality of relations with clients;
- Motivation of employees' professional development;
- The responsibility of the management;
- Complete conformity with acting Ukrainian legislation and other normative legal acts;
- Effective control under the Bank's processes;
- Qualitative / quantitative adequacy of personnel;
- Clear definition of organizational structure;
- Assets protection;
- Appropriate means of security.

**Chairman of the Management Board  
"PRAVEX-BANK" PJSCCB**

**S.V. Naumov**

**Chief Accountant  
"PRAVEX-BANK" PJSCCB**

**O.Yu. Kibets**

**16.03.2012**

Prepared by: T.I. Melnyk  
tel.: (044) 201-17-57



**Balance Sheet**  
**As of December 31<sup>st</sup>, 2011 (as at the end of the day)**  
**"PRAVEX-BANK" PJSCCB**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>ASSETS</b>				
1	Cash and cash equivalents	4	562 071	745 537
2	Funds in other banks	5	137 080	-
3	Due from customers	6	4 175 407	3 983 656
4	Available-for-sale securities	7	1 113	39 680
5	Held-to-maturity securities	8	-	108 788
6	Accounts receivable on current profit tax		1 557	2 430
7	Deferred tax asset	27	175 748	186 854
8	Fixed assets and intangible assets	10	608 580	498 218
9	Other financial assets	11	83 784	39 484
10	Other assets	12	64 075	25 782
11	Long-term assets held-for-sale and disposed assets	13	3 807	-
<b>12</b>	<b>Total assets</b>		<b>5 813 222</b>	<b>5 630 429</b>
<b>LIABILITIES AND EQUITY</b>				
13	Due to banks	14	1 210 896	1 604 907
14	Due to customers	15	3 169 105	2 834 422
15	Debt securities issued by the bank	16	1	1
16	Provisions for liabilities	17, 33	2 145	1 127
17	Other financial liabilities	18	167 517	154 881
18	Other liabilities	19	71 851	52 765
19	Subordinated debt	20	123 718	116 721
<b>20</b>	<b>Total liabilities</b>		<b>4 745 233</b>	<b>4 764 824</b>
<b>EQUITY</b>				
21	Authorized capital	21	1 232 678	906 413
22	Retained earnings (uncovered loss)		(407 878)	(284 121)
23	Reserve and other funds of the Bank	22	243 189	243 313
<b>24</b>	<b>Total equity capital</b>		<b>1 067 989</b>	<b>865 605</b>
<b>25</b>	<b>Total liabilities</b>		<b>5 813 222</b>	<b>5 630 429</b>

**Chairman of the Management Board**  
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**16.03.2012**

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**Income Statement**  
**as of December 31<sup>st</sup>, 2011 (as at the end of the day)**  
**“PRAVEX-BANK” PJSCCB**

(UAH ths)

<b>Line</b>	<b>Item Description</b>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Net interest income		434 948	234 234
1.1	Interest income	23	705 298	687 050
1.2	Interest expenses	23	(270 350)	(452 816)
2	Net commission income		241 627	235 887
2.1	Commission income	24	258 607	251 138
2.2	Commission expenses	24	(16 980)	(15 251)
3	Profit from foreign currency trading		52 504	40 376
4	Loss from initial recognition of financial assets at off-market rate	6	(2 433)	(96)
5	Loss (profit) from initial recognition of financial liabilities at off-market rate	14, 15	(189)	2 273
6	Result from foreign currency revaluation		56	(1 747)
7	Loan-loss provisions	4, 5,6	(119 167)	(173 108)
8	Result from sale of available-for-sale securities	7	198	(75)
9	Provisions for liabilities	17	(2 192)	1 966
10	Other operating incomes	25	14 327	13 891
11	Administrative and other operating costs	26	(732 035)	(611 529)
12	Loss before tax		(112 356)	(257 928)
13	Expenses for profit tax	27	(11 627)	(15 225)
14	Loss after tax		(123 983)	(273 153)
15	Net loss		(123 983)	(273 153)
16	Net loss per an ordinary share	28	(0,08)	(0.18)
17	Adjusted net loss for one ordinary share	28	(0,08)	(0.18)

**Chairman of the Management Board**  
**“PRAVEX-BANK” PJSCCB**

**S.V. Naumov**

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**O.Yu. Kibets**

**16.03.2012**

Prepared by: T.I. Melnyk  
tel.: (044) 201-17-57

**Cash flow statement for 2011**  
**At the end of the day as of December 31<sup>st</sup>, 2011**  
**“PRAVEX-BANK” PJSCCB**  
**(indirect method)**

(UAH ths)

Line	Item Description	Notes	2011	2010
1	2	3	4	5
	Cash from operating activity:			
1	Net loss for year		(123 983)	(273 153)
	<b>Adjustments for net loss with cash flows from transaction:</b>			
2	Depreciation of fixed assets and intangible assets	10	53 920	46 460
3	Net increase of provisions		131 885	172 966
4	Accrued income		(24 257)	94 125
5	Accrued expenses		4 598	(48 804)
6	Accrued and deferred tax	27	11 627	12 606
7	Loss from intangible assets and fixed assets disposal	26	980	1 530
8	Amortization of discount and premium of financial instruments		(1 809)	(4 121)
9	Flow of funds other than cash		256 100	49 325
10	Net cash profit before change of operating assets and liabilities		309 061	50 934
	<b>Changes in operating assets and liabilities:</b>			
11	Net increase in due from banks		(137 946)	-
12	Net increase in due from customers		(551 277)	(12 864)
13	Net (increase)/ decrease in other financial assets		(46 589)	38 723
14	Net increase in other assets		(27 231)	(4 347)
15	Net decrease/ (increase) in mandatory reserves		42 485	(12 581)
16	Net (decrease)/increase in due to banks		(399 911)	8 146
17	Net increase/(decrease ) in due to customers		337 887	(1 477 707)
18	Net increase/(decrease ) other financial liabilities		21 801	(29 564)
19	Net decrease/(increase) in provisions for liabilities and charges and other liabilities		(707)	8 638
20	Net cash inflows (outflows from operating activity)/from operating activity		(761 488)	(1 481 556)
	<b>Cash flows from investment activities:</b>			
21	Purchase of available-for-sale securities	7	(681 947)	(127 923)
22	Income from sale of available-for-sale securities	7	718 307	89 300
23	Purchase of held-to-maturity securities	8	(400 000)	(9 358 799)
24	Income from HTM securities redemption	8	510 000	9 456 000
25	Purchase of fixed assets		(18 930)	(46 144)
26	Disposal of investment property		-	1 359
27	Purchase of intangible assets		(131 167)	(38 710)

(UAH ths)

<b>Line</b>	<b>Item Description</b>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
28	Net cash inflows from investment activity		(3 737)	(24 917)
	<b>Cash flows from financial activity:</b>			
29	Issue profit/loss	21	294 726	-
30	Issue of common stock	21	31 539	-
31	Net cash inflows from financial activity		326 265	-
32	Effect of changes in foreign exchange rate on cash and cash equivalents		(11 040)	(30 113)
33	Effect of changes in provisions on cash and cash equivalents		(42)	50
34	Net (outflow)/inflow of cash and cash equivalents		(140 981)	(1 485 602)
35	Cash and cash equivalents at the beginning of the year		641 736	2 127 338
36	Cash and cash equivalents at the end of the year	4	500 755	641 736

**Chairman of the Management Board**  
**“PRAVEX-BANK” PJSCCB**

**S.V. Naumov**

**Chief Accountant**  
**“PRAVEX-BANK” PJSCCB**

**O.Yu. Kibets**

**16.03.2012**

Prepared by: T.I. Melnyk  
tel.: (044) 201-17-57

**Statement of Changes in Equity**  
**As at day end of December 31<sup>st</sup>, 2011**  
**PRAVEX-BANK” PJSCCB**

(UAH ths)

Line	Item Description	Notes	Belongs to the parent bank shareholders				Total equity capital
			Authorized capital	Reserve and other funds of the bank (Note 21)	Retained earnings	Revaluation result	
1	2	3	4	5	6	7	8
1	Balance as at day end of January 1 <sup>st</sup> , 2010, including changes in Accounting Policy		1 562 294	20 761	(686 891)	182 842	1 079 006
2	Decrease in par value of shares		(655 881)	655 881	-	-	-
3	Realized revaluation result	22	-	-	614	(614)	-
4	Allocation of profit to provisions and other funds	22	-	70 571	(70 571)	-	-
5	Cover for losses of past years	22	-	(745 880)	745 880	-	-
6	Aggregate losses for Y2010		-	-	(273 153)	59 752	(213 401)
7	Balance as at day end of December 31 <sup>st</sup> , 2010		906 413	1 333	(284 121)	241 980	865 605
8	Realized revaluation result	22	-	-	226	(170)	56
9	Aggregate losses for Y2011	21	-	-	(123 983)	46	(123 937)
10	Issue profit/loss	21	294 726	-	-	-	294 726
12	Issue of common stock		31 539	-	-	-	31 539
12	Balance as at day end of December 31 <sup>st</sup> , 2011		1 232 678	1 333	(407 878)	241 856	1 067 989

As of 31<sup>st</sup> of December, 2011, there is no balance at ledger 3630 “Dues to unregistered otaleded capital”

As of 31<sup>st</sup> of December, 2011, ledger 503, 504 contain accrued income, amounting to UAH 279 861 thousand and accrued losses, amounting to UAH 116 875 thousand.

**Chairman of the Management Board**  
**“PRAVEX-BANK” PJSCCB**

**Chief accountant**  
**“PRAVEX-BANK” PJSCCB**

Prepared by: T.I. Melnyk  
tel.: 201-17-57

**S.V. Naumov**

**O.Yu. Kibets**

**16.03.2012**

**Statement of comprehensive income and losses**  
**At the end of the day as of 31<sup>st</sup> December 2011**  
**“PRAVEX-BANK” PJSCCB**

(UAH ths)

<b>Line</b>	<b>Item Description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Net loss	(123 983)	(273 153)
2	Other comprehensive income/loss	46	59 752
2.1	Property revaluation	-	131
2.2	Tax effect of property revaluation	(2)	(56)
2.3	Fiscal impact of revaluation recognized in equity	48	59 677
<b>3</b>	<b>Total comprehensive loss</b>	<b>(123 937)</b>	<b>(213 401)</b>

**Chairman of the Management Board**  
**“PRAVEX-BANK” PJSCCB**

**S.V. Naumov**

**Chief Accountant**  
**“PRAVEX-BANK” PJSCCB**

**O.Yu. Kibets**

**16.03.2012**

Prepared by: Melnyk T.I.

tel.: 201-17-57

## **Notes to the financial statements (in UAH thousand)**

### **Note 1. Accounting policy of “PRAVEX-BANK” PJSCCB for Y2011**

#### **83.6. Main activity**

„PRAVEX-BANK” PJSCCB (hereinafter referred to as – “the Bank”) is credit and financial institution, which ensures the full package of banking services. The main direction of activity and development of the Bank is building of competitive multifield universal business, oriented both on individuals, representatives of small and medium business, and also on servicing of large companies.

The Bank in its activity is governed by the Law of Ukraine “On banks and banking activity”, as well as the Law of Ukraine “On joint-stock companies”, Law of Ukraine “On securities and stock exchange” and other legislative acts of Ukraine and regulatory acts of the National bank of Ukraine.

The Bank has a status of a bank with foreign capital.

As of December 31, 2011 the branch network of the Bank counts 369 branches, which are subordinate to 6 regional centers (compared to 435 branches as at December 31, 2010).

Total number of employees of the Bank as of December 31, 2011 made up 4 521 people (compared to 5 195 as at December 31, 2010).

#### **1.2. Basics of accounting policy and accounting drawing up**

The basics of regulations of the Bank’s accounting policy are requirements of valid legislation of Ukraine, regulatory acts, which regulate accounting in Ukraine, regulatory acts of the National Bank of Ukraine (hereinafter referred to as – “the NBU”); the Ukrainian Law “On accounting and financial reporting in Ukraine”; national provisions (standards) of accounting (hereinafter referred to as – NAS); International Accounting Standards (hereinafter referred to as – IAS), Plan of accounting of the banks of Ukraine, approved by the Regulation of the Management Board of the NBU No. 280 as of June 17, 2004. The rules for preparation of statistical reporting to be submitted to the National Bank of Ukraine are approved by NBU Regulation No. 124 dd. March 19, 2003; The Regulation on accounting and reporting in Ukrainian banks approved by NBU Regulation No. 556 dd. December 30, 1998.

Accounting policy of the Bank defines and establishes for all the organizational units (departments, offices, etc.) of the Bank the unified procedure of accounting of operations, performed by the Bank, unified interpretation and understanding of principles of timely and correct recognizing of banking operations for drawing up and submission of financial statements.

Accounting policy of the Bank includes the fundamental principles of accounting, in compliance with which the financial reports are drawn up, namely: complete elucidation, substance over form basis, autonomy, prudence, going concern, accrual basis, succession of rules of accounting, unified units of measurement.

Information on recognition and appraisal criteria for assets and liabilities is set forth in other sections of the present Note.

The financial statements are prepared based on the historical (initial) cost assessment approach, except for certain items described in the following chapters of this Note. For example, available for sale securities, investment property etc.

Financial statements are prepared in the national currency (UAH). Re-calculation of items of assets and liabilities, which are registered in foreign currency, recalculated according to the official exchange rate of the NBU as of the reporting date. The unit of measure used in financial statements is thousand hryvnias.

#### **1.3. Initial recognition of financial instruments**

Financial instrument is a contract that results in simultaneous establishment (increase) of financial asset of one party and financial liability or own capital instrument of the other.

The Bank recognizes financial asset or liability in accounting in case if the Bank is a party of the contract.

During the initial recognition of financial instrument (financial asset or financial liability) the Bank assesses the provided (received) financial instruments at fair value.

The fair value of financial instrument is defined by the Bank through discounting all expected future cash flows using market interest rate for the similar (in terms of currency, sum, type, term) financial instrument.

Transaction costs, which are directly related to recognition of financial instrument, namely – commission paid to agents, consultants, brokers, dealers, fees to regulatory bodies, stock exchanges and other, are included in the amount of discount (bonus) as regards this financial instrument. The Bank amortizes discount/premium during the validity of a financial instrument, applying effective interest rate no less than once a month (apart from financial instruments in its trading portfolio); the discount/premium is to be totally amortized as of the date of redemption/return of financial instrument.

If during the initial recognition the Bank defines cost of the allocated (given) financial instrument at an interest rate:

- higher than market one, then in accounting it instantly recognizes profit in correspondence with premium accounts;
- lower than market one, then in accounting it instantly recognizes loss in correspondence with discount accounts.

If during initial recognition the Bank defines cost of the raised (received) financial instrument at an interest rate:

- higher than market one, then in accounting it instantly recognizes loss in correspondence with premium accounts;
- lower than market one, then in accounting it instantly recognizes profit in correspondence with discount accounts.

Profit and loss are recognized for the amount of difference between fair value of financial instrument and par value.

The Bank performs operations with financial instruments:

- HTM investments;
- payables and receivables;
- available-for-sale assets;
- financial liabilities.

#### **1.4. Loans to customers**

After the initial recognition the Bank performs assessment of loans upon amortized cost with application of effective interest rate during accrual of interest and amortization of discount/premium.

For the purpose of calculation of effective interest rate the Bank defines flows of funds taking into account all the conditions of agreement with financial instrument, including all commissions and other amounts, paid or received by the parties, which represent integral part of income/expenses of financial instrument, separately for every product and according to valid technologic charts of operations conducting with breakdown into products. If there is no possibility to perform reliable evaluation of cash flows or expected maturity date of financial instrument (overdraft loans and others), the effective interest rate is not applied to such credits.

Due to lack of sufficient data base (in particular: market rates as at the date of financial instrument recognition, change in repayment schedules, etc.), an effective interest rate shall not be applied to financial instruments, which occurred before 01.01.2009.



Analysis of credit exposure in terms of financial instruments impairment is performed on a monthly basis. Volumes of loans impairment are defined by loan-loss provisions. Loan-loss provisions were created according to Regulation on procedure of creation and use of loan-loss allowance of banks approved by NBU Resolution No. 279, dd. July 6, 2000.

Aiming to calculate provisions and to define credit risk category, the Bank analyses credit portfolio under the following criteria:

- assessment of the Borrower's financial standing;
- status of loan servicing by the Borrower;
- loan coverage ratio.

Loan-loss provisions created are used for redemption of bad debts principal. Bad debts write-off out of created provisions is performed according to Decision of the Bank's Management Board. Writing off bad debts principal and interests accrued is performed based on Decision of the Bank's Management Board out of provisions for substandard loans after recognizing them as bad ones.

At the stage of initial recognition the Bank records guarantees and avals granted as its obligations at their fair value, which is equal to the amount of commissions obtained by the guarantor. Contingent liabilities on guaranties, avals and letters of credit are kept on off-balance sheet accounts.

### **1.5. Available-for-sale securities**

Shares, securities with non-fixed profit and debt securities can be registered in available-for-sale portfolio.

At the stage of initial recognition securities available-for-sale shall be evaluated at their fair value.

As of the balance-sheet date the securities in the Bank's available-for-sale portfolio are recognized as follows:

- at fair value;
- at prime cost including partial write-off as a result of impairment (shares and other securities with non-fixed profit, fair value of which can't be defined authentically).

Securities in the Bank's available-for-sale portfolio registered at fair value are subject to reevaluation with mandatory recognition as of the balance-sheet date considering the results in the Bank's equity.

Securities in the Bank's available-for-sale portfolio as of the balance-sheet date are subject to reconsideration for reduction of usefulness, except for shares of stock exchanges and depositaries, issued by central executive authorities and the National bank.

Securities impairment is recognized in case of economic benefit loss in the amount of exceeding of book value of securities by the amount of expected reimbursement.

The value defined at the securities quotation price of a buyer (bid price) according to data of promulgated listing securities quotations at stock-exchanges as of the moment of closing of last exchange day of reporting month, is taken in order to calculate provisions for securities in the Bank's available-for-sale portfolio, which are recorded in the exchange register.

In case of absence of such quotations as of the indicated date, the fair value of security included in the exchange register is defined based on its last exchange rate defined following the results of exchange auction, which took place during last 5 business days of reporting month.

During calculation of provisions for indicated securities the following measures are taken:

- current fair value of security is defined according to data of promulgated quotations of securities at stock-exchanges;
- the accrual of interests, amortization of discount/premium, calculation of dividends is performed in case of necessity;
- the difference between current fair value, defined according to the second paragraph of this item, and book value, adjusted in compliance with the third paragraph of this item, is calculated, and revaluation of securities by the amount of such difference is performed ;

– reconsideration of all the available information about security and its issuer is performed with the purpose of finding security risk and the corresponding opinion is made as regards presence or absence of such risk or as regards renewal of security impairment.

Provisions allocations are recognized as expenses of the reporting period.

While recognizing the impairment of utility of available-for-sale securities (accounted for at their fair value), the amount of write-down of certain securities accumulated in the capital shall be deducted from the capital and is recognized as expenses of the reporting period.

Transferring of available-for-sale securities to held-to-maturity portfolio was not performed in 2011.

Securities, which are object of repo operations, are not kept in available-for-sale portfolio.

### **1.6. Held-to-maturity securities**

Acquired securities with fixed payments, which can be defined, and also ones with the fixed repayment period are registered in held-to-maturity portfolio. Debt securities can be put into held-to-maturity portfolio, if the Bank intends and is able to receive them before repayment period with the purpose of earning interest income.

Initially the Bank does not recognize held-to-maturity securities, if:

- 1) it has no financial resources for financing them;
- 2) the Bank sold significant amount of investments as compared to total amount of held-to-maturity investments before maturity date during one or two previous reporting financial years;
- 3) there is legal or other constraint, which can prevent the Bank from holding the securities to maturity.

Debt securities in held-to-maturity portfolio are registered on amortized prime cost applying the effective interest rate. Expenses related to debt securities acquisition increase (reduce) amount of premium (discount) as of date of their acquisition.

As of the balance-sheet date the Bank constantly estimates its intention and ability to hold securities to maturity.

Interest income on held-to-maturity securities were recognized with using effective interest rate.

The utility of held-to-maturity securities can be diminished at least once a month (as of the balance-sheet date) based on analysis of expected cash flow.

Impairment of held-to-maturity securities is recognized in accounting by creating provisions for amount of exceed in book value of securities over current value of future cash flows discounted under initial effective interest rate (i.e., under effective interest rate calculated during initial recognition).

Transferring of securities from held-to-maturity portfolio to available-for-sale one was not performed in 2011.

### **1.7. Investment property**

Investment property is real estate (land or premises or part of building, or their combination), held by the Bank as owner or lease holder according to financial leasing (rent) agreement with the purpose of obtaining lease (rent) payments or increase in cost of capital or to obtain both purposes.

The objects of investment property include:

- land held with purpose of benefiting from capital increase in long-term , and not for sale in short term in the course of activity;
- land, further use of which is not defined by now;
- premises owned by the Bank, or is at its disposal under agreement on financial leasing (rent) and is leased (rented) under one or several agreements on operating lease (rent);

- premises not yet occupied by the Bank at this moment and is assigned for lease (rent) under one or several agreements on operating lease (rent).

If the Bank acquires the property right for land plots and premises by way of exercise of pledge holder's rights, as to which the intention of further use is not clearly defined, then such assets are classified as investment property.

The Bank neither classifies nor registers real estate as investment property received by the Bank in operating lease (rent) and as to which the Bank transferred the right to sublease.

One and the same real estate item can be split into structurally separated parts used with different purposes: first part – for obtaining income from rent or increase of capital, other – for use in process of the Bank's activity or for administrative purposes.

Such parts of real estate units are separately recorded in accounting, if they can be sold separately.

If not, then such units are recognized as investment property under condition that not more than 20% of object's total area is hold by the Bank for use in the course of its activity or for administrative purposes.

Transferring of real estate unit to "investment property" category and vice versa is performed only in case of change of its functional use confirmed by the following events:

- start of real estate occupation by the Bank – in case of transferring from investment property to real estate occupied by the Bank;
- expiry of the date of real estate occupation by the Bank – in case of transferring from real estate occupied by the Bank to investment property;
- completion of building or site development – in case of transferring from real estate under construction or site development to investment property.

Real estate occupied by owner, - real estate held by the Bank, as owner, or leaseholder according to agreement on financial leasing (rent) for services rendering or with administrative purposes.

Investment property is recognized at its fair value, including transaction costs. Once the initial recognition of investment property item is done, the Bank performs its further assessment applying fair value method, recognizing fair value changes in its profit or loss.

Aiming to define a fair value of investment property item as at the balance-sheet date the Bank conducts an independent expert evaluation.

The Bank ceases to recognize in its balance-sheet an investment property object during its retirement as a result of sale or transferring to financial leasing (rent), or if receiving of any economic benefits is not expected anymore.

## **1.8. Fixed assets**

Fixed assets are tangible assets kept by the Bank with the purpose of their further usage or services rendering, leasing (renting) them out to other persons, or performing administrative and social and cultural functions, the expected useful (operating) life of which exceeds one year (or exceeds operating cycle if it is longer than one year).

Initially fixed assets are recognized at their actual cost that includes actual costs of acquisition and bringing them to the usable condition.

After initial recognition of fixed assets objects as assets, except for real estate items of the Bank, they are further accounted for based on *initial value* method. The objects being further accounted for based on initial value method are not subject to revaluation.

Real estate items of the Bank are accounted for based on *revaluated price* method. The Bank performs revaluation of its real estate item accounted for in the balance-sheet at revaluated price in case if residual value of such item significantly differs from its fair value as of the balance-sheet date. In case of real estate item revaluation, revaluation of all real estate items of the Bank is performed on the same date.

Aiming to define fair value of real estate items as at the balance-sheet date, the Bank conducts an independent expert evaluation. It is mandatory to carry out the independent evaluation of own real estate by an independent evaluator prior to compilation of annual report as at reporting year end.

Revaluation of fixed assets group, objects of which were revaluated in previous periods, thereafter is performed with such regularity that their residual value on the balance sheet date wouldn't be significantly different from the fair value. If the residual value of a fixed asset deviates at least at 10 percent from its fair value, such deviation is considered to be significant.

As of December 31, 2011 the independent certified evaluating company "VERITEX" LLC with FI, based on results of annual estimate of market price of both large and small real estate (in those regions of Ukraine where the real estate items of "PRAVEX-BANK" PJSCCB are located), has declared that changes in price of commercial property are within +5% to -10% margins, which may testify definite stabilization of real estate market of Ukraine. Basing on above mentioned conclusions of "VERITEX" LLC with FI, on November 4, 2011 Supervisory Board of "PRAVEX-BANK" PJSCCB decided not to perform revaluation of real estate.

Verification of compliance of residual value of fixed assets with fair value is conducted in order to determine the necessity of revaluation to be conducted before preparation of annual report as of December 31 of the reporting year.

In case of need, revision and revaluation of real estate items is performed during the year.

While recognizing the revaluation results, the accumulated depreciation of an asset is deducted from its initial (revaluated) cost, and its book value (calculated on a net basis) shall be reconciled with its fair value. This approach envisages that revalued price of the asset is equal to its fair value, and the accumulated depreciation is zero.

Accounting of expenses, related to improvement of fixed assets is performed on capital investments accounts.

The Bank has set the following depreciation periods on the basis of the following useful life periods for certain types of fixed assets:

<b>Name</b>	<b>Useful life, years</b>	<b>Monthly depreciation rate</b>
Buildings, facilities	66	0,13%
Cars and equipment	5-10	0,83%-1,67%
Vehicles	10-20	0,42%-0,83%
Instruments, devices, stock (furniture)	3-10	0,83%-2,78%
Other fixed assets	2-10	0,56%-4,17%

Fixed assets are depreciated on a straight-line basis. During 2011 the Bank didn't change the method of fixed assets depreciation charge.

Value of all intangible assets is a subject to depreciation (except land and construction in progress).

Depreciation is not charged if the book value of non-current assets is equal to their residual value.

Depreciation is not charged on fixed assets objects which are antiques items.

Depreciation of non-current assets is not suspended in periods of their renovation, modernization, construction finalization, further equipment and conservation.

The period of depreciation of operating lease enhancement is equal to the period that begins from the month next to the one, when such enhancement ceases to exist, and till the last month of lease agreement validity.

Depreciation charge is discontinued on the earlier of two dates:

- on the date of assets transfer to the category of non-current assets held for sale;
- on the date of assets recognition cessation.

Depreciation is not charged to non-current assets held for sale.

Useful life and depreciation rate shall be re-considered at the end of each year. The useful life of fixed assets was re-considered at the beginning of 2011. As the result of re-consideration the useful life of the real estate (buildings, constructions) was established as of 66 years (75 years – in 2010).

The Bank does not have any fixed assets pledged.

Fixed assets cease to be recognized as assets in case of their disposal through sale, free of charge transfer, loss, liquidation etc.

At the end of 2011 there was no evidence of probable variation in the value of the fixed assets; that is why no changes in the book value of the fixed assets was recognized. **1.9. Intangible assets**

Intangible assets of the Bank refer to licenses for programs use, purchased software, trademarks for goods, services, etc.

Purchased intangible assets are accounted at their initial value (historical/actual prime cost), which is made up of actual expenses for purchase and their bringing to condition which is appropriate for use.

Further accounting for intangible assets is performed at initial value (prime cost) taking into account accumulated depreciation and accumulated losses from usefulness decrease.

Change of initial value is allowed only in cases of expenses for intangible assets development that results in increase of future economic benefit.

Depreciation is charged on a straight-line basis. During 2011 the Bank did not change depreciation charge method.

Useful life of software and software licenses is set by Head of IT Division and approved by management of the Bank. Review of useful life of intangible assets is performed in case of a justified economic need and at the end of the year.

Useful life of intangible assets and monthly depreciation rates for main categories of intangible assets are determined as follows:

<b>Intangible asset name</b>	<b>Periods (month)</b>	<b>Rate, %</b>
Program complexes and software	from 12 to 84	from 1.19 to 16.67
Licenses for software	from 12 to 84	from 1.67 to 16.67
Trademarks for goods and services	from 107 to 117	from 0.83 to 0.93
Rights for rent	from 12 to 24	from 4.17 to 10
Rights for program complexes use	from 12 to 24	from 1.19 to 16.67

Depreciation is charged on a monthly basis according to standards calculated in compliance with useful life of each intangible asset. The useful life and depreciation rate of intangible assets are re-considered at the end of each year. Useful life and depreciation standards of intangible assets have not incurred any changes in 2011.

Intangible assets cease to be recorded as assets in case of their disposal resulted from sale, free of charge transfer, loss or failure to meet criteria established for assets.

The costs related to intangible assets improvement are recorded on capital investments accounts.

Non-current assets not classified as available-for-sale any more are to be re-classified as held for use starting since the date, when the Bank takes the decision not to sell them.

## **1.10. Non-current assets held for sale**

The Bank classifies non-current assets as the ones held for sale if their book value will be compensated via sale, but not current use operation.

Non-current assets are classified as the ones held for sale if on the date of the decision making regarding classifying them as assets held for sale, the following conditions are met: the current state of assets makes it possible to perform their immediate sale and there is a high probability of their sale during one year following the classification date.

Before initial classification of held-for-sale assets the Bank evaluates book value of the assets:

a) if non-current assets are accounted at their initial value (prime cost), the Bank will review them in terms of useful life reduction

b) if non-current assets are accounted at their revaluated value (fair value), the Bank shall perform their revaluation.

Non-current assets held by the Bank for sale are evaluated and booked at the lowest of two values: book value or fair value net of sale expenses.

Depreciation is not charged to non-current assets held for sale.

The Bank recognizes losses from usefulness decrease in case of reduction in fair value of non-current assets, excluding sale expenses, and books them as “Administrative and other operational expenses”.

Non-current assets not classified as the ones held for sale anymore, starting from the date of making a decision regarding refusal from sale, are re-classified by the Bank as non-current assets available for use.

### **1.11. Operational lease (rent)**

Transfer of fixed assets to the operational lease (rent) is recorded at book value.

Leased out fixed assets of the Bank are appraised and recorded in its balance under the same criteria as for its other own fixed assets.

Depreciation period of improvement of operational leasing object equals to the period, which starts from the month, following the month of improvement completion and ends by the last month of rental agreement validity term.

Accounting for liabilities under operational leasing agreements is performed under off-balance accounts.

Leasing objects are fixed assets which support the Bank’s activity.

### **1.12. Income tax**

The Bank recognizes current profit tax as its commitments calculated for the reporting period, as per tax legislation of Ukraine. According to Article 10 of the Law of Ukraine “On corporate profit tax”, the profit tax rate for Q1 2011 is 25%. According to Chapter XX, section 4, par 10 of Tax Code of Ukraine, the profit tax rate for QII – QIV 2011 (as of the 12/31/2011 reporting date) is 23% .

Due to the fact that taxable income is calculated in compliance with Tax Law of Ukraine, and accounting reflects financial standing and results of the Bank’s performance, as per regulatory acts that govern accounting in Ukraine, diversities between income received based on fiscal accounting data and income received based on financial accounting have appeared.

Methodology of recognition of permanent and temporary differences, appeared between items in fiscal and financial accounting, is based on the requirements of the National Accounting Standard No.17, “Income tax”, “Instruction on the procedure of current and deferred tax assets and tax liabilities recognition in accounting Ukrainian banks”, approved by NBU Regulation No. 140, dd. March 17, 2009 and by internal Regulation on the deferred income tax “Instruction on the procedure of current and deferred tax assets and liabilities recognition in accounting”, approved by Order No. 79-A, dd. January 30, 2007 as amended.

To calculate the impact of temporary differences on income tax liabilities, the Bank conducts the following activities as of the reporting date:

- performs analysis of all the transactions, which caused temporary difference between balance and tax base of assets and liabilities;
- calculates all the deferred tax liabilities (DTL), having defined the fiscal impact of the taxable aggregate temporary difference, applying the corporate profit tax rate;
- calculates all the deferred tax assets (DTA), having defined the fiscal impact of the deductible aggregate temporary difference.

The Bank recognizes DTL (DTA), if reimbursement (repayment) of the book value of assets (liabilities) causes increase or decrease of future tax payments, compared to the ones that could be, if their reimbursement (repayment) did not have tax implications.

DTA and DTL are calculated based on tax rates to be applied during the period of realization or use of assets and repayment of liabilities.

The Bank recognizes deferred income tax as expenses, except for deferred income tax accrued as a result of operations recorded in the Statement of comprehensive income and losses (revaluation of fixed assets, available-for-sale securities etc.).

If needed, the Bank re-considers expenses for income tax as of the reporting date, taking into consideration previously recognized DTA and DTL.

As of December 31, 2011 the Bank recognized net deferred tax asset of UAH 175748 ths. (vs. UAH 186854 ths. In 2010).

The Bank didn't recognize temporary difference in taxes in amount of UAH 216 121 ths due to lack of tax income for refunding of deferred tax assets as of December 31, 2011. Unrecognized deferred tax assets amount to UAH 38 880 ths (for 2010 – UAH 41 643 ths)

Information as regards deferred tax assets and deferred tax liabilities of the Bank, as well as regarding adjustment of differences between income tax expenses and result of accounting income on tax rate, is provided in Note 27 "Income tax expenses".

### **1.13. Income and expenses**

Income and expenses accounting is based on the calculation method, that is, they are recognized in the period which they refer to. Calculation and adequacy principles are used within the prudence principle. In case of recognition of income (expenses) in the reporting period, the Bank shall be sure in this income receiving and shall be able to define the exact amount.

Income and expenses are accounted as accumulated total from the beginning of the year. Balances on income and expenses accounts are closed at the end of the year.

Income and expenses accounting is performed according to the Rules of Ukrainian Banks Income and Expenses Accounting, approved by the Resolution of the NBU No. 255, dated June 18, 2003.

Amendments to income and expenses of previous periods are introduced by adjusting postings.

Accounting of income and expenses in foreign currency and banking metals is performed by recalculation in Ukrainian currency against the NBU exchange rate as of the date of income or expense transaction. In case of accrual of income or expenses in foreign currency, accounting is performed according to the rate as of the date of calculation.

If the date of commission, interest income and expenses accrual and the date of their receipt coincide, then such income/expenses are recognized immediately on income/expenses accounts without preliminary recording on accrued income/expenses accounts.

The accrued interest income and charged commissions, in case they were not received in term envisaged by the contract, will transferred to the accounts of overdue income on the next day.

If the agreement does not specify the period when the customer must repay his loan granted by the Bank, then the debt is considered as overdue next business day after the date of accrual.

Income related to services rendered is defined based on the stage of works as of the balance-sheet date and when it is possible reliably to evaluate the result of those works.

Reliability of income assessment depends on the agreement, where cost of services and repayment schedule are set. Income from services, which can be rendered within several reporting periods under the agreement, is recognized depending on the stage of works completion.

In case services are provided in an unspecified number of actions (operations) within specified period of time, income is proportionally recorded during this period.

Income (expenses) from non-recurring services can be recognized w/o recording them on accrued income (expenses) accounts, in case they were obtained (paid) in the same reporting period, when the services had actually been rendered (received).

Interest income and expenses are calculated proportionally to time and asset (liabilities) amount, applying effective interest rate. Interests on financial instruments are accrued at nominal interest rate stipulated by agreement (issue), and is recognized on accounts of accrued income and expenses at 1, 2, 3 classes of Chart of accounts set for Ukrainian banks, approved by NBU Regulation No. 280 dd. June 17, 2004.

Terms of income/expenses accrual/payment (date of accrual, maturity date, scheme of defining number of days, calculation period etc.), as well as terms of Break Fee payment are defined by the agreement between the Bank and the Contractor.

Any differences occurred between amounts of recognized interest income (expenses) at effective interest rate and accrued income (expenses) at nominal interest rate on financial instruments purchased (provided, obtained) at face value (without discount or premium), are recognized on accounts of non-amortized discount (premium) in correspondence with accounts of interest income (expenses).

Commissions not included to cost of loan (for example, the one for cash and settlement servicing etc.), are recorded on the accounts of the commission income.

While calculating accrued interests, the following methods were used to define the number of days:

- for loans in national currency – “fact/fact” method;
- for loans, issued in freely convertible exchange – “fact/360” method;
- for other interest income and commission equivalents – “fact/fact” method;
- for average daily balance on current account – “fact/fact” method;
- for deposits (except for interbank deposits in foreign currency) – “fact/fact” method;
- for interbank deposits in foreign currency – “fact/360” method;
- for all abovementioned and other accrued interest – methods according to conditions, stipulated by agreements or internal Regulations.

Interest income, including discount (premium) amortization, applying the effective interest rate, is classified as available-for-sale debt securities.

Dividends from available-for-sale securities with undefined income shall be treated as income of the reporting period, when we own them.

Provisions for possible losses from active transactions and accrued income are created out of expenses.



#### **1.14. Foreign currency**

Assets and liabilities, income and expenses from foreign exchange and banking metal transactions are recorded in UAH equivalent at the official foreign exchange rates and banking metal rates at the date of recognition in accounting.

Income and expenses on operations with foreign currencies and banking metals are recognized in UAH equivalent at NBU rate as of the date of deal out of which the income was received or losses incurred. In case of accrual of income or expenses in foreign currency, they are accounted for at the rate as of the date of accrual.

In Balance Sheet assets and liabilities in foreign currency and banking metals are recognized against official exchange rate, set by the NBU at the reporting date. As of December 31, 2011 the NBU set the following rates:

- for USD 1 – UAH 7,989800;
- for EUR 1 – UAH 10,298053;
- for RUB 10 – UAH 2,4953;
- and others.

Revaluation of all FX balance accounts is performed upon each change of the NBU exchange rate via analytical account “Result from FX revaluation” of Income Statement.

The Bank records FX trading as profit/loss from foreign currency purchase, sale or exchange.

The management of the Bank follows a policy of effective risk management and minimization of risks of loss due to foreign exchange rate fluctuation (see more details in Note 31).

#### **1.15. Reporting by segments**

Segment shall be recorded separately, in case the major part of its profit is gained from banking activity outside the segment and, at the same time, indicators of its activity correspond to one of the following criteria:

- profit on segment amounts to 10% or more of total income (including banking activity within the segment)
- its financial result (income or loss) is not less than 10 % of the biggest one of two absolute values – total amount of income or total amount of all segments loss;
- assets amount to 10 % or more from total assets;

External income of all determined reporting segments must amount to not less than 75% of total income of the Bank or consolidated group. In case if combined income of recognized reporting segments is less than this level, then separation on supplementary segments is performed in order to reach the indicated income level, even if such supplementary segments won't comply with the abovementioned criteria (10% threshold).

If indicators of segment which was defined in the internal reporting, do not correspond to abovementioned criteria, then the segment can be recognized as reporting segment if it has general important meaning for the Bank and the information about it is a significant one.

The breakdown of income and expenses into the segments was conducted:

- for direct income/expenses from service-providing transaction – through analysis of income/expenses received from contractors on analytical accounts;
- for indirect income/expenses – in proportion to the quantity of clients of the segment.

Income from reporting segment is an income which is directly related to the segment and respective share of the Bank's income which can be referred to segment from external activity or from operations between other segments within one bank.

Expenses of reporting segment are expenses, connected with basic activity of the segment, which directly relate to it and respective share of expenses, which can be reasonably referred to the segment, including expenses from external activity and expenses connected with operations with other segments within one bank.

Expenses of a segment do not include expenses for profit tax or general administrative costs, Head Office expenses and other expenses which arise at the Bank's level and, in general, refer to the Bank.

There were no changes in Accounting Policy of segments during 2011. With the purpose to ensure reliable information, there were distinguished the following reporting segments:

- services to corporate clients (including legal entities and individual entrepreneurs)
- services to individuals;
- operations with securities;
- operations at interbank market;
- other operations.

The Bank performs its activity in one single geographical segment – Ukraine.

The main principle for intersegmental transactions pricing is recording of income and expenses of the reporting segments in the relevant correspondence centers of the Bank with further recording in the relevant segments in accordance with the analytical accounting applied by the Bank.

**Chairman of the Management Board**  
**“PRAVEX-BANK” PJSCCB**

**S.V. Naumov**

**Chief Accountant**  
**“PRAVEX-BANK” PJSCCB**

**O.Yu. Kibets**

**16.03.2012**

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## **Note 2. Economic environment of Bank activities**

The macroeconomic situation in Ukraine in 2011 is characterized by the following main aspects:

### **Increase in GDP growth**

The country's economy in 2011 continued its gradual recovery from the post-crisis of 2008-2009 and the country's GDP continued to grow. According to State committee of statistics GDP growth for 2011 was 5.2%, with similar indicator of 2010, 4.2%, and the fall of GDP in 2009 to 14.8%. The key driver of GDP growth in 2011 was agriculture and industrial production. The slowdown in GDP growth in the fourth quarter, under the impact of global financial turmoil and the decline in export decreased overall growth rate in 2011.

### **The growth of key industries**

Almost all sectors of the economy showed growth in 2011 outpacing the growth rate of the previous year. Thus, agriculture grew by 17.5%, construction activity by 11.1%, retail trade 14.7%, whereas in the past year most of them showed a fall. The similar results of the last were -1.5%, -5.4% and 7.6%, respectively.

Industry of Ukraine in 2011 also showed an increase (+ 7.3%), although it is lower than in 2010 (11.2%). The decrease of growth rate in 2011 was caused by decrease of the demand for domestic producers exported goods and a decrease in prices on export markets in the 4<sup>th</sup> quarter of this year (primarily due to the global financial turmoil). In general, almost all industries showed an increase: chemical and petrochemical industry 14.4%, metals 8.5%, machinery 16.9%, consumer industry 6.1%.

There has also been recorded an upgrade of the country's infrastructure associated with the preparation for Euro 2012.

### **Decrease of inflation**

The inflation rate in 2011 was 4.6%, a peak low figure for the last 9 years, which in terms of continued growth of the economy and the considerable pressure on the national currency registered during 2011, is a positive factor.

In 1H 2011 inflation was 5.9%. However, good yields and oversupply in the domestic food markets influenced the decrease of prices for fruits and vegetables which amid falling prices on world commodity markets has led to slower growth of domestic prices in the second half of 2011. As a result, in July and August the country registered deflation, and in October, November the inflation rate was 0% and 0.1% respectively.

### **The stability of national currency**

The monetary policy of the NBU had a great influence on the development of national economy in 2011. Despite the serious devaluation pressure, especially increased in the 4<sup>th</sup> quarter, the national currency has remained stable, and throughout 2011 there was no significant deviation of hryvna comparing with what was budgeted.

However, in order to neutralize the devaluation impact on hryvna, the NBU was actively withdrawing free hryvna liquidity from the market which significantly influenced on the cost of hryvna liquidity on the market. It is also a high demand for a foreign currency, primarily from individuals, forced the NBU to actively enter the market with currency interventions. As a result, foreign currency reserves of the country from its peak in August 2011 (more than \$ 38 billion) decreased by \$ 6.4 billion. In general, in 2011 NBU foreign currency reserves decreased by 8% (\$ 2.8 billion) and at the end of the year amounted to \$ 31.8 billion.

**The stability of the banking system and the fully recovering of public confidence in it.** During 2011 the banking system of Ukraine showed steady growth and reinforcement including consolidation of the banks. Although in the 4<sup>th</sup> quarter, under the influence of the European crisis, as

well as under intensified devaluation pressure, there were made substantial adjustments to the strategic priorities of the banks development.

○ Full recovering of confidence in the banking system and strong growth of customer deposits

The market situation for deposits during the year was characterized by a gradual restoration of depositors confidence in the banking system as a whole. This was proved by a steady increase of deposit funds in banks. The total deposit base growth in 2011 was 17.6% (UAH 73 billion) including growth of deposits from the individuals of 13% (UAH 36 billion) in 2011.

However, due to devaluation expectations of the citizens in the second half of the year there were some outflows of funds from individuals bank accounts (in September outflows were UAH -2.7 billion, in November – about -1.0 bln.), but the inflow of funds from the individuals in December fully covered the whole outflow (+ UAH 4.5 bln.).

○ The increase of loan portfolio

During 2011 banks continued to actively increase their loan portfolio. The the year-end increase of the loan portfolio was 10% ( in 2010 +1%). There were increased at a faster rate loans for the real economy (growth of the legal entities portfolio was + 14.9%), while the growth of the individuals portfolio in local currency was offset by decrease of FX loans (due to ban on issuing FX loans).

Slowing down / suspend lending in Q4 due to a significant decrease of liquidity at the market, and as a result of rising their costs, reduced final annual results of business activity of banks in lending.

Moreover, during 2011 the banks continued to work actively to improve the quality of their loan portfolio and to cope with the impact of the crisis in 2008 via active restructuring of non-performing loans of the individuals, increased collection activity including and with a help of external companies, as well as the sale / write-off of non-performing loans. As a result, the volume of non-performing loans for the year declined from UAH 85 billion to UAH 79 billion or 11% to 9.6% of the total loan portfolio.

○ Growth of the cost of funding with a slight narrowing of interest margins

In 2011 the cost of funding increased (220 b.p) due to the growth of hryvna funding rates while the cost of foreign currencies funding decreased. The increase of cost of funding was only partially compensated by the growth of interest on loans and therefore, margins have decreased.

○ Increase of capitalization level of the banking system

Banks continued to actively increase the share capital (+18% in whole banking system). However, due to the losses registered in 2011 and the increase of lending activity the adequacy level of the banking system decreased, although it remains at a high level of 18.9% (in 2010 – 20.8%).

○ Improving of the banking system profitability

As a result of 2011 the total loss of the banking system amounted to UAH 7.7 billion (compared with UAH 13 billion loss of 2010). However, despite the fact that the loss was by 41% lower than in 2010, the banking system during 2011 was not profitable because the banks were forced to continuously build reserves for credit risks thereby increasing their costs. In addition, 65% of the total loss amounted to the loss of two “state banks” – “Rodovid” and “Ukrgasbank”.

Thus, despite the fact that in 2011 processes of the economic crisis of 2008 continued and the crises was spread around the world affecting both developed countries and emerging markets, the Ukrainian economy has shown improvement.

The latest months have been characterized by the intensification of some factors that may have a negative impact on future development. The main of them are the following:

- devaluation expectations and the growth of negative trade balance reduced NBU reserves and created additional risks for the following year;

- there were not solved important for the country negotiations issues for obtaining a new IMF loan and reduce of tariffs for Russian gas;
- increase of the gap of the country's balance of payments (due to lower demand for exports and increased investments for EURO 2012);
- increased political risk in 2011;
- decrease of investment attractiveness of the country and decrease of financial investments;
- decrease of demand of the Ukrainian export on international markets.

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**Note 3. Transition to new and revised standards and interpretation which provide the framework for their application.**

In its accounting policy the Bank follows the accounting principles which are based on applicable laws of Ukraine, regulatory legal acts of the National Bank of Ukraine, as well as national accounting principles.

Since January 1<sup>st</sup>, 1998, the Bank has begun gradual implementing of International Financial Reporting Standards (hereinafter referred to as IFRS) in accounting and financial reporting for the National Bank of Ukraine, according to requirements of NBU regulations for accounting and reporting for the NBU.

Due to the fact that the requirements to accounting and reporting procedures for banking institutions of Ukraine and Ukrainian Accounting Standards in certain cases diverged from IFRS requirements, the Bank was preparing separate IFRS financial statements and financial statements in accordance with statutory requirements for financial reporting in Ukraine.

In the course of preparation of these financial statements the Bank has been governed by the Instruction on preparation and disclosure of the financial statements in the banks of Ukraine, approved by NBU Regulation No 480 dd. December 27, 2007.

In 2011 there were made some amendments to Law of Ukraine “On Banks and banking activities” regarding the specification of related parties list. Due to the above mentioned, the data related to transactions with related parties for 2010 disclosed in Note 35 were recalculated.

During the year and while preparing its financial statements the Bank applied all the new and revised standards and explanations issued by International Accounting Standards Board only in case such newly issued requirement of IFRS are envisaged in regulatory acts of the National Bank of Ukraine. It had no impact on the Bank’s financial standing and its performance.

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**Note 4. Cash and cash equivalents****Table 4.1. Cash and cash equivalents**

(UAH ths.)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Cash	332 368	341 837
2	Funds with the National Bank of Ukraine (except for the required reserves)	37 299	71 764
3	Funds of required reserves with the National Bank of Ukraine	26 647	-
4	Funds of compulsory provisions transferred to a separate account of NBU.	61 437	104 006
5	Correspondent accounts and “overnight” deposits with banks of:	104 448	228 016
5.1	Ukraine	1 073	463
5.2	Other countries	103 375	227 553
6	Impairment provision for cash	(128)	(86)
<b>7</b>	<b>Total cash and cash equivalents</b>	<b>562 071</b>	<b>745 537</b>

Item 1 of the Balance-sheet is disclosed in line 7, table 4.1.

Securities pledged as collateral and for repo transactions as of December 31, 2011 have not been used.

Balance of account 1200 «Correspondent account with the National Bank of Ukraine» as of December 31, 2011 made up UAH 63 946 ths. It is included into obligatory reserves on correspondent account with NBU and recorded in «Obligatory reserves in the National Bank of Ukraine» item, Note 4

Line 4 “Obligatory reserve with NBU” includes accrued income of UAH 121 ths (vs. UAH 206 ths for 2010)»

For the purposes of «Cash flow statement» obligatory reserves, kept on account 1203, amounting to UAH 61 316 ths (vs. UAH 103 801 ths for 2010) are not included into “Cash and cash equivalents” item.

Line 5 «Correspondent accounts and overnight deposits with other banks» includes accrued income of UAH 2 ths (vs. UAH 4 ths for 2010)».

Balance of account 1207 «Accumulative account at the National Bank of Ukraine», amounting to UAH 2 504 ths, is not included into “Cash and cash equivalents” item (for 2010 – UAH 68 ths), and is disclosed in “Other financial assets” item.

**Note 5. Funds in other banks****Table 5.1. Funds in other banks**

(UAH ths.)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loans, granted to other banks:	138 460	-
2.1	Short-term	138 460	-
2.2	Long-term	-	-
3	Impairment provisions for funds with other banks	(1 380)	-
<b>4</b>	<b>Total funds in banks net of provisions</b>	<b>137 080</b>	<b>-</b>

Item 2 of the Balance-sheet is disclosed in line 4, table 5.1.

**Table 5.2. Analysis of credit quality of funds in other banks for 2011**

(UAH, ths.)

<b>Line</b>	<b>Item description</b>	<b>Loans</b>	<b>Total</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Current and non-depreciated:	<b>138 460</b>	<b>138 460</b>
1.1	In top 20 banks	81 385	81 385
1.2	In other Ukrainian banks	57 075	57 075
1.3	In top banks of OECD countries	-	-
1.4	In other banks of OECD countries	-	-
1.5	In other banks	-	-
<b>Or alternative disclosure of information concerning funds in other banks with ratings:</b>			
1.1	with AAA rating	-	-
1.2	wirth AA- to AA+ rating	-	-
1.3	with A- to A+ rating	-	-
1.4	with lower than A- rating	-	-
1.5	Those, who don't have rating	-	-
2	Funds in banks, terms and conditions of which were reconsidered in reporting year	-	-
3	Total current and nondepreciated loans	138 460	138 460
4	Depreciated funds, been evaluated on individual basis:	-	-
4.1	with up to 31 days delay in payment	-	-
4.2	with 32 to 92 days delay in payment	-	-
4.3	with 93 to 183 days delay in payment	-	-
4.4	with 184 to 365 (366) days delay in payment	-	-
4.5	with more than 366 (367) days delay in payment	-	-
5	Other funds in other banks	-	-
6	Provision for depreciation of funds in other banks	(1 380)	(1 380)
<b>7</b>	<b>Total funds in other banks net of provisions</b>	<b>137 080</b>	<b>137 080</b>

**Table5.3. „Analysis of change in reserve for depreciation of funds in other banks”**

(UAH, ths.)

<b>Line</b>	<b>Reserves flow</b>	<b>2011</b>	<b>2010</b>
		<b>funds in other banks</b>	<b>funds in other banks</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>1</b>	<b>Impairment provisions as of January 1<sup>st</sup></b>	-	-
2	Increase in impairment provisions during a year	(1 381)	-
3	Translation differences in provisions	1	-
<b>4</b>	<b>Impairment provisions as of December 31<sup>st</sup> EOB</b>	<b>(1 380)</b>	<b>-</b>



**Note 6. Due from customers****Table 6.1. Due from customers**

(UAH, ths.)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loans to legal entities	1 681 629	1 034 602
2	Loans to the individual entrepreneurs	3 578	1 621
3	Mortgage loans to individuals	761 326	971 379
4	Consumer loans to individuals	2 629 135	3 035 166
5	Other loans to individuals	5 045	3 128
6	Loan loss provision	(905 306)	(1 062 240)
7	<b>Total loans net of provisions</b>	<b>4 175 407</b>	<b>3 983 656</b>

Item 3 of the Balance-sheet is disclosed in line 7, table 6.1.

Securities as collateral and for the repo operations as of December 31 2011 (as at the end of the day) weren't used.

Line 7 "Total loans net of provisions" includes accrued income on loans as of the day end on December 31 2011 in the amount of UAH 276 515 ths as of the day end on December 31 2010 amounting to UAH 248 222 ths.

**Table 6.2. Analysis of the change in loan loss provisions for 2011**

(UAH ths)

<b>Line</b>	<b>Flow of provisions</b>	<b>Loans to legal entities</b>	<b>Loans to individual entrepreneurs</b>	<b>Mortgage loans to individuals</b>	<b>Consumer loans to individuals</b>	<b>Other loans to individuals</b>	<b>Total</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
1	<b>Balance as at January 1 2011</b>	(47 547)	(329)	(200 714)	(812 771)	(879)	(1 062 240)
2	(Increase)/decrease in loan loss provision during the year	(51 229)	209	(67 689)	(8 705)	765	(126 649)
3	Write – off of bad debts through provisions	16 260	-	127 882	143 318	-	287 460
4	Increase of provisions due to translation difference	(5)	-	(923)	(2 949)	-	(3 877)
5	<b>Balance as at the day end December 31 2011</b>	<b>(82 521)</b>	<b>(120)</b>	<b>(141 444)</b>	<b>(681 107)</b>	<b>(114)</b>	<b>(905 306)</b>

In 2011 the bank registered a repayment related to a debt which was recognized as non-performing, and that was written-off by means of provisions in amount of UAH 8.904 ths (UAH 0 ths – in 2010).

**Table 6.3. Analysis of the change in loan loss provisions for 2010**

(UAH ths)

Line	Flow of provisions	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
1	2	3	4	5	6	7	8
1	<b>Balance as at January 1 2010</b>	<b>(48 534)</b>	<b>(205)</b>	<b>(157 306)</b>	<b>(1 189 243)</b>	<b>(16)</b>	<b>(1 395 304)</b>
2	(Increase)/decrease in loan loss provision during the year	(1 281)	(124)	(43 408)	(127 480)	(863)	(173 156)
3	Write – off of bad debts through provisions	2 266	-	-	504 436	-	506 702
4	(Increase)/decrease of provisions due to translation difference	2	-	-	(484)	-	(482)
5	<b>Balance as at the day end December 31 2010</b>	<b>(47 547)</b>	<b>(329)</b>	<b>(200 714)</b>	<b>(812 771)</b>	<b>(879)</b>	<b>(1 062 240)</b>

**Table 6.4. Structure of loans by economic activity**

(UAH ths)

Line	Type of economic activity	2011		2010	
		UAH	%	UAH	%
1	2	3	4	5	6
1	Production	745 667	14,68	463 335	9,18
2	Real estate	27 797	0,55	45 898	0,91
3	Trade	639 129	12,58	325 485	6,45
4	Agriculture	197 206	3,88	70 954	1,41
5	Loans issued to the individuals	3 395 506	66,83	4 009 673	79,46
6	Other	75 408	1,48	130 551	2,59
7	Total:	<b>5 080 713</b>	<b>100,00</b>	<b>5 045 896</b>	<b>100,00</b>

**Table 6.5. Information on loan security for 2011**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
1	2	3	4	5	6	7	8
1	Non-secured loans	4 598	116	2 919	46 164	201	53 998
2	Loans secured by:	1 677 031	3 462	758 407	2 582 971	4 844	5 026 715
2.1	Guarantees and bails	29 825	-	-	-	-	29 825
2.2	Pledge including	1 647 206	3 462	758 407	2 582 971	4 844	4 996 890
2.2.1	Residential real estate property	9 298	1 145	747 770	439 237	-	1 197 450
2.2.2	Other real estate property	955 285	663	10 583	1 332 976	-	2 299 507
2.2.3	Securities	8 526	-	-	-	-	8 526
2.2.4	Cash deposits	37 522	332	-	374	4 844	43 072
2.2.5	Other property	636 575	1 322	54	810 384	-	1 448 335
3	<b>Total dues from customers</b>	<b>1 681 629</b>	<b>3 578</b>	<b>761 326</b>	<b>2 629 135</b>	<b>5 045</b>	<b>5 080 713</b>

**Breakdown of Item 2.2.5. "Other property":**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
1	2	3	4	5	6	7
1	Movables	268 802	-	-	88	268 890
2	Goods in turnover	289 142	78	-	-	289 220
3	Vehicles	3 758	1 244	54	810 239	815 295
4	Property rights on real estate	-	-	-	57	57
5	Property rights	74 873	-	-	-	74 873
6	<b>Total</b>	<b>636 575</b>	<b>1 322</b>	<b>54</b>	<b>810 384</b>	<b>1 448 335</b>

In accordance with agreements the Government domestic loan bonds are accepted as collateral under condition that they are not a subject to repo operations. The Bank as a pledgee has the right to sale the collateral item to any buyer or at public auctions in case that within 30 days a pledger will not fulfill the Bank's demand to eliminate troubles or perform main obligation (which has been breached) and/or conditions of pledge agreement under condition that the sale of collateral item was chosen by pledgee as a way of non-court means of foreclosure.

**Table 6.6. Information on loan security for 2010**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
1	2	3	4	5	6	7	8
1	Non-secured loans	5 645	47	120	307 379	2 524	315 715
2	Loans secured by:	1 028 957	1 574	971 259	2 727 787	604	4 730 181
2.1	Guarantees and bails	135 945	-	-	-	-	135 945
2.2	Pledge including	893 012	1 574	971 259	2 727 787	604	4 594 236
2.2.1	Residential real estate property	11 485	1 001	907 289	598 439	-	1 518 214
2.2.2	Other real estate property	613 695	329	62 119	1 270 361	-	1 946 504
2.2.3	Securities	3 139	-	-	-	-	3 139
2.2.4	Cash deposits	21 132	-	-	255	604	21 991
2.2.5	Other property	243 561	244	1 851	858 732	-	1 104 388
3	<b>Total dues from customers</b>	<b>1 034 602</b>	<b>1 621</b>	<b>971 379</b>	<b>3 035 166</b>	<b>3 128</b>	<b>5 045 896</b>

**Breakdown of Item 2.2.5. "Other property":**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
1	2	3	4	5	6	7
1	Movables	77 056	-	-	410	77 466
2	Goods in turnover	96 136	-	-	-	96 136
3	Vehicles	985	244	-	858 205	859 434
4	Property rights on real estate	-	-	1 851	117	1 968
5	Property rights	69 384	-	-	-	69 384
6	<b>Total</b>	<b>243 561</b>	<b>244</b>	<b>1 851</b>	<b>858 732</b>	<b>1 104 388</b>

**Table 6.7. Analysis of quality of loan portfolio for 2011**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
1	2	3	4	5	6	7	8
1	Current and not impaired	59 262	2 020	451 211	577 176	4 964	1 094 633
1.1	Big borrowers with the credit history for more than 2 years	57 684	-	-	-	-	57 684
1.2	Loans to medium companies	1 578	-	-	-	-	1 578
1.3	Loans to small companies	-	2 020	-	-	-	2 020
1.4	Loans to individuals	-	-	451 211	577 176	4 964	1 033 351
2	Loans terms of which were reviewed during the year	129 725	-	15 585	376 219	-	521 529
3	Total of current and not impaired loans	188 987	2 020	466 796	953 395	4 964	1 616 162
4	Impaired loans evaluated on the individual basis:	60 170	159	207 630	1 032 989	-	1 300 948
4.1	with up to 31 days delay in payment	41 538	-	9 788	48 085	-	99 411
4.2	with 32 to 92 days delay in payment	7 885	47	11 367	232 732	-	252 031
4.3	with 93 to 183 days delay in payment	-	65	5 432	14 585	-	20 082
4.4	with 184 to 365 (366) days delay in payment	1 351	-	27 219	166 112	-	194 682
4.5	with more than 366 days delay in payment	9 396	47	153 824	571 475	-	734 742
5	Other loans	1 432 472	1 399	86 900	642 751	81	2 163 603
6	Provision for the depreciation for the loans	(82 521)	(120)	(141 444)	(681 107)	(114)	(905 306)
7	<b>Total loans</b>	<b>1 599 108</b>	<b>3 458</b>	<b>619 882</b>	<b>1 948 029</b>	<b>4 931</b>	<b>4 175 407</b>

**Table 6.8. Analysis of quality of loan portfolio for 2010**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Other loans to individuals	Total
1	2	3	4	5	6	7	8
1	Current and not impaired	3 008	900	569 880	648 065	2 222	1 224 075
1.1	Loans to medium companies	3 008	-	-	-	-	3 008
1.2	Loans to small companies	-	900	-	-	-	900
1.3	Loans to individuals	-	-	569 880	648 065	2 222	1 220 167
2	Loans terms of which were reviewed during the year	263 665	-	67 273	969 153	-	1 300 091
3	Total of current and not impaired loans	266 673	900	637 153	1 617 218	2 222	2 524 166
4	Impaired loans evaluated on the individual basis:	25 366	323	289 312	913 019	906	1 228 926
4.1	with up to 31 days delay in payment	80	-	13 463	21 984	3	35 530
4.2	with 32 to 92 days delay in payment	-	-	20 227	38 688	13	58 928
4.3	with 93 to 183 days delay in payment	-	-	21 167	65 976	18	87 161
4.4	with 184 to 365 (366) days delay in payment	3 351	-	34 541	60 558	872	99 322
4.5	with more than 366 days delay in payment	21 935	323	199 914	725 813	-	947 985
5	Other loans	742 563	398	44 914	504 929	-	1 292 804
6	Provision for the depreciation for the loans	(47 547)	(329)	(200 714)	(812 771)	(879)	(1 062 240)
7	<b>Total loans</b>	<b>987 055</b>	<b>1 292</b>	<b>770 665</b>	<b>2 222 395</b>	<b>2 249</b>	<b>3 983 656</b>

**Table 6.9. Fair value of security on overdue but not impaired loans and impaired loans evaluated individually for 2011**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
1	2	3	4	5	6	7
1	Fair value of security for overdue but non depreciated loans:	-	-	-	-	-
2	Fair value of securisation for the depreciated loans that have been evaluated on the individual basis	4 773 041	5 934	384 618	3 583 094	8 746 687
2.1	Real estate of living space	19 904	1 682	374 480	592 841	988 907
2.2	Other real estate	2 105 708	2 397	8 438	2 385 946	4 502 489
2.3	Money deposits	41 379	23	-	72	41 474
2.4	Other property	2 550 702	1 832	1 700	604 235	3 158 469
2.5	Guarantees and bails	55 348	-	-	-	55 348

**Item 2.4. «Other property» breakdown:**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
1	2	3	4	5	6	7
1	Movables	957 202	-	-	279	957 481
2	Goods in turnover	1 049 400	143	-	-	1 049 543
3	Vehicles	27 507	1 689	1 700	434 766	465 662
4	Property rights on real estate	-	-	-	107	107
5	Property rights	516 593	-	-	169 083	685 676
6	<b>Total</b>	2 550 702	1 832	1 700	604 235	3 158 469

Fair value of loan collateral is determined once the collateral is recognized. To define the fair value of the collateral Bank applies its internal methodology. For these purposes the Bank uses a comparative approach, meaning comparison of certain elements of collateral value. Such elements include specifications (parameters) of collateral items, price factors, which influence the price level (price dynamics, sale terms, guarantee period etc.), market price of contracts (or offers) with analogous items etc. In 2011 the revaluation of collaterals of the Retail segment was performed including 4.274 items of mortgage lending program (real estate) and 12.345 items of auto lending program (wheeled vehicles). The independent experts of consulting engineering company “VERITEX” Ltd. and “VERITAS PROPERTY MANAGEMENT”, Ltd. were involved for

calculation of the collateral fair value (real estate which is given to the Bank as a collateral, automobiles, etc.)

**Table 6.10. Fair value of security on overdue but not impaired loans and impaired loans evaluated individually for 2010**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
1	2	3	4	5	6	7
1	Fair value of security for overdue but non depreciated loans:	-	-	-	-	-
2	Fair value of securisation for the depreciated loans that have been evaluated on the individual basis	2 909 299	2 102	580 532	3 596 346	7 088 279
2.1	Real estate of living space	30 563	1 407	519 672	720 973	1 272 615
2.2	Other real estate	1 239 663	8	57 563	2 261 252	3 558 486
2.3	Securities	276	-	-	-	276
2.4	Money deposits	39 072	-	-	-	39 072
2.5	Other property	1 460 399	687	3 297	614 121	2 078 504
2.6	Guarantees and bails	139 326	-	-	-	139 326

**Item 2.5. «Other property» breakdown:**

(UAH ths)

Line	Item description	Loans to legal entities	Loans to individual entrepreneurs	Mortgage loans to individuals	Consumer loans to individuals	Total
1	2	3	4	5	6	7
1	Movables	352 356	240	-	1 253	353 849
2	Goods in turnover	500 228	-	-	-	500 228
3	Vehicles	18 728	447	-	478 404	497 579
4	Property rights on real estate	-	-	3 297	-	3 297
5	Property rights	589 087	-	-	134 464	723 551
6	<b>Total</b>	<b>1 460 399</b>	<b>687</b>	<b>3 297</b>	<b>614 121</b>	<b>2 078 504</b>

The Bank accounts on its balance the collateral of UAH 895 ths related to the loans written-off in 2010 against loan-loss provisions, and on which the collection activity is continuing.



**Note 7. Available-for-sale securities****Table 7.1. Available-for-sale securities**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Debt securities:	1 079	39 622
1.1	State bonds	1 079	39 622
2	Shares of enterprises and other securities with non-fixed income:	34	58
2.1	at prime cost (which fair value can not be precisely determined)	34	58
<b>3</b>	<b>Total for securities for sale net of reserves</b>	<b>1 113</b>	<b>39 680</b>

Item 4 of the Balance-sheet is disclosed in line 3, table 7.1

**Table 7.2. Analysis of credit quality of available-for-sale debt securities for 2011**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Public bonds</b>	<b>Total</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Current and nondepreciated:	1 079	1 079
1.1	State-owned institutions and enterprises	1 079	1 079
Or alternative disclosure of current debt securities, given those securities are rated:			
2	Total current and nondepreciated debt securities	1 079	1 079
3	Overdue, but nondepreciated	-	-
4	Provisions for depreciation of available-for-sale securities	-	-
<b>5</b>	<b>Total available-for-sale debt securities net of provisions</b>	<b>1 079</b>	<b>1 079</b>

**Table 7.3. Changes in bank's portfolio of securities for sale**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Book value as of January 1	39 679	58
2	Result (final appraisal/reduces assessment) from revaluation to fair value	54	(56)
3	Accrued interest	6 632	1 055
4	Interest received	(8 892)	-
5	Securities acquiring	681 947	127 923
6	Sale of available-for-sale securities	(718 307)	(89 300)
<b>7</b>	<b>Book value as of the end of the day December 31</b>	<b>1 113</b>	<b>39 680</b>

**Table 7.4. Principal equity securities available-for-sale at prime cost**

(UAH ths)

Line	Name of Company	Type of activity	Country of registration	Prime cost (which fair value can not be precisely determined)	
				2011	2010
1	2	3	4	5	6
1	Close Corporation “Crimean Stock Market”	financial market management	Ukraine	11	11
2	Public Corporation «MFS»	financial market management	Ukraine	-	24
3	Close Corporation “Ukrainian interbank foreign exchange Market”	financial market management	Ukraine	2	2
4	Crimean Interbank Stock Market	financial market management	Ukraine	20	20
5	Ukrainian trade house “Contract house Ukrainian Interbank Foreign Exchange Stock”	financial market management	Ukraine	1	1
6	<b>Total</b>			<b>34</b>	<b>58</b>

Securities used as collateral or for repo operations as of December 31 2011 (as at the end of the day) are absent

**Note 8. Held-to-Maturity Securities****Table 8.1. Held-to-Maturity Securities**

(UAH ths)

Line	Line	2011	2010
1	2	3	4
1	Public bonds	-	108 788
2	Provisions for HTM securities depreciation	-	-
3	<b>Total less provisions</b>	-	<b>108 788</b>

Item 5 of the Balance-sheet is disclosed in line 3, table 8.1.

According to “Statement on the provisions creating procedure for transactions of the Ukrainian banks related to securities” approved by the Resolution No31 of NBU Management Board dd. February 2, 2007 the securities impairment provisions emitted by NBU are not created

**Table 8.2. Flow of held-to-maturity securities**

(UAH ths)

Line	Item description	2011	2010
1	2	3	4
1	Book value as of January 1	108 788	200 093
2	Receipts	400 000	9 358 799
3	Redemption	(510 000)	(9 456 000)
4	Accrued interest	2 068	30 715
5	Interest received	(856)	(24 819)
6	Book value as of the end of the day December 31	-	108 788

**Table 8.3. Fair Value of Bank's held-to-maturity securities**

(UAH ths)

Line	Item description	2011		2010	
		Fair value	Book value less provisions	Fair value	Book value less provisions
1	2	3	4	5	6
1	Public bonds	-	-	108 788	108 788
2	<b>Total held-to-maturity securities</b>	-	-	<b>108 788</b>	<b>108 788</b>

**Table 8.4 Analysis of quality of HTM securities for 2010**

(UAH ths)

Line	Item description	Public bonds	Total
1	2	3	4
1	Non-impaired debt securities and securities at current cost:	108 788	108 788
1.1	State-owned institutions and enterprises	108 788	108 788
2	Debt securities renegotiated in the reporting year	-	-
3	Total current and nondepreciated debt securities	108 788	108 788
4	Outstanding but nondepreciated debt securities	-	-
5	Debt securities, depreciated on an individual basis	-	-
6	Provisions for depreciation of HTM securities	-	-
7	Total HTM debt securities net of provisions	108 788	108 788

**Note 9. Investment property****Table 9.1. Investment property estimated at fair value**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Fair value of investment property as of the beginning of the year	-	1 359
2	Disposal	-	(1 359)
3	Fair value of investment property as at day end on December 31	-	-

**Table 9.2. Data on future minimum lease payments for irrevocable operational lease in case when bank is the lessor**

(UAH ths)

<b>Line</b>	<b>Term of operational lease</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	< 1 year	-	-
2	1-5	63	177
3	>5	-	-
4	<b>Total of operational lease payments</b>	63	177

**Note 10. Fixed and intangible assets as of December 31, 2011 (as at the end of the day)**

**Table10. Fixed and intangible assets as of December 31, 2011 (as at the end of the day)**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Land</b>	<b>Buildings constructions and transmitting devices</b>	<b>Machinery and equipment</b>	<b>Vehicles</b>	<b>Instruments appliances inventory (furniture)</b>	<b>Other fixed assets</b>	<b>Other non-current material assets</b>	<b>Unfinished capital investments into fixed assets and intangible assets</b>	<b>Intangible assets</b>	<b>Total</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
1	Balance cost as of January 01 2010	173	336 763	75 611	6 387	6 747	3 288	12 212	4 493	15 548	461 222
1.1	Initial (revaluated) cost	173	383 689	173 169	9 197	12 630	7 534	41 934	4 493	25 152	657 971
1.2	Depreciation amount as of 01 January 2010	-	(46 926)	(97 558)	(2 810)	(5 883)	(4 246)	(29 722)	-	(9 604)	(196 749)
2	Additions	-	-	-	-	-	-	-	85 067	-	85 067
3	Fixed and intangible assets launched	-	63	34 844	1 638	446	293	100	(47 022)	9 638	-
4	Improvement of fixed assets and intangible assets	-	300	1 850	74	-	-	149	(2 719)	346	-
5	Balances detected during annual inventory	-	-	35	-	2	-	-	-	-	37
6	Transmission	-	-	-	-	-	-	-	-	-	-
7	Fixed assets cancellation	-	-	(5)	-	-	-	-	-	-	(5)
8	Transferred from investment property	-	1 359	-	-	-	-	-	-	-	1 359

(UAH ths)

Line	Item description	Land	Buildings constructions and transmitting devices	Machinery and equipment	Vehicles	Instruments appliances inventory (furniture)	Other fixed assets	Other non-current material assets	Unfinished capital investments into fixed assets and intangible assets	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
9	Disposal	-	-	(1 310)	(241)	(326)	(20)	(706)	(226)	(134)	(2 963)
10	Depreciation expense	-	(5 720)	(18 369)	(848)	(1 194)	(964)	(5 823)	-	(13 542)	(46 460)
11	Other	10	(77)	5	-	(5)	28	-	-	-	(39)
12	Balance cost as of December 31 2010(as of 01 Januar 2011)	183	332 688	92 661	7 010	5 670	2 625	5 932	39 593	11 856	498 218
12.1	Initial (revaluated) cost	183	336 922	203 804	10 349	12 283	7 661	39 662	39 593	34 561	685 018
12.2	Depreciation as of December 31 2010 (as of 1 <sup>st</sup> January 2011)	-	(4 234)	(111 143)	(3 339)	(6 613)	(5 036)	(33 730)	-	(22 705)	(186 800)
13	Additions	-	-	-	-	-	-	-	169 759	-	169 759
14	Fixed and intangible assets launched	-	13	19 625	902	679	22	36	(35 160)	13 883	-
15	Improvement of fixed assets and intangible assets	-	226	2 705	80	2	10	86	(13 085)	9 976	-
16	Transferring to held-for-sale long-term assets	-	(3 807)	-	-	-	-	-	-	-	(3 807)

(UAH ths)

Line	Item description	Land	Buildings constructions and transmitting devices	Machinery and equipment	Vehicles	Instruments appliances inventory (furniture)	Other fixed assets	Other non-current material assets	Unfinished capital investments into fixed assets and intangible assets	Intangible assets	Total
1	2	3	4	5	6	7	8	9	10	11	12
17	Disposal	-	(16)	(931)	(45)	(255)	(41)	(307)	(75)	-	(1 670)
18	Depreciation expense	-	(5 611)	(22 495)	(1 022)	(1 141)	(945)	(3 781)	-	(18 925)	(53 920)
19	Balance cost as of December 31 2011	183	323 493	91 565	6 925	4 955	1 671	1 966	161 032	16 790	608 580
19.1	Initial (revaluated) cost	183	333 177	217 792	11 200	11 919	6 949	36 913	161 032	49 008	828 173
19.2	Depreciation as of December 31 2011	-	(9 684)	(126 227)	(4 275)	(6 964)	(5 278)	(34 947)	-	(32 218)	(219 593)

Item 8 of the Balance –sheet are disclosed in line 12 and 19, table 10;

The data regarding amortization of line 10 and line 18 are indicated in line 2 of the Cash flow report and in line 2 of the note 26;

Value of fixed assets that have limitations regarding owning using and management according to legislation : none;

Value of fixed assets and intangible assets registered as collateral: none;

Residual value of fixed assets that are temporary out of use (conservation reconstruction etc): none;

Residual value of fixed assets held for sale : none;

Initial (revaluated) cost of the entirely depreciated fixed assets: intangible assets (GL 4300) – UAH 11 331 thousand, fixed assets (GL 4400) – UAH 38 737 thousand, other non-current assets (GL 4500) – UAH 24 411 thousand total UAH 74 479 thousand;

Value of intangible assets that have ownership limitations: none;

Cost of created intangible assets: none.

Increase or decrease during the reporting period which appear as a result of revaluation and also as a result of losses from usefulness decrease recognized or cancelled directly in authorized capital: none;

**Note 11. Other financial assets****Table 11.1. Other financial assets**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Accounts receivable on operations with credit and debit cards	51 635	31 057
2	Funds with limited rights of use	25 048	68
3	Other	8 566	11 863
4	Reserve for depreciation	(1 465)	(3 504)
<b>5</b>	<b>Total other financial assets net reserves</b>	<b>83 784</b>	<b>39 484</b>

Item 9 of the Balance-sheet is disclosed in line 5, table 11.1.

Line 3 «Other» includes accrued income of UAH 2 705 ths. (vs. UAH 1 834 ths in 2010).

**Item “Other” breakdown**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
1	Accounts receivable on operations with the bank’s customers	4741	7 927
2	Advance payments to bank’s employees for travelling charges	3	4
3	Shortages and other charges for bank’s employees	947	2 068
4	Other accounts receivable on settlements with bank’s employees and other individuals	170	30
5	Accrued revenues for cash and settlement services	1648	1 191
6	Accrued revenues overdue	1057	643
<b>7</b>	<b>Total</b>	<b>8566</b>	<b>11 863</b>

**Table 11.2. Analysis of changes in impairment provision for other financial assets for 2011**

(UAH ths)

<b>Line</b>	<b>Flow of provisions</b>	<b>Other</b>	<b>Total</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	<b>Balance as of 1 January 2011</b>	(3 504)	(3 504)
2	Increase in impairment provision during a year	(1 691)	(1 691)
3	Bad debts write-off	3 660	3 660
4	Decrease of the provisions by means of translation difference	70	70
<b>5</b>	<b>Balance as of 31 December 2011 (as at the end of the day)</b>	<b>(1 465)</b>	<b>(1 465)</b>



**Table 11.3. Analysis of changes in impairment provision for other financial assets for 2010**

(UAH ths)

Line	Flow of provisions	Other	Total
1	2	3	4
1	<b>Balance as of 1 January 2010</b>	<b>(1 524)</b>	<b>(1 524)</b>
2	Increase in impairment provision during a year	(2 014)	(2 014)
3	Bad debts write-off	62	62
4	Decrease of the provisions by means of translation difference	(28)	(28)
5	<b>Balance as of 31 December 2010 (as at the end of the day)</b>	<b>(3 504)</b>	<b>(3 504)</b>

**Table 11.4. Analysis of quality of other financial accounts receivable for 2011**

(UAH ths)

Line	Item description	Accounts receivable on operations with credit and debit cards	Funds with limited right of use	Other	Total
1	2	3	4	5	6
1	Current and nondepreciated indebtedness:	51 635	25 048	8 567	85 250
1.1	Major (high-profile) customers with more than 2 years credit history	-	-	775	775
1.2	Middle companies	-	-	2 074	2 074
1.3	Small companies	-	-	663	663
1.4	Individuals	51 635	-	5 055	56 690
1.5	Accumulative account with National Bank of Ukraine	-	25 048	-	25 048
2	Accounts receivable terms of which were revised during a year	-	-	-	-
3	Total current and nondepreciated indebtedness:	51 635	25 048	6 360	83 043
4	Overdue but not depreciated:	-	-	2 206	2 206
4.1	with up to 31 days delay in payment	-	-	638	638
4.2	with 32 to 92 days delay in payment	-	-	313	313
4.3	with 93 to 183 days delay in payment	-	-	88	88
4.4	with 184 to 365 (366) days delay in payment	-	-	120	120
4.5	with more than 366 (367) days delay in payment	-	-	1 047	1 047
5	Indebtedness depreciated on individual basis:	-	-	-	-
5.1	with up to 31 days delay in payment	-	-	-	-
5.2	with 32 to 92 days delay in payment	-	-	-	-

5.3	with 93 to 183 days delay in payment	-	-	-	-
5.4	with 184 to 365 (366) days delay in payment	-	-	-	-
5.5	with more than 366 (367) days delay in payment	-	-	-	-
6	Provision for impairment	-	-	(1 465)	(1 465)
<b>7</b>	<b>Total other financial accounts receivable</b>	<b>51 635</b>	<b>25 048</b>	<b>7 101</b>	<b>83 784</b>

**Table 11.5. Analysis of quality of other financial accounts receivable for 2010**

(UAH ths)

Line	Item description	Accounts receivable on operations with credit and debit cards	Funds with limited right of use	Other	Total
1	2	3	4	5	6
1	Current and nondepreciated indebtedness:	31 058	68	6 461	<b>37 587</b>
1.1	Major (high-profile) customers with more than 2 years credit history	-	-	238	<b>238</b>
1.2	Middle companies	-	-	655	<b>655</b>
1.3	Small companies	-	-	214	<b>214</b>
1.4	Individuals	31 058	-	5 354	<b>36 412</b>
1.5	Accumulative account with National Bank of Ukraine	-	68	-	<b>68</b>
2	Accounts receivable terms of which were revised during a year	-	-	-	-
3	Total current and nondepreciated indebtedness:	31 058	68	6 461	<b>37 587</b>
4	Overdue but not depreciated:	-	-	5 401	<b>5 401</b>
4.1	with up to 31 days delay in payment	-	-	190	<b>190</b>
4.2	with 32 to 92 days delay in payment	-	-	766	<b>766</b>
4.3	with 93 to 183 days delay in payment	-	-	60	<b>60</b>
4.4	with 184 to 365 (366) days delay in payment	-	-	2 435	<b>2 435</b>
4.5	with more than 366 (367) days delay in payment	-	-	1 950	<b>1 950</b>
5	Indebtedness depreciated on individual basis:	-	-	-	-
5.1	with up to 31 days delay in payment	-	-	-	-
5.2	with 32 to 92 days delay in payment	-	-	-	-
5.3	with 93 to 183 days delay in payment	-	-	-	-

5.4	with 184 to 365 (366) days delay in payment	-	-	-	-
5.5	with more than 366 (367) days delay in payment	-	-	-	-
6	Provision for impairment	-	-	(3 504)	<b>(3 504)</b>
<b>7</b>	<b>Total other financial accounts receivable</b>	<b>31 058</b>	<b>68</b>	<b>8 358</b>	<b>39 484</b>

**Note 12. Other assets**

**Table 12. Other assets**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Accounts receivable for assets purchase	14 943	1 446
2	Prepayment for the services	7 074	5 668
3	Precious metals	30 968	14 901
4	Property received by the bank as a pledgee	8 484	989
5	Deferred expense on deposits and credit interests	15	271
6	Other	2 893	3 512
7	Provision	(302)	(1 005)
<b>8</b>	<b>Total other assets less provisions</b>	<b>64 075</b>	<b>25 782</b>

Item 10 of the Balance-sheet is disclosed in line 8, table 12.

**Item 6 «Other» breakdown:**

(UAH ths)

<b>Line</b>	<b>Item</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>
1	Receivables related to taxes and charges excluding income tax	911
2	Difference between the nominal value and sales price of commemorative coins	48
3	Resourse of material values	2 553
<b>4</b>	<b>Total</b>	<b>3 512</b>

In 2011 the Bank, as a pledgeholder, has obtained the proprietary rights for pledged real estate.

The property that has been passed into possession of the Bank is recognized at ledger account 3409 at its fair value. The Management of Bank is planning to sale this property.

**Note 13. Long-term assets held-for-sale and disposed assets**

**Table 13. Long-term assets held-for-sale and disposed assets**

(UAH ths)

<b>Line</b>	<b>Item Title</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Long-term assets held-for-sale:		
1.1	Fixed assets	3 807	-
2	Total amount of long-term assets held-for-sale	3 807	-
3	Total amount of liabilities related to long-term assets held-for-sale (or disposal groups)	-	-

Item 11 of the Balance –Sheet is disclosed in line 2, table 13.

At the end of 2011 in accordance with the approved plan of branches amount management the Supervisory Board of the Bank took the decision to sell the real estate recognized at item “Held-for-sale long-term assets”.

**Note 14. Due to banks****Table 14. Due to banks**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Correspondent accounts and overnight deposits of other banks	2 680	2 510
2	Other banks' deposits:	-	57 030
2.1	short-term	-	57 030
3	Loans received:	1 208 216	1 545 367
3.1	short-term	90 247	428 268
3.2	long-term	1 117 969	1 117 099
<b>4</b>	<b>Total amount of due to banks</b>	<b>1 210 896</b>	<b>1 604 907</b>

Item 13 of the Balance-sheet is disclosed in line 4, table 14.

Line 3 “Loans received” includes accrued expenses in the amount of UAH 5 100 ths (UAH 3 839 ths – in 2010)

**Note 15. Due to customers****Table 15.1. Due to customers**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	State and public organizations:	8 279	6 236
1.1	Current accounts	6 601	5 626
1.2	Term deposits	1 678	610
2	Other legal entities	674 510	596 948
2.1	Current accounts	432 821	435 997
2.2	Term deposits	241 689	160 951
3	Individuals:	2 486 316	2 231 238
3.1	Current accounts	706 134	596 605
3.2	Term deposits	1 780 182	1 634 633
<b>4</b>	<b>Due to customers total</b>	<b>3 169 105</b>	<b>2 834 422</b>

Item 14 of the Balance-sheet is disclosed in line 4, table 15.1

Line 1 “State and public organizations “ and Line 2 “Other legal entities” include balances on accounts of accrued expense on corporate term deposits in the amount of UAH 3 882 ths (in 2010 – UAH 2 787 ths).

Line 3 “Individuals” includes balances on accounts of accrued expense on retail deposits on demand in the amount of UAH 324 ths (in 2010 – UAH 219 ths) and retail term deposits in the amount of 66 749 ths (in 2010 – UAH 64 356 ths).

**Table 15.2. Customers by type of economic activity**

(UAH ths)

Line	Economic activity	2011		2010	
		amount	%	amount	%
1	2	3	4	5	6
1	State administration and public organizations	8 266	0,26	6 218	0.22
2	Central and local public authorities	13	0,01	18	0.01
3	Production	67 858	2,14	62 285	2.20
4	Real estate	64 452	2,03	88 041	3.11
5	Trading	165 007	5,21	152 850	5.39
6	Agriculture	16 467	0,52	9 438	0.33
7	Extractive (mining) industry	515	0,02	1 070	0.04
8	Printing industry	7 753	0,24	4 487	0.16
9	Transportation sector	20 161	0,64	31 825	1.12
10	Insurance services	190 616	6,01	126 243	4.45
11	IT industry	27 294	0,86	23 361	0.82
12	Scientific research	35 172	1,11	15 681	0.55
13	Education	2 775	0,09	1 352	0.05
14	Health care	4 963	0,16	6 660	0.23
15	Culture	2 740	0,09	3 844	0.14
16	Individuals	2 486 316	78,44	2 231 238	78.72
17	Other	68 737	2,17	69 811	2.46
<b>18</b>	<b>Due to customers total</b>	<b>3 169 105</b>	<b>100,00</b>	<b>2 834 422</b>	<b>100.00</b>

As of 31 December 2011 (as of the end of the day) the amount of guaranteed deposits attracted in the balance-sheet totaled to UAH 50 879 thousand among which:

- for corporate and retail loans – UAH 50 700 thousand;
- for security for guarantees – UAH 178 thousand.

As of 31 December 2010 (as of the end of the day) the amount of guaranteed deposits attracted in the balance-sheet totaled to UAH 75 077 thousand among which:

- for corporate and retail loans – UAH 49 688 thousand;
- for security for guarantees – UAH 25 389 thousand.

**Note 16. Debt securities issued by the bank**

**Table 16.1. Debt securities issued by the bank**

(UAH ths)

Line	Item description	2011	2010
1	2	3	4
1	Certificates of deposit	1	1
<b>2</b>	<b>Total</b>	<b>1</b>	<b>1</b>

Item 15 of the Balance-sheet is disclosed in line 2, table 16.1.

Repayment term for deposit certificates issued by the bank – is on demand (maturity date has passed).

During 2011 the bank has issued (the issue registered on 04/29/2011), but not placed straight interest-bearing registered E and F series bonds:

Total amount of bonds issued is UAH 500 000 000:

Maturity date of E series bonds – 05/22/2013.

Maturity date of F series bonds – 08/21/2013.

**Table 16.2. Fair value of debt securities issued by the bank**

(UAH ths)

Line	Item description	2011		2010	
		Fair value	Book cost	Fair value	Book cost
1	2	3	4	5	6
1	Certificates of deposit	1	1	1	1
2	<b>Total</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>

**Note 17. Provisions for liabilities**

**Table 17.1. Provisions for liabilities for 2011**

(UAH ths)

Line	Flow of provisions	Loan Liability	Tax risks	Court risks	Other	Total
1	2	3	4	5	6	7
1	<b>Balance as of January 01 2011</b>	1 127	-	-	-	1 127
2	Increase in impairment provision during the year	969	216	1 005	2	2 192
3	Debt repayment	(1 043)	-	(131)	-	(1 174)
4	<b>Balance as of the end of Decemebr 31 2011</b>	<b>1 053</b>	<b>216</b>	<b>874</b>	<b>2</b>	<b>2 145</b>

Item 16 of the Balance-sheet is disclosed in line 4, table 17.1.

Item 9 of the Income Statement is disclosed in line 2, table 17.1.

Lawsuit:

a)As of 31.12.2011 there were the following controversies at the administrative courts and courts of general jurisdiction regarding which the Bank may have the following liabilities:

- according to employment agreements in amount of UAH 874 ths;
- claims on sold loans in amount of UAH 2 ths.

b) possible tax liabilities.

As of 31.12.2011 the Bank has risks related to possible tax liabilities as a result of cases hearing related to appealing of the results of tax authorities inspections in total amount of UAH 606 ths:

- income tax – UAH 203 ths, penalty - UAH 160 ths;
- individual income tax – UAH 81 ths, penalty – UAH 162ths.

Financial sanctions of Pension Fund Directorate in Zarichnyi region of Sumy city amount to UAH 51 ths.

**Table 17.2. Provisions for liabilities for 2010**

(UAH ths)

Line	Flow of provisions	Loan Liability	Total
1	2	4	5
1	<b>Balance as of January 01 2010</b>	<b>3 093</b>	<b>3 093</b>
2	Decrease in impairment provision during the year	(1 966)	(1 966)
3	<b>Balance as of the end of Decemebr 31 2010</b>	<b>1 127</b>	<b>1 127</b>

Item 16 of the Balance-sheet is disclosed in line 3, table 17.2.

Item 9 of the Income Statement is disclosed in line 2, table 17.2.

**Note 18. Other financial liabilities**

**Table 18. Other financial liabilities**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Accounts payable	102 660	98 794
2	Debit and credit cards accounts payable	1 576	838
3	Conversion operations payable	62 864	54 807
4	Payables related to other financial instruments	73	5
5	Other accrued liabilities	344	437
<b>6</b>	<b>Total of Other financial liabilities</b>	<b>167 517</b>	<b>154 881</b>

Item 17 of the Balance-sheet is disclosed in line 6, table 18.

**Note 19. Other liabilities**

**Table 19. Other liabilities**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Payables related to taxes and compulsory payments excluding income tax	11 897	11 798
2	Payables related to bank's employees	19 378	19 472
3	Payables related to assets acquisition	31 125	13 032
4	Deferred Income	3 642	2 391
5	Other	5 809	6 072
<b>6</b>	<b>Total</b>	<b>71 851</b>	<b>52 765</b>

Item 18 of the Balance-sheet is disclosed in line 6, table 19.

**Item 5 «Other» breakdown:**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Payables related to communication services	527	239
2	Payables related to advertisement and promotion	308	165
3	Payables related to utility bills and security	152	86
4	Payables related to other services	276	150
5	Payables related to fixed assets repair and maintenance	561	196
6	Payables related to personnel search and recruitment services	2 325	4 675
7	Payables related to SWIFT and VISA fees	149	103
8	Payables related to services on NPL liquidation	325	83
9	Payables related to plastic cards transactions services	301	294
10	Payables related to cash-in-transit services	35	19
11	Payables related to services on software maintenance	850	6 2
<b>12</b>	<b>Total</b>	<b>5 809</b>	<b>6 072</b>

**Note 20. Subordinated debt**  
**Table 20. Subordinated debt**

(UAH ths)

Line	Item description	2011	2010	Date of issue	Maturity date
1	2	3	4	5	6
1	Principal amount of subordinated debt including:	112 656	112 260		
	Received loan	23 969	23 885	9/12/2000	9/21/2015
	Received loan	31 959	31 847	11/21/2000	11/1/2015
	Received loan	35 954	35 828	6/8/2006	6/1/2016
	Received loan	20 774	20 700	8/7/2006	7/31/2016
2	Accrued interest on subordinate debt including:	11 062	4 461		
	Accrued loan interest	2 354	949	-	-
	Accrued loan interest	3 138	1 266	-	-
	Accrued loan interest	3 530	1 424	-	-
	Accrued loan interest	2 040	822	-	-
3	<b>Total:</b>	<b>123 718</b>	<b>116 721</b>		

Item 19 of the Balance-sheet is disclosed in line 3, table 20.

Interest for loan use attracted under conditions of subordinate debt is monthly but is paid upon written notice of investor.

**Note 21. Authorized capital**  
**Table 21. Authorized capital**

(UAH ths)

Line	Item description	Quantity of shares in turnover (items thousand)	Ordinary shares	Issuance difference	Preference shares	Total UAH thousand
1	2	3	4	5	6	7
1	Balance at 1 <sup>st</sup> January of 2010	1 561 622	1 560 122	672	1 500	1 562 294
2	Decrease in par value of shares	-	(655 251)	-	(630)	(655 881)
3	Balance at the end of the day as of 31 <sup>st</sup> December of 2010(balance at 1 <sup>st</sup> January of 2011)	1 561 622	904 871	672	870	906 413
4	Contributions on shares (quotas shares) of the new issue	54 378	31 539	294 726	-	326 265
5	<b>Balance at the end of the day as of 31<sup>st</sup> December of 2011</b>	<b>1 616 000</b>	<b>936 410</b>	<b>295 398</b>	<b>870</b>	<b>1 232 678</b>

Item 21 of the Balance-sheet, column 4 of the Statement of Changes in Equity and items 29,30 of the Cash flow statement are disclosed in lines 3 and 5, table 21.

a) quantity of shares declared to issue – 0;

b) quantity of issued and paid shares in 2011 amounts to 54 377 411 it.(y 2010 році 0 шт); quantity of issued but not completely paid – 0 items.;



c) par value of one share is UAH 0.58. In 2011 in accordance with the Decision No1/2011 of General Meeting of the shareholders dd. 16.03.2011 the authorized capital of the Bank has been increased by increasing the amount of straight nominal bonds of the existing nominal value by means of supplementary calls. The state registration of the amendments to the regulating documents is dated of 26.06.2011 No 10701050045003106

d) rights privileges and limitations attributable to every group of share capital including limitations to payment of dividends return of capital:

- Rights (according to Articles of Association):

- partake in management of the Bank and in control over the Bank's activities in accordance with the procedure set forth by Articles of Association and by-laws of the Bank as well as Ukrainian law;  
- partake in distribution of profits of the Bank and obtain part of the profit (dividends) from activity of the Bank;

- receive information on activity of the Bank status of its assets amount of its profits and losses;

- in case of the Bank's liquidation receive a cost of the Bank's property net of creditor's claims in proportion to the amount of shares held by shareholder;

- shareholders who hold 10 and more percent of the Bank's shares have the right to request audit of the Bank's financial statements and economic activity by external auditor;

- dispose of shares of the Bank in accordance with the procedure set forth by Articles of Association and effective Ukrainian law;

- obtain and exercise other rights provided by Ukrainian law and the Articles of Association of the Bank.

– Bank's shareholders owners of preference shares are entitled to:

- partake in distribution of profits of the Bank and obtain part of the profit (dividends) from activity of the Bank in the amount indicated in the preference shares regardless of the amount of the net profit of the Bank for the corresponding year;

- in case of liquidation of the Bank the priority to obtain the property of the Bank remaining after settlement with creditors in proportion to the quantity of owned preference shares;

- convert preference shares of certain class into ordinary shares of the Bank or into preference shares of other class as set by legislation of Ukraine and by the decision of General Meeting of Shareholders;

- obtain information on activity of the Bank status of its assets amount of its profit and losses in accordance with the procedure set for the shareholders – owners of ordinary shares;

- obtain and exercise other rights provided by Ukrainian law and the Articles of Association of the Bank.

- Privileges (according to terms of privileged shares issue): payment of dividends to holders of registered preference shares amounts to 18% annually irrespective of received profit by the Bank in the relevant year.

- Restrictions (according to Charter): voting at the General Meeting is carried out in the following way: one ordinary registered share – one vote.

- Other rights privileges and restrictions stipulated in the Ukrainian legislation.

e) amount and conditions of shares to be issued at the conditions of options and sale contracts – none.

**Note 22. Reserve and other funds of the bank**  
**Table 22. Reserve and other funds of the bank**

(UAH ths)

Line	Item description	Revaluation fund		Other	Total of reserve and other funds of the bank
		Other assets except long term assets held for sale and disposed assets			
		Available for sale securities	fixed and intangible assets		
1	2	3	4	5	6
1	Balance as of 1 January 2010	-	182 842	20 761	203 603
2	Revaluation	(56)	131	-	75
3	Revaluation of disposed assets	-	(614)	-	(614)
4	Income tax effect	14	59 663	-	59 677
5	Increase in Reserve Fund from profit of past years	-	-	70 571	70 571
6	Increase of reserve fund due to decrease in par value of shares.	-	-	655 881	655 881
7	Covering of loss for 2010	-	-	(745 880)	(745 880)
8	Balance as of end of 31 December 2010 (balance as of 1 January 2011)	(42)	242 022	1 333	243 313
9	Revaluation	(2)		-	(2)
10	Revaluation of disposed assets	56	(226)	-	(170)
11	Income tax effect	(14)	62	-	48
<b>12</b>	<b>Balance as of the end of 31 December 2011</b>	<b>(2)</b>	<b>241 858</b>	<b>1 333</b>	<b>243 189</b>

Item 23 of the Balance-sheet are disclosed in lines 8 and 12 table 22.

Item 4 of the Statement of Changes is disclosed in line 5, table 22

Item 5 of the Statement of Changes is disclosed in line 7, table 22

**Note 23. Interest income and expenses****Table 23. Interest income and expenses**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
	Interest income for:		
1	Due from customers	690 834	652 141
2	Available-for-sale debt securities	6 632	1 055
3	Held-to-maturity debt securities	2 069	30 715
4	Due from other banks	3 575	441
5	Overnight deposits with other banks	-	2
6	Cash and cash equivalents	2 188	2 696
<b>7</b>	<b>Total interest income</b>	<b>705 298</b>	<b>687 050</b>
	Interest costs for:		
8	Term deposits of legal entities	(17 373)	(29 367)
9	Term deposits of individuals	(152 550)	(333 125)
10	Term deposits of other banks	(64 584)	(53 575)
11	Overnight deposits of other banks	(14)	(5)
12	Current accounts	(29 262)	(30 129)
13	Other	(6 567)	(6 615)
<b>14</b>	<b>Total interest expenses</b>	<b>(270 350)</b>	<b>(452 816)</b>
<b>15</b>	<b>Net interest income</b>	<b>434 948</b>	<b>234 234</b>

Item 1 of the Income Statement is disclosed in line 15, table 23.

**Note 24. Commission income and expenses****Table 24. Commission income and expenses**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Commission income:		
1.1	Settlement transactions	53 877	40 865
1.2	Cash services	179 488	189 824
1.3	Securities transactions	47	27
1.4	Guarantees issued	1 240	111
1.5	Revenue from inter-bank plastic card settlements	12 214	8 290
1.6	Other	11 741	12 021
<b>2</b>	<b>Total commission income</b>	<b>258 607</b>	<b>251 138</b>
3	Commission expenses		
3.1	Settlement transactions	(2 385)	(2 618)
3.2	Cash services	(1 601)	(2 387)
3.3	Costs for services rendered by payment systems and for plastic cards transactions	(12 840)	(9 739)
3.4	Other	(154)	(507)
<b>4</b>	<b>Total commission expenses</b>	<b>(16 980)</b>	<b>(15 251)</b>
<b>5</b>	<b>Net commission income/expenses</b>	<b>241 627</b>	<b>235 887</b>

Item 2 of the Income Statement is disclosed in line 5, table 24.

**Note 25. Other operating income****Table 25. Other operating income**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Income from lease of investment property	-	132
2	Income from sublease	-	13
3	Income from operational leasing	96	66
4	Other	14 231	13 680
5	<b>Total operating income</b>	<b>14 327</b>	<b>13 891</b>

Item 10 of the Income Statement is disclosed in line 5, table 25.

**Item 5 «Other» breakdown**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Fines and penalties received	3 491	6 752
2	Income from encashment activity	926	1 024
3	Income from payment cards settlements	172	204
4	Reimbursement of cash shortages	995	3 613
5	Compensation for producing new locks for safe deposit boxes	89	91
6	Income from tax credit	169	108
7	Reimbursement of state duty and court fees	-	302
8	Proceeds from significant change in retail loans	2	409
9	Non-demanded funds on accounts upon expiry of limitation period	3164	892
10	Proceeds from sale of commemorative coins	16	28
11	Other operating income	63	257
12	Compensation of non-residents income tax originated in Ukraine for 2010	5 144	-
	<b>Total</b>	<b>14 231</b>	<b>13 680</b>

In 2011 the Bank received refunded non-resident income tax originated in Ukraine that was recognized within interest expenses of 2010 in accordance with agreement conditions related to term credit line submission.

**Note 26. Administrative and other operational expenses**  
**Table 26. Administrative and other operational expenses**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Personnel expense	(292 380)	(301 914)
2	Depreciation of fixed assets	(34 995)	(32 918)
3	Impairment of fixed assets and intangible assets	-	(431)
4	Revaluation of capital assets and intangible assets	-	261
5	Amortization of software and other intangible assets	(18 925)	(13 542)
6	Maintenance expense on fixed and intangible assets telecommunication other operational services and mobile connection unusable valuables write-off	(83 377)	(65 284)
7	Operating lease expense	(42 893)	(47 417)
8	Loss from intangible assets and fixed assets disposal	(980)	(1 530)
9	Charge to impairment provision for accounts receivable	(1 569)	(1 879)
10	Encashment and values transportation expense	(1 981)	(2 287)
11	Payment systems expense	(2 898)	(3 045)
12	Loan collection service expense	(3 189)	(14 458)
13	Professional services expense	(28 434)	(25 041)
14	Advertising and marketing expense	(4 827)	(5 409)
15	Security expense	(15 157)	(14 911)
16	Expense on other taxes and compulsory payments excluding income tax	(18 617)	(22 236)
17	Loss from sale of claims on financial instruments	(169 480)	(46 769)
18	Other	(12 333)	(12 719)
<b>19</b>	<b>Total of administrative and other operational expenses</b>	<b>(732 035)</b>	<b>(611 529)</b>

Item 11 of the Income Statement is disclosed in line 19, table 26.

Item 7 of the Cash flow statement is disclosed in line 8, table 26

**Note 27. Profit tax expenses**

**Table 27.1. Profit tax expenses**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Current profit tax	(473)	-
2	Deferred profit tax	(11 154)	(15 225)
<b>3</b>	<b>Total</b>	<b>(11 627)</b>	<b>(15 225)</b>

The data of Item 1, Table 27.1 of 2011 reflect income tax losses carried forward.

Item 13 of the Income Statement is disclosed in line 3, table 27.1.

**Table 27.2. Reconciliation of financial loss and fiscal loss**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loss before tax	(112 356)	(257 928)
2	Profit tax calculated by the deduction rate	(25 842)	(64 482)
	Adjustment to accounting loss		
3	Expenses not included into gross ones with the purpose of calculating tax income but recognized in accounting.	28 548	18 967
4	Expenses included into gross ones with the purpose of calculating tax income but not recognized in accounting.	(74 775)	(28 781)
5	Income to be profit taxed (not included) into financial loss	59 430	30 285
6	Income not to be profit taxed but recognized in accounting	(1 161)	(3 189)
7	Depreciation charges based on financial accounting data	12 402	11 615
8	Depreciation for fiscal purposes	(13 729)	(10 195)
9	Other sums not included either into income or expenses but into tax base	(226 480)	(40 581)
10	Loss tax	(241 607)	(86 361)

## Description to the Table 27.2 Reconciliation of financial loss and fiscal loss

(UAH ths)

Line	Item description	2011	2010
1	2	3	4
	Expenses not included into gross expenditures with the purpose of calculating tax profit but recognized in accounting		
1	Provisions for accounts receivable	361	470
2	Provisions for unused vacations and other payments recognized as our liabilities	4 974	10 031
3	Expenses included into gross ones at first event in previous reporting periods	-	1 708
4	Expenses of non – production – related purposes	6 377	4 650
5	Loss for fixed assets liquidation in the financial accounting	237	502
6	Interest accrued to non-residents and limited by time of tax accounting	15 255	-
7	Reimbursement of cash shortages	234	961
8	Other expenses	1098	645
9	Provisions for doubtful profit	12	-
	<b>Total</b>	<b>28 548</b>	<b>18 967</b>
	Expenses included into gross ones with the purpose of calculating tax profit but not recognized in accounting		
1	Doubtful income claimed to court in the reporting period	-	(640)
2	Expenses included into gross ones at first event in the reporting period	-	(972)
3	Capital improvements	(723)	(622)
4	Relief of provisions	(66 261)	(12 324)
5	Translation difference from loan-loss provisions revaluation	(600)	(6 394)
6	Payments for unused vacations out of provisions and provisions for other payments recognized as our liabilities	(6 582)	(6 983)
7	Other expence	(609)	(846)
	<b>Total</b>	<b>(74 775)</b>	<b>(28 781)</b>
	Income to be profit taxed (does not belong) to accounting loss:		
1	Repayment of interests included into gross expenditures during previous tax periods	4 431	16 990
2	Income in tax accounting from relief of provisions	52 607	12 324
3	Securities transactions	1 962	-
4	Other income	430	971
	<b>Total</b>	<b>59 430</b>	<b>30 285</b>
	Income not to be profit taxed but is recognized in accounting		
1	Reimbursement of cash shortages	(229)	(782)
2	Securities transactions	(520)	(1 682)
3	Other income	(412)	(725)
	<b>Total</b>	<b>(1 161)</b>	<b>(3 189)</b>
	Other sums not included either into income or expenses but into tax base:		
1	20% of tax loss of Y2009 carried forward to gross expenditures of Q1 2010	-	(40 378)
2	80% of tax loss of Y2009 carried forward to gross expenditures of Q1 2011	(148 592)	
4	100% of tax loss of Y2010 carried forward to gross expenditures of Q1 2011	(77 835)	
5	Other income	-	(426)
6	Other expences	(53)	223
	<b>Total</b>	<b>(226 480)</b>	<b>(40 581)</b>

**Table 27.3 Tax consequences from recognition of deferred tax assets and liabilities for 2011**  
(UAH ths)

Line	Deferred tax assets and liabilities	Balance as at January 1 2011	Recognized in financial result	Recognized in equity	Balance as at day end on December 31 2011
1	2	3	4	5	6
1	Due from customers	35 088	(14 055)	-	21 033
2	Tax loss	186 655	(6 866)	-	179 789
3	Due to customers	662	(748)	-	(86)
4	Other liabilities	9 971	7 689	-	17 660
<b>5</b>	<b>Total deferred tax asset</b>	<b>232 376</b>	<b>(13 980)</b>	-	<b>218 396</b>
6	Provisions for DTA impairment	(41 643)	2 763	-	(38 880)
<b>7</b>	<b>Recognized deferred tax asset</b>	<b>190 733</b>	<b>(11 217)</b>	-	<b>179 516</b>
8	Fixed assets	(2 222)	(1 416)	62	(3 576)
9	Securities	(1 648)	1 470	(14)	(192)
10	Other assets	(9)	9	-	-
<b>11</b>	<b>Recognized deferred tax asset</b>	<b>(3 879)</b>	<b>63</b>	<b>48</b>	<b>(3 768)</b>
<b>12</b>	<b>Net deferred tax asset</b>	<b>186 854</b>	<b>(11 154)</b>	<b>48</b>	<b>175 748</b>

Item 7 of the Balance Sheet is disclosed in line 12, table 27.3.

**Table 27.4 Tax consequences from recognition of deferred tax assets and liabilities for 2010**  
(UAH ths)

Line	Deferred tax assets and liabilities	Balance as at January 1 2010	Recognized in financial result	Recognized in equity	Balance as at day end on December 31 2010
1	2	3	4	5	6
1	Due from customers	57 778	(22 690)	-	35 088
2	Tax loss	201 890	(15 235)	-	186 655
3	Due to customers	-	662	-	662
4	Other liabilities	11 924	(1 953)	-	9 971
<b>5</b>	<b>Total deferred tax asset</b>	<b>271 592</b>	<b>(39 216)</b>		<b>232 376</b>
6	Provisions for DTA impairment	(66 986)	25 343	-	(41 643)
<b>7</b>	<b>Recognized deferred tax asset</b>	<b>204 606</b>	<b>(13 873)</b>		<b>190 733</b>
8	Fixed assets	(62 152)	267	59 663	(2 222)
9	Securities	-	(1 662)	14	(1 648)
10	Other assets	(52)	43	-	(9)
<b>11</b>	<b>Recognized deferred tax asset</b>	<b>(62 204)</b>	<b>(1 352)</b>	<b>59 677</b>	<b>(3 879)</b>
<b>12</b>	<b>Net deferred tax asset</b>	<b>142 402</b>	<b>(15 225)</b>	<b>59 677</b>	<b>186 854</b>

Item 7 of the Balance Sheet is disclosed in line 12, table 27.4.

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**Note 28. Profit/(loss) per one ordinary and preferred share****Table 28.1. Net and adjusted profit /(loss) per one ordinary and preferred share**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loss of shareholders – owners of ordinary shares	(123 983)	(273 153)
2	Profit of shareholders – owners of preferred shares	157	157
3	Annual loss	(123 983)	(273 153)
4	Average annual number of ordinary shares in turnover (ths. Items)	1 588 280	1 560 123
5	Average annual number of preferred shares in turnover (ths. Items)	1 500	1 500
6	Net loss per one ordinary share (UAH)	(0,08)	(0,18)
7	Adjusted net loss per one ordinary share (UAH)	(0,08)	(0,18)
8	Net profit loss per one preferred share (UAH)	0,10	0,10
9	Adjusted net profit loss per one preferred share (UAH)	0,10	0,10

Items 16 and 17 of the Income Statement is disclosed in lines 6 and 7 table 28.1.

In accordance with the information regarding conditions of issue of “PRAVEX-BANK” PJSCCB shares, in case the profit of the respective year is insufficient, the dividend payout for nominal preference shares is performed by means of reserve fund.

**Table 28.2. Profit/(loss) of shareholders – owners of ordinary and preferred stock**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loss annual	(123 983)	(273 153)
2	Loss of shareholders – owners of ordinary shares	(123 983)	(273 153)
3	Average annual number of ordinary shares in turnover (ths. Items)	1 588 280	1 560 123
4	Net loss per one ordinary share (UAH)	(0,08)	(0,18)
5	Profit of shareholders- owners of preferred shares	157	157
6	Average annual number of preferred shares in turnover (ths. Items)	1 500	1 500
7	Net profit per one preferred share (UAH)	0,10	0,10

**Note 29. Dividends**  
**Table 29. Dividends**

(UAH ths)

Line	Item description	2011		2010	
		For ordinary shares	For preferred shares	For ordinary shares	For preferred shares
1	2	3	4	5	6
1	Balance as of January 1	-	-	-	-
2	Dividends payable during a year	-	157	-	270
3	Dividends to be paid during a year	-	-	-	-
4	Increase of reserve fund out of dividends	-	(157)	-	(270)
5	Balance as of December 31 (as at the end of the day)	-	-	-	-
6	DPS payable during a year	-	-	-	-

**Note 30. Reporting segments**

**Table 30.1. Main segments of banking activity by contractors of the segment for 2011**

(UAH ths)

Line	Item description	Reporting segments					Total
		corporate services	retail services	securities operations	interbank operations	other operations	
1	2	3	4	5	6	7	8
1	Income from external contractors	232 798	762 657	8 951	25 759	-	1 030 165
2	Income from other segments	-	-	-	-	824	824
3	Total income	232 798	76 6572	8 951	25 759	824	1 030 989

**Note 30.2. Type of income and expenses of reporting segments for 2011**

(UAH ths)

Line	Item description	Names of Reporting Segments					Total
		services to the corporate clients	services to the individuals	operations with securities	operations at the interbank market	other operations	
1	2	3	4	5	6	7	8
1	Interest income	178 266	512 568	8 701	5 763	-	705 298
2	Commission income	52 864	190 839	52	14 852	-	258 607
3	Other income	1 301	7 113	198	5 144	824	14 580
4	Result from trading operations	367	52 137	-	-	-	52 504
5	Total income	232 798	762 657	8 951	25 759	824	1 030 989
6	Interest expenses	(30 072)	(175 681)	-	(64 597)	-	(270 350)
7	Commission expenses	(33)	(14 199)	-	(2 748)	-	(16 980)
8	Other expenses	(11 402)	(242 801)	(155)	(2 020)	(9 945)	(266 323)
9	Expenses to provisions	(51 343)	(70 215)	-	(1 422)	-	(122 980)
10	General administrative expenses (without amortization expenses)	(50 089)	(304 243)	(332)	(3 264)	(54 864)	(412 792)
11	Total expenses	(142 939)	(807 139)	(487)	(74 051)	(64 809)	(1 089 425)
12	Segment result	89 859	(44 482)	8 464	(48 292)	(63 985)	(58 436)
13	Amortization expenses	-	-	-	-	(53 920)	(53 920)
14	Loss before tax	-	-	-	-	-	(112 356)
15	Income tax expenses	-	-	-	-	-	(11 627)
16	Loss	-	-	-	-	-	(123 983)

**Description of “Other operations” line 8 “Other expense”**

(UAH ths)

<b>Line</b>	<b>Reporting segments</b>	<b>Amount</b>
1	Expenses for audit	(4 126)
2	Expenses for “Liga” informational services	(151)
3	Penalties paid	(1 211)
4	Economic expenses not divided by segments	(4 457)
5	<b>Total</b>	<b>(9 945)</b>

**Description of “Other operations” line 10 “General administrative expenses”**

(UAH ths)

<b>Line</b>	<b>Reporting segments</b>	<b>Amount</b>
1	Operational and economic expenses not divided by segments	(1 319)
2	Expenses for maintenance of fixed assets and intangible assets	(38 324)
3	Taxes and other obligatory payments except income tax	(15 221)
4	<b>Total</b>	<b>(54 864)</b>

**Table 30.3. Assets and liabilities of reporting segments for 2011**

(UAH ths)

Line	Item description	Reporting segments					Total
		corporate services	retail services	securities operations	interbank operations	other operations	
1	2	3	4	5	6	7	8
1	Long-term assets held-for-sale(disposed assets)	-	-	-	-	3 807	3 807
2	Other assets of segments	1 651 899	2 978 352	1 337	391 831	111	5 023 530
3	Total assets of segments	1 651 899	2 978 352	1 337	391 831	3918	5 027 337
4	Current and deferred tax assets	-	-	-	-	177 305	177 305
5	Other unallocated assets	-	-	-	-	608 580	608 580
<b>6</b>	<b>Total assets</b>	<b>1 651 899</b>	<b>2 978 352</b>	<b>1 337</b>	<b>391 831</b>	<b>789 803</b>	<b>5 813 222</b>
7	Other liabilities of segments	842 405	2 620 661	89	1 273 098	8 980	4 745 233
8	Total liabilities of segments	842 405	2 620 661	89	1 273 098	8 980	4 745 233
<b>9</b>	<b>Total liabilities</b>	<b>842 405</b>	<b>2 620 661</b>	<b>89</b>	<b>1 273 098</b>	<b>8 980</b>	<b>4 745 233</b>

**Description of line 5 “Other unallocated assets”**

(UAH ths)

Line	Reporting segments	Amount
1	Fixed assets and intangible assets	608 580
	<b>Total</b>	<b>608 580</b>

**Table 30.4. Main segments of banking activity by contractors of the segment for 2010**

(UAH ths)

Line	Item description	Reporting segments					Total
		corporate services	retail services	securities operations	interbank operations	other operations	
1	2	3	4	5	6	7	8
1	Income from external contractors	153 931	747 756	31 733	14 310	-	947 730
2	Income from other segments	-	-	-	-	(1 204)	(1 204)
<b>3</b>	<b>Total income</b>	<b>153 931</b>	<b>747 756</b>	<b>31 733</b>	<b>14 310</b>	<b>(1 204)</b>	<b>946 526</b>

**Table 30.5 Type of income and expenses of reporting segments for 2010**

(UAH ths)

Line	Item description	Reporting segments					Total
		corporate services	retail services	securities operations	interbank operations	other operations	
1	2	3	4	5	6	7	8
1	Interest income	99 840	552 301	31 770	3 139	-	687 050
2	Commission income	51 809	188 202	37	11 090	-	251 138
3	Other income	1 460	14 468	(74)	81	(1 204)	14 731
4	Result from trading operations	822	(7 215)	-	-	-	(6 393)
5	Total income	153 931	747 756	31 733	14 310	(1 204)	946 526
6	Interest expenses	(41 997)	(357 239)	-	(53 580)	-	(452 816)
7	Commission expenses	-	(11 661)	-	(3 590)	-	(15 251)
8	Other expenses	( 8 439)	(89 677)	(50)	(1 790)	(8 286)	(108 242)
9	Expenses to provisions	(1 494)	(171 522)	-	(50)	-	(172 966)
10	General administrative expenses (without amortization expenses)	(38 956)	(318 831)	(708)	(5 565)	(44 659)	(408 719)
11	Total expenses	(90 886)	(948 930)	(758)	(64 475)	(52 945)	(1 157 994)
12	The result of segment	63 045	(201 174)	30 975	(50 165)	(54 149)	(211 468)
13	Amortization expenses	-	-	-	-	(46 460)	(46 460)
14	Loss before tax	-	-	-	-	-	(257 928)
15	Income tax expenses	-	-	-	-	-	(15 225)
16	Loss	-	-	-	-	-	(273 153)

**Description of “Other operations” line 8 “Other expense”**

(UAH ths)

Line	Reporting Segments	Amount
1	Expenses for audit	(1 990)
2	Expenses for seminars subscription "Liga" informational services	(83)
3	Fines paid	(233)
4	Economic expenses not divided by segments	(5 980)
	<b>Total</b>	<b>(8 286)</b>

**Description of "Other operations" line 10 "General administrative expenses"**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Amount</b>
1	Operational and economic expenses not divided by segments	(1 109)
2	Expenses for maintenance of capital assets and intangible assets	(24 375)
3	Payment of taxes and other obligatory payments except income tax	(19 175)
<b>4</b>	<b>Total</b>	<b>(44 659)</b>

**Table 30.6. Assets and liabilities of reporting segments for 2010**

<b>Line</b>	<b>Item description</b>	<b>Reporting segments</b>					<b>Total</b>
		<b>corporate services</b>	<b>retail services</b>	<b>securities operations</b>	<b>interbank operations</b>	<b>other operations</b>	
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
1	Other assets of segments	1 016 006	3 373 782	148 476	403 768	895	4 942 927
2	Total assets of segments	1 016 006	3 373 782	148 476	403 768	895	4 942 927
3	Current and deferred tax assets	-	-	-	-	-	189 284
4	Other unallocated assets	-	-	-	-	498 218	498 218
<b>5</b>	<b>Total assets</b>	<b>1 016 006</b>	<b>3 373 782</b>	<b>148 476</b>	<b>403 768</b>	<b>499 113</b>	<b>5 630 429</b>
6	Other liabilities of segments	744 921	2 352 458	116	1 659 613	7 716	4 764 824
7	Total liabilities of segments	744 921	2 352 458	116	1 659 613	7 716	4 764 824
<b>8</b>	<b>Total liabilities</b>	<b>744 921</b>	<b>2 352 458</b>	<b>116</b>	<b>1 659 613</b>	<b>7 716</b>	<b>4 764 824</b>

**Description of line 4 "Other unallocated assets"**

(UAH ths)

Line	Reporting segments	Amount
1	Fixed assets and intangible assets	498 218
	<b>Total</b>	<b>498 218</b>

**Table 30.7. Geographical segments for 2011**

Line	Item description	Ukraine	Europe	USA	FSU countries	Total
1	2	3	4	5	6	7
1	Long-term assets held-for-sale(disposed assets)	3 807	-	-	-	<b>3 807</b>
2	Other segments assets	5 652 661	96 640	52 665	7 449	<b>5 809 415</b>
<b>3</b>	<b>Total segments assets</b>	<b>5 656 468</b>	<b>96 640</b>	<b>52 665</b>	<b>7 449</b>	<b>5 813 222</b>
4	External income reporting segments	863 947	472	6 271	290	<b>870 980</b>
5	Credit liabilities	514 297	-	-	772	<b>515 069</b>

**Table 30.8. Geographical segments for 2010**

(UAH ths)

Line	Item description	Ukraine	Europe	USA	FSU countries	Other countries	Total
1	2	3	4	5	6	7	8
1	Other segments assets	5 351 010	213 251	59 408	6 727	33	<b>5 630 429</b>
<b>2</b>	<b>Total segments assets</b>	<b>5 351 010</b>	<b>213 251</b>	<b>59 408</b>	<b>6 727</b>	<b>33</b>	<b>5 630 429</b>
3	External income reporting segments	938 468	428	7 292	431	19	<b>946 638</b>
4	Credit liabilities	364 347	-	-	1 586	528	<b>366 461</b>

**Note 31. Financial Risk Management**

Almost every activity of the Bank is accompanied by risks; to minimize these kinds of risk the system of risk assessment and control has been established within the Bank that functions in accordance with the Bank internal regulations requirements and recommendations of NBU internal auditors international ratings agencies experience of leading foreign financial institutions.

The Bank's Policy of financial portfolio management establishes the principles of management system via defining of processes, limits, appropriate functions, and obligations. It also sets risk



limits and principles of risk accepting in terms of types of activities, as well as specifies steps to be taken in overlimit cases.

The Policy of PRAVEX financial portfolio represents functions and duties of the Bank's units related to finances, regulatory restrictions, certain features and business decisions.

In order to maintain a high-quality risk management and sustain the due level of profitability the Bank has established Assets and Liabilities Management Committee (ALCO) and Credit Committee (including assets quality Session).

Core objective of ALCO is protection of shareholders' equity and its placement reconciliation of the bank's assets and liabilities taking into consideration their price structure and maturity profile in line with legislation or relevant internal regulations as well as with instructions from Parent Company.

The following tasks are within the competence of ALCO:

- monitoring and evaluation of the balance sheet structure on a regular basis;
- expected revenue compared to current business activities;
- evaluation of the overall market condition evaluation of the Bank compared to its competitors;
- approval of terms and conditions for new financial products or amendment of terms and conditions for current products;
- definition of Policy and limits in line with Group's regulations for management of the following risks: market risks interest rate risks liquidity risks currency rate and operational risks;
- monitoring of adherence to the limits (internal and external requirements).

The Credit Committee is the superior authority in credit issues within the scope defined by the Supervisory Board of the Bank its responsibilities and targets comprise at least the following:

- to establish and periodically review the credit policy;
- to review the Risk Management documentation on a quarterly basis;
- to review the credit instruction including its principles and policy (incl. delegation of powers) on a regular basis suggesting to the Supervisory Board amendments to it if any;
- to estimate the maximum risk by:
  - market segments;
  - business fields;
  - products;
  - terms;
  - currencies;
- to discuss and decide on loan proposal within the amounts established/determined by the Supervisory Board of the Bank;
- to define the form of reporting to the Management Board of the Bank;
- to request an advisory opinion from Intesa Sanpaolo for those loan proposals that exceed amount defined by the Supervisory Board of the Bank.
- in case of positive advisory opinion from the Parent Company the Credit Committee submits the loan to be approved by the Supervisory Board;

- in case if the advisory opinion from the Parent Company differs from what was initially requested the Credit Committee for commercial reasons is authorized to cancel the advisory opinion based on the procedures and regulations provided by the Parent Company. The Credit Committee submits the loan for approval to the Supervisory Board;
- Decisions of Credit Committee are mandatory and are recorded in the minutes of the Credit Committee. The approved proposals are valid since the date of that Committee session when they were approved.
- The minutes of Credit Committee is submitted to Loan Department of International Subsidiary Banks Division of Intesa Sanpaolo Parent Company.

The Assets Quality Session is the extended session of Credit Committee and aims to take actions necessary for prevention and mitigation of loan losses. The Asset Quality Session analyzes loan portfolio and its quality recommends the methodology of the borrowers' classification and is responsible for the rating system of the Bank.

The Assets Quality Session is in charge for performing the following tasks:

- to approve/reject and to amend classification of a borrower;
- to take necessary actions regarding overdue loans including booking of provisions write-off and sale of assets;
- to evaluate regular actions and measures taken in order to manage overdue loans;
- to suggest to the Supervisory Board the policy concerning granting collateral for loans;
- Decision of the Assets Quality Session are communicated to the Supervisory Board at least quarterly;
- Minutes of the Assets Quality Session comprises the minutes of Credit Committee and must be filed to Loan Department of International Subsidiary Banks Division.

Risk management is considered to be an important component of complex management of the Bank's activity. Therefore before performing any significant in terms of volume transaction not only its impact on separate risks that may occur in case of its fulfillment is analyzed but on all the scope of activity of the Bank as well in particular on the structure of its assets and liabilities; financial results the Bank's profitability assets quality compliance with NBU requirements and the world's practical experience.

Taking into account the fact that "PRAVEX-BANK" PJSCCB is basically a retail bank the major risks inherent to the Bank's transactions are those connected with credit risks liquidity changes of foreign exchange and market interest rates and operational risks.

### **Credit risk**

Credit risk is the risk of failure to repay or untimely repayment of a loan granted and interests accrued. It is managed by means of managerial decisions aimed at obtaining maximum possible earnings at minimum risk of losses based on quantitative and qualitative analysis of credit portfolio of each business line. Steady monitoring of credit portfolio at the stage of credit projects tracking by means of ensuring appropriate level of control over timely repayment of interests and the exposure itself includes analysis of the borrowers' financial standing and proper use of credit facilities.

The aim of the Bank is to set up appropriate methodology in order to improve the asset quality of the bank.

The main direction used by the Bank in credit risk management area are listed hereafter:

- improvement of the currently applied lending standards;

- monitoring and control over credit risks to identify probable loan repayment problems and adequate decision-making;
- assessment of creditworthiness as per the following directions: counterparty sector competitors etc;
- delineation of powers in credit findings depending on size of a loan and potential risk value;
- availability of such organizational units as risk management unit dealing with NPL and security in the structure of the Bank;
- credit portfolio diversification – allocation of exposures on the majority of counterparties as far as possible in different fields of activity in order to make simultaneous default of the majority of counterparties impossible; investing in different assets instead of investment concentration only in one or several possible instruments;
- limiting allocation of exposures with single counterparty (concentration limit) depending on its financial position and production volume in order to mitigate expenditures in case of default of certain counterparty;
- lending under liquid collateral which allows to reduce considerably the volume of credit risk evaluation of the collateral by independent evaluating company monitoring and revaluation of pledged property verification of the collateral by State register of encumbrances of movable property;
- creation of alternative cash flows in the form of additional collateral sureties guarantees insurance policies loan-loss provisions.

To diminish credit risk the Bank applies the system comprising types and conditions of loan transactions performance with a due regard of time limits borrowers collateral interest rates and methods of their application setting of limits credit portfolio diversification booking of provisions risk monitoring and control measures.

The monitoring of separate credit risks related to a corporate borrower includes preliminary creditworthiness assessment financial condition analysis internal and external environment evaluation market position analysis cash flow forecasts assessment of the reliability level and credit history and evaluation of the liquidity level of loan transaction collateral. The Bank undertakes the assessment of all factors having impact upon risk exposure based on the qualitative and quantitative parameters in pursuance of the relevant internal bank methodologies designated to measure credit risks for short term and long-term loans. The results of such analysis assessment and measurement serve to determine a loan transaction risk category and to create a credit risk dossier for a borrower which includes a detailed description of all probable risks attributable to borrower's business and reflects a complex assessment of a probable borrower's failure to comply with his/her obligations and the risk degree of cooperation with a certain counterparty.

Monitoring of separate credit risks related to a retail borrower includes borrower's creditworthiness assessment his / her financial condition analysis and assessment of the quality and sufficiency of loan transaction collateral or security in pursuance of the methodology specifically designated to measure a financial condition of retail borrowers and individuals acting as business entities. Based on the results of such efforts the experts of the Bank assess borrower's financial standing and determine the category of a loan transaction.

Monitoring of any separate credit risk attributable to a borrower being a commercial bank designated to set credit limits is performed in line with the relevant applicable Regulations with regard to limits setting for loan and deposit resources in the inter-bank market. The results of separate credit risk measurement are employed to determine the expediency and feasibility of loan

transactions as well as the terms and conditions of their performance (i.e. maturity amount interest rate etc).

To ensure credit portfolio diversification the competent units and departments of the Bank determine and set flexible limits for every lending direction.

Quality of credit risk management is confirmed as well by the values of established NBU economic norms for credit risk (H7, H8, H9, H10) and which the Bank was adhering during the year within regulated limits.

### **Market Risk**

The Bank is exposed to market risks that emerge in connection to open positions of interest rates currencies and equity instruments that in a greater degree depend on overall and particular market changes. Assets and Liabilities Management Committee is in charge for setting the limits for amounts of risk that can be accepted by the Bank. In its market risk management the Bank applies recommendations from the Intesa Sanpaolo S.p.A. Parent Company based upon instructions adopted by the Group.

The Parent Company conducts permanent monitoring of market risk which the Bank is exposed to within the policy and procedures established by Intesa Sanpaolo S.p.A. Group.

### **Currency risk**

Currency risk is the risk of negative changes in fair value of currency position (in national currency) as a result of exchange rate fluctuations, as well as price for banking metals, and has a potential impact on the Bank's inflows and capital.

Both foreign currency and the gold stock are exposed to currency risk.

The portfolio is sensible towards exchange rate fluctuations, if it includes spot or future cashflow denominated (or indexed) in any currency, except for base currency of the bank. Hence, currency risk results from the activity recorded in banking and trading book of the bank.

Currency risk directly impacts the balance-sheet and profit and loss statement, since assets and liabilities in foreign currency must be converted into accounting currency as of each reporting date.

The main tool for management of currency risk in the bank is capping. The bank applies it by means of setting the limits: for the overall open currency position in bank as a whole; currency position limits by currencies; currency position limits by business units and transactions; treasury non-trading transactions with cash foreign currency. The internal limits system allows comprehensive and proper management of currency risk with risk management principles adopted by the bank.

For the purpose of the currency risk management, limits and sublimits are set for each unit of the Bank in accordance with NBU requirements. Such limits are necessary to avoid unexpected losses caused by significant fluctuations of exchange rates and prices for banking metals.

In the Bank following limits are set:

#### 1. Internal position limit:

- Limits for all kind of currencies and banking metals
- Limits for convertible currencies (USD, EUR, GBP...)
- Limits for inconvertible currencies (RUB, BYR, HRK...)
- Limits for derivatives

#### 2. Internal position sublimit:

- Sublimits for banking metals(Au, Ag, Pt and Pd)
- Sublimits for non-trading transactions (cash)

1. NBU limits for currency position:

- Limit for long currency position
- Limit for short currency position

The control over currency risk is based on daily monitoring of open currency position and other macroeconomic indices.

Treasury and Assets and Liabilities Management Department performs calculation of limits and control over limit compliance.

Market Risk Office and Middle-Office provide different organizational units with updated information on Bank's propensity to currency risk, and in case of significant deterioration of situation on the market they inform immediately Comitato Governo Rischio di Gruppo, which takes necessary measures and informs immediately Management Board of Intesa Sanpaolo Group.

Market Risk Office and Middle-Office:

- daily analyze open currency position of the Bank;
- define acceptable level of risk on open currency position and set limits on open currency position;
- perform calculation of limits on monthly basis for organizational units of the Bank and monitoring of risk situations;
- initiate reconsideration of Bank policy on limits of acceptable risks for organizational units, which perform currency transactions;
- control compliance of limits set by authorized organizational units of the Bank.

Asset & Liability Management Committee:

- approves set limits;
- requires explanations from heads of authorized organizational units if set limits exceed maximum acceptable value.

Organizational units, which perform currency transaction must comply with set limits.

**Table 31.1. Analysis of currency risk**

(UAH ths)

Line	Currency	as of December 31 2011 (as at the end of the day)			as of December 31 2010 (as at the end of the day)		
		monetary assets	monetary liabilities	net position	monetary assets	monetary liabilities	net position
1	2	3	4	5	6	7	8
1	USD	1 777 645	2 212 077	(434 432)	2 018 519	2 570 399	(551 880)
2	EUR	245 334	360 997	(115 663)	296 498	345 920	(49 422)
3	RUR	15 389	10 230	5 159	10 514	6 831	3 683
4	Other	57 597	52 379	5 218	35 129	20 530	14 599
5	<b>Total</b>	<b>2 095 965</b>	<b>2 635 683</b>	<b>(539 718)</b>	<b>2 360 660</b>	<b>2 943 680</b>	<b>(583 020)</b>

**Table 31.2. Change of financial result and equity following possible change in exchange rate set as of reporting date under condition that all other variable characteristics remain fixed**

(UAH ths)

Line	Item description	as of December 31 2011 (as at the end of the day)		as of December 31 2010 (as at the end of the day)	
		Impact on profit/ (loss)	Impact on equity	Impact on profit/(loss)	Impact on equity
1	2	3	4	5	6
1	USD increase for 5 %	(21 722)	(21 722)	(27 594)	(27 594)
2	USD decrease for 5 %	21 722	21 722	27 594	27 594
3	EUR increase for 5 %	(5 783)	(5 783)	(2 471)	(2 471)
4	EUR decrease for 5 %	5783	5783	2 471	2 471
5	RUR increase for 5 %	258	258	184	184
6	RUR decrease for 5 %	(258)	(258)	(184)	(184)
7	Increase of other currencies for 5%	261	261	730	730
8	Decrease of other currencies for 5%	(261)	(261)	(730)	(730)

**Table 31.3. Change of financial result and equity following possible change in exchange rate set as an average weighted exchange rate under the condition that all other variable characteristics remain fixed**

(UAH ths)

Line	Item description	As of 31.12.2011 (as at the end of the day)		As of 31.12.2010 (as at the end of the day)	
		Impact on profit/ (loss)	Impact on equity	Impact on profit / (loss)	Impact on equity
1	2	3	4	5	6
1	USD increase for 5 %	(20 477)	(20 477)	(25 697)	(25 697)
2	USD decrease for 5 %	22 848	22 848	29 310	29 310
3	EUR increase for 5 %	(15 037)	(15 037)	(2 274)	(2 274)
4	EUR decrease for 5 %	(2 589)	(2 589)	2 650	2 650
5	RUR increase for 5 %	732	732	187	187
6	RUR decrease for 5 %	171	171	(181)	(181)
7	Increase of other currencies for 5%	657	657	(1 320)	(1 320)
8	Decrease of other currencies for 5%	98	98	(2 585)	(2 585)

## **Interests risk**

To assess and to manage the interest rate risk the Bank applies the methodology for interest rate risk assessment in particular: expected future cash flows are recorded in different periods of time applying change of interest rate in basis points to assets and liabilities sensitive to interest rate change.

Financial Risk Management Committee of Intesa Sanpaolo Group approved limit of net interest income sensibility (+100 bp) amounting to +/- EUR 1 0 mil. The limit is adopted by the Bank and included in the process of interest rate risk management of banking portfolio.

Flexibility of managing the interest-rate risk is limited by several main factors:

- liquidity consideration – the need to have and support liquid funds;
- price competition from other banks in terms of credit and deposit transactions;
- it is difficult to forecast the movement of rates at financial market of Ukraine.

In order to reduce interest rate risk of the Bank the following measures are taken:

- interest rate trend forecast;
- daily analysis of assets and liabilities structure;
- monthly analysis of net interest income dynamics spread and net interest margin;
- calculation and monitoring of significant gaps between assets and liabilities sensitive to interest rate change;
- correlation of quantitative assessment of interest rate risk with Bank income;
- monthly monitoring of market interest rates on financial instruments and comparing with peers.

The Bank provides ALCO and Management Board of the Bank with appropriate reports, as per the procedure established by the Parent Company.

In case of deterioration of the situation on the market, Market Risk Office and Middle-Office together with of Risk Management Department of Intesa Sanpaolo perform constant monitoring of signs of deterioration of the situation on the market and Bank's being in danger of currency risk.

In case of significant deterioration of the situation Headquarters of Parent Company activates the procedure on crisis management.

**Table 31.4. General analysis of interest risk**

(UAH ths)

Line	Item Description	Upon demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
1	2	3	4	5	6	7
<b>2010</b>						
1	Total financial assets	103 064	1 031 435	1 179 683	1 882 882	<b>4 197 064</b>
2	Total financial liabilities	413 976	2 024 084	831 272	170 597	<b>3 439 929</b>
3	Net gap as of December 31 2010 (as at the end of the day)	(310 912)	(992 649)	348 411	1 712 285	<b>757 135</b>
<b>2011</b>						
4	Total financial assets	575 400	800 374	1 021 858	2 086 222	4 483 854
5	Total financial liabilities	599 908	2 047 987	504 352	116 499	3 268 746
6	Net gap as of December 31 2011(as at the end of the day)	(24 508)	(1 247 613)	517 506	1 969 723	1 215 108

Sensitivity of the bank's profit and equity to interest rate change is based on the analysis of gaps between the assets and liabilities of the bank sensitive to interest rate change and modeling of interest rates changes.

**Table 31.5. Monitoring of interest rates by financial instruments**

(%)

Line	Item description	2011			2010		
		UAH	USD	EUR	UAH	USD	EUR
1	2	3	4	5	6	7	8
<b>Assets</b>							
1	Due from banks	19,48	2,5	-	-	-	-
2	Due from customers	15,57	11,13	10,28	17,85	12,84	12,09
3	Available-for-sale debt securities	11,73	-	-	6,65	-	-
4	Held-to-maturity debt securities	-	-	-	10,74	-	-
<b>Liabilities</b>							
5	Due to banks	13,41	7,42	1,62	8,91	3,29	-
6	Due to customers						
6.1	Currents accounts	3,05	1,32	1,66	2,32	0,84	1,59
6.2	Term funds	14,83	6,94	4,86	15,84	7,96	6,36
8	Subordinated debt	-	6,13	-	-	5,78	-



**Other price risk**

Other price risk appears in case of investment in securities. Such investments shall be within the fixed limits. Limits on securities transactions shall be approved by the appropriate Committee of the Parent Company. The limits are set by issuers and issues of securities. Limits are terminable (1 year, as a rule), and after the expiry they are subject to mandatory re-negotiation.

The issue of necessity to set the limits shall be initiated by Treasury and Investment Banking Division. Methodology, Market and Operational Risk Department provides the appropriate Committee of the Parent Company with their opinion regarding setting such limits.

Control over adherence to established limits is done by Treasury and Investment Banking Division on an ongoing basis. Moreover, Methodology, Market and Operational Risk Department performs daily control over limits for investment in securities.

**Geographic Risk**

Geographic risk is determined by specific features of certain administrative or geographic region that is characterized by conditions different from average ones for the country as a whole. Differences may concern climatic national political legislative and other peculiarities of the region that influence condition of the borrower and so become a component of credit risk.

Concentration of assets and liabilities by regions is given in tables 31.6, 31.7.

**Table 31.6. Analysis of geographic concentration of financial assets and liabilities for 2011**

(UAH ths)

Line	Item description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	<b>Assets</b>				
1	Cash and cash equivalents	458 696	96 984	6 391	<b>562 071</b>
2	Due to banks	137 080	-	-	<b>137 080</b>
3	Due from customers	4 122 028	52 321	1 058	<b>4 175 407</b>
4	Available-for-sale securities	1 113	-	-	<b>1 113</b>
5	Other financial assets	83 784	-	-	<b>83 784</b>
6	Total financial assets	4 802 701	149 305	7 449	<b>4 959 455</b>
7	Non-financial assets	853 767	-	-	<b>853 767</b>
8	Total assets	5 656 468	149 305	7 449	<b>5 813 222</b>
	<b>Liabilities</b>				
9	Due to banks	36 795	1 174 098	3	<b>1 210 896</b>
10	Due to customers	3 140 179	19 782	9 144	<b>3 169 105</b>
11	Debt securities issued by the Bank	1	-	-	<b>1</b>
12	Other financial liabilities	105 413	62 046	58	<b>167 517</b>
13	Subordinated debt	-	-	123 718	<b>123 718</b>
14	Total financial liabilities	3 282 388	1 255 926	132 923	<b>4 671 237</b>
15	Non-financial liabilities	52 638	21 346	12	<b>73 996</b>
16	Total liabilities	3 335 026	1 277 272	132 935	<b>4 745 233</b>
17	Net balance sheet item	2 321 442	(1 127 967)	(125 486)	<b>1 067 989</b>
18	Credit liabilities	514 297	-	772	<b>515 069</b>

**Table 31.7. Analysis of geographic concentration of financial assets and liabilities for 2010**

(UAH ths)

Line	Item description	Ukraine	OECD	Other countries	Total
1	2	3	4	5	6
	<b>Assets</b>				
1	Cash and cash equivalents	517 984	223 637	3 916	<b>745 537</b>
2	Due from customers	3 931 790	49 022	2 844	<b>3 983 656</b>
3	Available-for-sale securities	39 680	-	-	<b>39 680</b>
4	Held-to-maturity securities	108 788	-	-	<b>108 788</b>
5	Other financial assets	39 484	-	-	<b>39 484</b>
6	Total financial assets	4 637 726	272 659	6 760	<b>4 917 145</b>
7	Non-financial assets	713 284	-	-	<b>713 284</b>
8	Total assets	5 351 010	272 659	6 760	<b>5 630 429</b>
	<b>Liabilities</b>				
9	Due to banks	80 488	1 524 416	3	<b>1 604 907</b>
10	Due to customers	2 813 044	13 972	7 406	<b>2 834 422</b>
11	Debt securities issued by the Bank	1	-	-	<b>1</b>
12	Other financial liabilities	100 563	54 316	2	<b>154 881</b>
13	Subordinated debt	-	-	116 721	<b>116 721</b>
14	Total financial liabilities	2 994 096	1 592 704	124 132	<b>4 710 932</b>
15	Non-financial liabilities	38 143	15 749	-	<b>53 892</b>
16	Total liabilities	3 032 239	1 608 453	124 132	<b>4 764 824</b>
17	<b>Net balance sheet item</b>	2 318 771	(1 335 794)	(117 372)	<b>865 605</b>
18	Credit liabilities	364 347	-	2 114	<b>366 461</b>

**Liquidity risk**

The process of liquidity risk management is carried out in accordance with the Policy of liquidity risk management of the Bank and attachments hereto.

The liquidity risk is defined as the risk of Bank's inability to perform its payment obligations when becoming due. The Bank is able to cover money outflows by cash inflows high liquidity assets and its potential to receive loans. High liquidity assets in particular under the crisis conditions in the market gradually become very difficult (or even impossible) to sell or apply as collateral for money obtaining; from this viewpoint the liquidity risk of the Bank is closely connected with the liquidity conditions at the market.

For the purpose of the liquidity risk management the Bank applies the permanent monitoring of the expected future cash flow under customer transactions and internal bank transactions as a part of the asset & liability management. The Bank measures and controls the liquidity risk on the basis of the internal liquidity rates (coefficients) and liquidity requirements determined by the National Bank of Ukraine.

Liquidity risk management covers management of current term liquidity and liquidity under emergency circumstances.

Managing of liquidity risk of the Bank is subdivided into three macro zones: short-term, (II) structural liquidity, and (III) contingency plan.

Short-term liquidity: includes the system of indicators, limits, and threshold limits of liquidity risk the Bank is exposed to during short-term period. They are used to identify the maximum risk which can be accepted by the Bank, and to provide with the best risk management level. The short-term period is considered to be the most important period of time since in case of liquidity problems the solvency during first few days is crucial for the further crisis situation development.

Structural liquidity: the system of measures and limitations aimed at risk control and management which are resulted from maturity date discrepancy of the medium-/long-term assets and liabilities, which is crucial for strategic liquidity management planning and prevention of the further development of short-term liquidity shortage.

Liquidity management under crisis circumstances because of deterioration in financial position of the Bank is defined in Action Plan in case of contingent circumstances as for liquidity risk.

The contingency plan related to liquidity: determines the system of indicators for identification of unexpected conditions that could lead to deterioration of the Bank's liquidity position, and includes powers of attorney and procedures to be integrated in case of unexpected situation.

The analysis on accepting of different types of scenarios is being held:

- conservative basic scenario (the probable stressing situation related to loans and deposits is taken into account);
- stress scenario related to market situation;
- certain stressing scenario specific for Bank's activities.

Conservative basic scenario used as a standard for establishing of short-term GAP limits (described below) envisages considering of the probable loans and deposits outflow, and taking into account of preventing and considering hypothesis related to cash outflow as a result of other behavior variables and evaluation of assets liquidity.

Emergency in regard to liquidity can be related to the situation on the market or to particular banking one whereas in regard to duration it can be classified as short-term (several days) or long-term.

Action Plan provides:

- detection of first warnings their constant control and defining measures to be taken when liquidity shortage becomes evident;
- legitimation of actions of the management which is responsible for emergency management on liquidity and capable for fast change of assets and liabilities structure;

- necessary steps of immediate actions and interfering for solving emergency situation.

The system of early warning indicators can indicate three different situations:

ordinary state; 2) warning; 3) maximum warning.

Initial warnings are aimed at detecting signs of potential liquidity shortage as systemic (market) and specific (intrabank).

The liquidity risk stress test methodology was implemented by the Bank to manage liquidity in the environment of impaired ratio between the assets and liabilities of the Bank. The results of the relevant stress tests are recorded in Action Plan as for liquidity risk under emergency circumstances.

**Table 31.8. Analysis of financial liabilities by maturity for 2011**

(UAH ths)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
1	Due to banks	155 032	20 699	62 551	1 174 300	-	1 412 582
2	Due to customers:	1 561 324	623 500	925 533	136 102	-	3 246 459
2.1	Individuals	1 053 186	503 577	863 481	136 075	-	2 556 319
2.2	Other	508 138	119 923	62 052	27	-	690 140
3	Debt securities issued by the Bank	1	-	-	-	-	1
4	Subordinated debt	11 648	1 135	5 201	134 305	-	152 289
5	Other financial liabilities	170 885	1 031	1 885	130	12	173 943
6	Financial guarantees	35 639	162 577	7 209	506	-	205 931
7	<b>Total possible future payments according to financial liabilities</b>	<b>1 934 529</b>	<b>808 942</b>	<b>1 002 379</b>	<b>1 445 343</b>	<b>12</b>	<b>5 191 205</b>

Table 31.8 is prepared based on data of the reporting form No. 631 "Report on the structure of assets and liabilities by maturity" approved by NBU Regulation No. 124 dd. 19.03.2003 as of 31.12.2011 (end of the day), considering future cash flows.

**Table 31.9. Analysis of financial liabilities by maturity for 2010**

(UAH ths)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
1	Due to banks	76 329	72 029	439 966	1 179 634	-	1 767 958
2	Due to customers:	1 359 214	565 093	865 664	201 128	-	2 991 099
2.1	Individuals	849 199	526 738	800 353	201 128	-	2 377 418
2.2	Other	510 015	38 355	65 311	-	-	613 681
3	Debt securities issued by the Bank	1	-	-	-	-	1
4	Subordinated debt	5 013	1 051	4 897	81 056	58 088	150 105
5	Other financial liabilities	147 132	750	2 969	133	-	150 984

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
6	Financial guarantees	53 350	220	6 030	161	-	59 761
7	<b>Total possible future payments according to financial liabilities</b>	<b>1 641 039</b>	<b>639 143</b>	<b>1 319 526</b>	<b>1 462 112</b>	<b>58 088</b>	<b>5 119 908</b>

Table 31.9 is prepared based on data of the reporting form No. 631 "Report on the structure of assets and liabilities by maturity" approved by NBU Regulation No. 124 dd. 19.03.2003 as of 31.12.2010 (end of the day) taking into consideration future cashflow.

**Table 31.10. Analysis of financial assets and liabilities by maturity based on expected maturity for 2011**

(UAH ths)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	<b>Assets</b>						
1	Cash and cash equivalents	593 158	-	-	-	-	593 158
2	Funds in other banks	138 460	-	-	-	-	138 460
3	Due from customers	491 979	250 691	1 602 853	1 643 030	455 611	4 444 164
4	Available-for-sale securities	33	42	-	1 038	-	1 113
5	Other financial assets	59 126	18 000	-	-	-	77 126
6	Other assets	167 635	14 230	3 807	196 699	434 658	817 029
7	<b>Total financial assets</b>	<b>1 450 391</b>	<b>282 963</b>	<b>1 606 660</b>	<b>1 840 767</b>	<b>890 269</b>	<b>6 071 050</b>
	<b>Liabilities</b>						
8	Due to banks	154 973	5 074	-	1 112 895	-	1 272 942
9	Due to customers	1 553 865	609 108	878 701	127 431	-	3 169 105
10	Debt securities issued by the Bank	1	-	-	-	-	1
11	Other financial liabilities	102 757	850	1 724	130	12	105 473
12	Other liabilities	67 867	181	161	-	-	68 209
13	Subordinated debt	11 062	-	-	112 656	-	123 718
14	<b>Total financial liabilities</b>	<b>1 890 525</b>	<b>615 213</b>	<b>880 586</b>	<b>1 353 112</b>	<b>12</b>	<b>4 739 448</b>
15	<b>Net liquidity gap as of December 31 (as at the end of the day)</b>	<b>(440 134)</b>	<b>(332 250)</b>	<b>726 074</b>	<b>487 655</b>	<b>890 257</b>	<b>1 331 602</b>
16	<b>Aggregated liquidity gap as of December 31 (as at the end of the day)</b>	<b>(440 134)</b>	<b>(772 384)</b>	<b>(46 310)</b>	<b>441 345</b>	<b>1 331 602</b>	

Table 31.10 is prepared based on data of the reporting form No. 631 “Report on the structure of assets and liabilities by maturity” approved by NBU Regulation No. 124 dd. 19.03.2003 as of end of the day 31.12.2011 taking into consideration the adjusting entries.

**Table 31.11. Analysis of financial assets and liabilities by maturity based on expected maturity for 2010**

(UAH ths)

Line	Item description	On demand and less than 1 month	1 to 3 months	3 to 12 months	12 months to 5 years	Over 5 years	Total
1	2	3	4	5	6	7	8
	<b>Assets</b>						
1	Cash and cash equivalents	760 515	-	68	-	-	760 583
2	Due from customers	56 504	544 677	1 596 023	1 384 591	543 531	4 125 326
3	Available-for-sale securities	58	39 622	-	-	-	39 680
4	Held-to-maturity securities	49 690	34 518	24 580	-	-	108 788
5	Other financial assets	42 277	-	-	-	-	42 277
6	Other assets	10 568	65	241	11 892	673 179	695 945
<b>7</b>	<b>Total financial assets</b>	<b>919 612</b>	<b>618 882</b>	<b>1 620 913</b>	<b>1 396 483</b>	<b>1 216 710</b>	<b>5 772 599</b>
	<b>Liabilities</b>						
8	Due to banks	75 803	61 451	407 345	1 114 638	-	1 659 237
9	Due to customers	1 337 845	536 576	780 364	179 637	-	2 834 422
10	Debt securities issued by the Bank	1	-	-	-	-	1
11	Other financial liabilities	98 119	750	2	1	-	98 872
12	Other liabilities	49 013	-	2 967	132	-	52 112
13	Subordinated debt	4 461	-	-	55 732	56 528	116 721
<b>14</b>	<b>Total financial liabilities</b>	<b>1 565 242</b>	<b>598 777</b>	<b>1 190 678</b>	<b>1 350 140</b>	<b>56 528</b>	<b>4 761 365</b>
<b>15</b>	<b>Net liquidity gap as of December 31 (as at the end of the day)</b>	<b>(645 630)</b>	<b>20 105</b>	<b>430 234</b>	<b>46 343</b>	<b>1 160 182</b>	<b>1 011 234</b>
<b>16</b>	<b>Aggregated liquidity gap as of December 31 (as at the end of the day)</b>	<b>(645 630)</b>	<b>(625 525)</b>	<b>(195 291)</b>	<b>(148 948)</b>	<b>1 011 234</b>	

Table 31.11 is prepared based on data of the reporting form No. 631 "Report on the structure of assets and liabilities by maturity" approved by NBU Regulation No. 124 dd. 19.03.2003 as of 31.12.2010 (end of the day) taking into consideration the adjusting entries.

### Operational risk

Operational Risk Management (ORM) contains the following macro processes:

- Operational risk defining;

- Operational risk assessment;
- Operational risk management;
- Operational risk monitoring, control and reporting;

#### Operational risk defining

Definition is the activity on disclosing, collecting and classifying information regarding operational risk done by means of sequential and coordinated processing of data, considering all relevant sources of information, which help to create the complete database.

Here are the main components of the classification model (mode detailed classification is contained in the operational risk management Policy of the Bank):

- Events Types Model classifies types of events, which can cause operational losses and comply with these

instructions;

- Risk Factors Model, which classifies possible reasons for event types;
- Indicators Model, which classifies indicators in terms of ORM, allowing use of information on operational losses with managerial and organizational purposes.

#### Operational risk assessment

Assessment is the activity on transforming of basic data (operating loss, scenarios analysis, external data and riskiness of economic area assessment), applying properly developed model, into clear risk estimates. Such estimates give comprehensive information to have clear idea of the overall risk profile of the Group and allow calculating

Capital at Risk for each unit of the Group.

The Bank applies Basic Indicator Approach, as per the Group's Guideliness, while Standardized Approach will be applied for internal use for the purposes of Capital at Risk calculation.

#### Basic Indicator Approach

According to Basic Indicator Approach, capital to be kept by the Bank to protect itself from operational risk, shall be calculated and allocated based on the Bank's gross income, i.e. it shows bank's exposure to operational risk and is represented by the following formula:

$$K_{BIA} = GI \times \alpha$$

Where:

$K_{BIA}$  – capital accruals, as per Basic Indicator Approach

GI – key indicator, annual gross income (average gross income for previous three years)

$\alpha$  – fixed interest of 15%

Fixed  $\alpha$  interest – a constant set by Basel Committee on Banking Supervision.

*Gross income = Net interest income + Net non-interest income* (includes net commissions on transactions, net result from financial transactions and other revenue. Unusual items were excluded.)

Here is the organizational model of the Bank adopted for operational risks management:

- Decision making bodies,



- Centralized unit,
- Decentralized unit and
- Internal audit.

Monitoring, control and reporting related to operational risk

Monitoring and reporting – activity on structured gathering and consolidation of results obtained by means of assessment for the purposes of analysis and review of the level of exposure to operational risk, and for prevention of higher complexity events (worst cases), as well as by means of reporting to other organizational units about abnormal situations and taking ad hoc decisions.

Reporting in the Bank shall be done as follows:

- Internal reports (reports at the Bank's level) – quarterly reports/analysis of collected data on operational losses (a posteriori) for relevant members of the Management Board, Supervisory Board, Audit Committee and Head of Risk Management Division.
- External reports (reports to Intesa Sanpaolo Bank) – on a quarterly basis (and on a monthly basis, on demand); a self-diagnostic Report is submitted on the yearly base

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### Note 32. Capital management

The shareholders of the Bank pay significant attention to increase of capital particularly to increase of authorised capital as the main component of the capital.

Capital of the bank is established aiming at:

- highly profitable use of own funds;
- coverage for all possible kinds of risk that the Bank is exposed to;
- optimization of assets and liabilities structure by terms of attraction and placement of funds.

The Bank maintains control over set economic standards in line with “Instruction on the procedure of governing the Ukrainian banks’ activity” approved by NBU Regulation N 368 dd. August 28 2001.

During 2011 the Bank has always respected capital adequacy ratios. As of December 31 2010 regulatory capital adequacy ratio and ratio of regulatory capital against total assets were 14.96 % and 13.49 % accordingly that testifies to the ability of the Bank to timely and in full settle its liabilities.

**Table 32.1. Structure of regulatory capital**

(UAH ths)

Line	Item description	2011	2010
1	2	3	4
	<b>Fixed capital</b>	<b>613 057</b>	<b>552 698</b>
1	Authorized capital	937 280	905 741
2	Issue profit/loss	295 398	672
3	Total provisions according to Ukrainian legislation	1 333	1 333
4	Intangible assets	(49 008)	(34 561)
5	Depreciation of intangible assets	32 218	22 705
6	Capital investments into intangible assets	(155 568)	(29 400)
7	Uncovered loss of previous years	(284 735)	(11 582)
8	Accounting loss	(163 861)	(302 210)
	<b>Additional capital</b>	<b>270 785</b>	<b>236 505</b>
9	Provisions for standard loans	4 926	2 875
10	Unallocated profit of past years	840	614
11	Profit/loss of the reporting year to be approved	(123 983)	(273 153)
12	Result of fixed assets revaluation	152 363	120 756
13	Subordinated debt	112 656	112 260
	<b>Withdrawal of attracted funds</b>		
14	Operations with insiders	(623)	-
15	Amount of adjustment 5999	(39 878)	29 057
	<b>Total regulatory capital</b>	<b>883 219</b>	<b>789 203</b>

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### Note 33. Potential liabilities of the Bank

a) The Bank doesn't have potential liabilities related to legal proceedings or to tax issues. The data related to the creation of provisions for liabilities is disclosed in Note 17.

b) liabilities on capital investments.

As of December 31<sup>st</sup> 2011 (as at the end of the day) according to agreements concluded the Bank had liabilities related to purchase of fixed assets and intangible assets amounting to UAH 103 478 ths.

c) liabilities on lending activity.

**Table 33.1. Structure of credit liabilities**

(UAH, ths)			
<b>Line</b>	<b>Item description</b>	<b>2011</b>	<b>2010</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Lending obligations granted	3 836	5 752
2	Unused revocable credit liabilities	281 327	279 285
3	Export letters of credit	4 224	1 768
4	Import letters of credit	28 824	24 936
5	Other letters of credit	70	2 206
6	Granted guarantees	197 841	53 641
7	Provisions for liabilities related to crediting	(1 053)	(1 127)
8	<b>Total liabilities related to crediting net of provisions</b>	<b>515 069</b>	<b>366 461</b>

Item 16 of the Balance-sheet is disclosed in line 7, table 33.1.

As of December 31 2011 (as at the end of the day) the Bank does not have unforeseen liabilities.

### Note 34. Fair value of financial instruments

Fair value is an amount at which the asset exchange or liability payment as a result of transaction between well-informed interested and independent parties may be carried out.

Estimated fair value of financial instruments was calculated by the Bank based on available market information (if any) and respective methodologies of evaluating.

Cash and cash equivalents are shown as of the balance-sheet date at their fair value. Since there were no independent market prices for determining fair value of the bank's available-for-sale securities they are recorded at historic value according to requirements of "Instructions for recording the securities operations in Ukrainian banks" approved by NBU Resolution N 358 dd. October 3<sup>rd</sup> 2005.

Loans and debts of customers are recorded net of provisions for depreciation. Forecasted fair value of loans and indebtedness of the client was calculated by the Bank based on market information concerning crediting and relevant evaluation methodology.

Raised funds. Estimated fair value of liabilities which do not have scheduled maturity term is the amount payable on demand. Fair value of deposits with fixed interest rate and of other raised funds was calculated based on analysis of market rates existing for analogous financial instruments with similar maturity date.

The data related to fair value of the financial instruments were prepared on the basis of the following methodology of financial assets and liabilities fair value calculation:

- *Customers' loans*
  - calculation of the basic interest rate, interest rate published by NBU which is the average market rate in terms of products with similar characteristics (in terms of original currency, contracted maturity date and interest repayment schedule);

- discounting of the future cash flows per each portfolio with a help of defined basic rate application.
- *Funds of customers*
  - Calculation of the basic interest rate, interest rate published by NBU which is the average market rate in terms of products with similar characteristics (in terms of original currency, contracted maturity date and repayment schedule) of the period which is the closest to reporting date;
  - discounting of future cash flows per each portfolio with a help of defined basic rate application.

Fair value of financial assets and liabilities compared to relevant amounts of book value is recorded in the Bank balance-sheet in the following way:

**Table 34.1. Balance and calculated fair value of financial assets and liabilities not recorded at fair value in the balance-sheet**

(UAH ths)

Item description	2011		2010	
	Book value	Fair value	Book value	Fair value
1	2	3	4	5
<b>Assets</b>				
Cash and cash equivalents	562 071	562 071	745 537	745 537
Due to banks	137 080	137 080	-	-
Due from customers	4 175 407	4 156 180	3 983 656	4 065 131
Available-for-sale securities	1 113	1 113	39 680	-
Held-to-maturity securities	-	-	108 788	109 072
<b>Liabilities</b>				
Due to banks	1 210 896	1 210 896	1 604 907	1 604 907
Due to customers	3 169 105	3 169 105	2 834 422	2 834 422
Debt securities issued by the Bank	1	1	1	1
Subordinated debt	123 718	123 718	116 721	116 721

While determining expected fair value of financial instruments the Bank uses evaluation models commonly used by market players which are based on assumption that book value of financial instruments is a result of operations between well-informed market players under normal market conditions.

### Note 35. Related party transactions

In the course of related party transactions the Bank complies with the requirements set out in the Banks and Banking Ukrainian Law Ukrainian Banking Supervision Guidelines as approved by NBU Regulation No. 368 dated August 28 2001 and current applicable Third Party Transactions Management Regulations of Intesa SanPaolo S.p.A.

The current applicable Third Party Transactions Regulations of Intesa SanPaolo S.p.A. include the rules and regulations concerning: preliminary consideration and approval of transactions; compliance with information disclosure requirements; and internal control.

In 2009 the Supervisory Board of the Bank approved the “PRAVEX-BANK” JSCB Policy of Loans to Bank Employee according to which the Bank implements prudent procedures of granting loans to related parties and provides for the preliminary approval of loans to any employees of the Bank.

The Bank constantly monitors transactions with related parties and adheres to rules of NBU for such kind of transactions.

The asset and liability assessment methods applied to recognise related party transactions are similar to generally accepted ones (see Note 1).

Any agreements with other persons are no less beneficial than those negotiated and entered into with any Bank's related parties.

The related party transactions undertaken by the Bank in 2011 had no significant impact on financial results of the Bank.

**Table 35.1. Balances on operations with related parties as of the day end on December 31 2011**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Largest participants (shareholders) of the bank</b>	<b>Top management</b>	<b>Other related parties</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Cash and cash equivalents	64 471	-	-
2	Due from customers	-	557	4 942
3	Other assets	3	-	-
4	Due to banks	1 174 097	-	-
5	Due to customers	-	2 773	21 188
6	Other financial liabilities	62 046	8 000	-
7	Other liabilities	2 698	384	4 117

**Table 35.2 Income and loss under operations with related parties for 2011**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>The biggest participants (shareholders) of the bank</b>	<b>Top management</b>	<b>Other related parties</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Interest income	26	69	672
2	Interest expense	(60 548)	(48)	(1 412)
3	Profit from foreign currency revaluation	1 825	9	94
4	Commission income	873	4	64
5	Commission expense	(140)	(3)	(2)
6	Other operating income	5 144		2
7	Administrative and other operating expenses	(15 540)	(25 102)	(37 065)

**Table 35.3. Issued and redeemed loans of related parties as of the day end on December 31 2011**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>The biggest participants (shareholders) of the bank</b>
<b>1</b>	<b>2</b>	<b>3</b>
1	Guarantee received	56 377
2	Import letter of credit	25 024

**Table 35.4. Loans granted to/repaid by related parties within 2011**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Top management</b>	<b>Other related parties</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loans granted to related parties within 2011	-	1 174
2	Loans repaid by related parties within 2011	42	1 764

**Table 35.5. Balances on operations with related parties as of the day end on December 31 2010**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Largest participants (shareholders) of the bank</b>	<b>Top management</b>	<b>Other related parties</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Cash and cash equivalents	178 620	-	5172
2	Due from customers	-	596	-
3	Due to banks	1 467 386	-	13375
4	Due to customers	-	1 213	-
5	Other financial liabilities	54 271	6 700	-
6	Other liabilities	5 610	607	3 923

**Table 35.6. "Income and loss under operations with related parties for 2010**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Largest participants (shareholders) of the bank</b>	<b>Top management</b>	<b>Other related parties</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Interest income	-	74	918
2	Interest expense	(51 548)	-	(1 756)
3	Loan-loss provisions	(11 021)	(13)	(159)
4	Profit (loss) from foreign currency revaluation	874	3	72
5	Commission income	(132)	-	-
6	Commission expense	(132)	(4)	(4)
7	Loss from initial recognition of financial liabilities at off-market rate			(6)
8	Other operating income			1
9	Administrative and other operating expenses	(15 737)	(19 953)	(31 727)

**Table 35.7. Issued and redeemed loans of related parties as of the day end on December 31 2010**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Top management</b>
<b>1</b>	<b>2</b>	<b>3</b>
1	Guarantee received	39 326
2	Import letter of credit	24 936

**Table 35.8 Loans granted to/repaid by related parties within 2010**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>Top management</b>	<b>Other related parties</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
1	Loans granted to related parties within 2010		210
2	Loans repaid by related parties within 2010	48	1 366

**Table 35.9. Payments to top management**

(UAH ths)

<b>Line</b>	<b>Item description</b>	<b>2011</b>		<b>2010</b>	
		<b>expenses</b>	<b>accrued liability</b>	<b>expenses</b>	<b>accrued liability</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
1	Current payments to employees	23 100	8 384	10 029	7 307
2	Payments while dismissing	246	-	9 129	-

The owner of 100% of the banks shares is Intesa Sanpaolo S.p.A. (Italy), which is included to the group Intesa Sanpaolo S.p.A.



**Note 35. Events after the balance-sheet date**

Events occurred after December 31<sup>st</sup> 2011 did not cause any amendments to the financial statements.

**Note 36. Information about auditor (audit firm) and auditor's opinion**

The audit of the Bank financial statements as at the end of the day of December 31 2011 and for the year ended at the stipulated date was carried out by "Ernst & Young Audit Services" Ltd. (hereinafter referred to as "The Auditor"). The results of the abovementioned audit shows the unqualified auditor's opinion signed by the auditor Yu.S. Studyns'ka (The Auditor's Certificate No. 0131).

**Chairman of the Management Board  
"PRAVEX-BANK" PJSCCB**

**S.V. Naumov**

**Chief Accountant  
"PRAVEX-BANK" PJSCCB**

**O.Yu. Kibets  
16.03.2012**