



ukrgasbank



Annual Report 2012





ANNUAL REPORT JSB “UKRGASBANK”* for 2012

*Symphonic Harmony
of Banking*

* Information was provided based on JSB “Ukrgasbank” financial statements for IV quarter 2012,
excluding annual adjustments and transformations in accordance with the International Financial Reporting Standards.

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Dear Shareholders and Clients,

Today, for the first time when I can address you as the Chairman of Ukrgasbank Supervisory Board, I do so with a great enthusiasm and optimism. It is grounded by significant achievement of Ukrgasbank during 2012, which have been known by many of you before the Annual General Meeting of the Shareholders.

Outrunning growth of Ukrgasbank key performance indicators (assets, capital, client's portfolios, etc.), comparing with the banking system of Ukraine in general, initiated by the new management of the Bank back in 2011, has eventually resulted in such important final indicator as annual income. As a result of 2012 it reached UAH 1.1 billion (which is one of the biggest indicators among the banks of Ukraine and biggest in the history of Ukrgasbank).

It should be also noted that based on its status of actually state bank, Ukrgasbank does not only focus on "money making", but also participates in national projects aimed to solve social problems, contributing to the state program implementation targeted at reduction of mortgage loans value providing affordable housing for those citizens who are in need of better housing and also to introduction of the "Bank of good deeds" charitable program, etc.

During financial year, the Bank both continued to increase its key performance indicators, expanded its network, increased its efficiency and fostered its efforts to develop new services and technologies allowing to extend the range of tools aimed to meet modern client's requirements.



Precisely this vector of development will allow Ukrgasbank to further maintain achieved level because, as you know, fortune is easily found, but hard to be kept.

On behalf of the Supervisory Board of Ukrgasbank I would like to thank our clients, partners and employees, which joint efforts allowed to achieve significant results during the reporting year, and express the hope for fruitful cooperation that will ensure further development of our Ukrgasbank.

With regards,
V.A. Ivchenko,
Chairman of the Supervisory Board
JSB "Ukrgasbank"

A handwritten signature in blue ink, appearing to read "Ivchenko".

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Dear Shareholders, Clients and Colleagues,

The year 2012 became a year of outstanding achievements for Ukrgasbank team. We exceeded all our goals and received the biggest net income - UAH 1.1 billion in the history of the Bank. Assets increased by more than 15%, and capital – by 36%.

We have significantly improved investment attractiveness of the Bank and strengthened its credibility in the banking market, including our shareholders and clients. An extensive network of regional banking outlets has been working efficiently and professionally.

Our philosophy is based on honesty in relationships with the clients and absolute transparency in the banking business. One of indicators of high clients trust in Ukrgasbank is the client's funds increase by 25% for the year, namely, individuals' funds by more than 20%.

The Bank actively participates in the Government initiatives in terms of lending to strategic branches of Ukrainian economy. Ukrgasbank is also a lending powerhouse of presidential program targeted at easing of mortgage loans value to provide affordable housing for the citizens who is in need of better housing. Share of the Bank in the total volume of loans granted under this program has reached more than 60% (or more than UAH 170 million).

This year we will both increase loan portfolio of corporate clients and will actively work with micro-lending. We understand that small business and first-time entrepreneurs need support and fair lending rate. Grow together with the client is one of the main principles of Ukrgasbank corporate culture.



We do not stop in our development. We constantly introduce increasingly higher standards of clients servicing, introduce up-to-date banking products, change to the new information technologies.

On behalf of the Management Board I would like to sincerely thank all our clients and partners for cooperation and trust. I also want to mark the most valuable asset of the Bank - our staff. Your professionalism and goal orientation ensured excellent results for Ukrgasbank in 2012.

In 2013 Ukrgasbank will celebrate 20th anniversary. We start a new stage in our development, but goals and objectives of the Bank remain unchanged - we will make Ukrgasbank a precious jewel of the national banking system.

With regards,
S.G. Mamedov,
Chairman of the Management Board
JSB "Ukrgasbank"

Bank in Facts

Full name:

Public Joint-Stock Company Joint Stock Bank “Ukrgasbank”

Address:

Chervonoarmiyska str., 39, Kyiv, 01004

*Chairman of the Board –
Sergiy Mamedov*

10 facts about JSB “Ukrgasbank”:

- universal Bank with a client database of more than 600 thd. clients;
- experience in financial market – more than 19 years;
- Bank belongs to the 1st group of the banks under NBU classification and takes 15th position according to its assets;
- beneficial owner of the Bank is the State represented by the Ministry of Finance of Ukraine (92,9998% authorized capital);
- represented with professional team of 3,862 employees;
- consists of 233 operating branches all over Ukraine;
- constant participant of Deposit Insurance Fund;
- authorized bank of the Pension Fund of Ukraine and Ministry of Social Policy of Ukraine in terms of pension and monetary aid payments;
- member of the international payment systems - MasterCard WorldWide, Visa International and UkrCard;
- Bank is assigned with a national credit rating on the level of uaA- (Rating Agency “Expert-Rating”).

The Bank focuses on long-term partnership, therefore, guarantees its clients high quality services, personal approach and satisfaction from cooperation



VISITING CARD

Only conductor can integrate a big number of colourful musical voices in a well-tuned harmony, which by "magic" beating gives listeners an incredible pleasure...

1. Visiting Card

1.1. Members of the Supervisory Board

VIKTOR IVCHENKO

Chairman of the Supervisory Board JSB "Ukrgasbank"

Date and place of birth:

April 30, 1950, village of Nestoita, Kotovsk district, Odesa Oblast.

Education:

1972 - graduated from Odesa Order of the Red Banner of Labour Polytechnic Institute, majoring in Automation and Telemechanics.

2003 - graduated from Kyiv Investment Management Institute, majoring in Management.

Position of primary employment:

From January 2011 - Deputy Head of the State Agency for Science, Innovations and Information of Ukraine.

TETIANA SYSOIEVA

Deputy Chairman of the Supervisory Board JSB "Ukrgasbank"

Date and place of birth:

November 2, 1965, Chita, Russian Federation.

Education:

1987 - graduated from Odesa Institute of National Economy, qualification: Economist.

2008 - awarded Ph.D. in Economics, majoring in Development of Productive Forces and Regional Economics.

Position of primary employment:

From February 2011 - Director of the Financial Policy Department, Ministry of Finance of Ukraine.

ANDRIY STRASHNYI

Member of the Supervisory Board JSB "Ukrgasbank"

Date and place of birth:

February 27, 1975, Kyiv.

Education:

1999 - graduated from the International Solomon University, majoring in Law

2003 - graduated from Higher Educational Institution National Academy of Management, majoring in Finance.

Position of primary employment:

From April 2011 – Deputy Director of the Financial Policy Department, Ministry of Finance of Ukraine.

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YAROSLAV MATUZKA

Member of the Supervisory Board JSB "Ukrgasbank"

Date and place of birth:

January 29, 1974, Khmilnyk, Vinnytsia Oblast.

Education:

2001 - graduated from Kyiv National Economic University, majoring in Law.

Position of primary employment:

From March 2011 - Director of Legal Department, Ministry of Finance of Ukraine

IVAN ROMANOV

Member of the Supervisory Board JSB "Ukrgasbank"

Date and place of birth:

July 20, 1984, Kyiv.

Education:

2006 graduated from Kyiv National Economic University named after V.Hetman, majoring in International Economics.

Position of primary employment:

From April 2012 - Deputy Head of the First Vice Prime Minister Service of Ukraine, Cabinet of Ministers of Ukraine Secretariat.

KLAUS BERND GLIEMANN

Independent Member of the Supervisory Board JSB "Ukrgasbank"

Date and place of birth:

December 22, 1941, Radebeul, Germany.

Education:

1966 - graduated from Higher Technical School of Machine-Building and Textile Machinery, Karl-Marx-Stadt, German Democratic Republic, qualification: Engineer.

1975 - graduated from Otto-von-Guericke University Magdeburg, German Democratic Republic, academic degree: Graduate Engineer.

Position of primary employment:

From March 2007 – member of the Supervisory Board in JSC "Ukraine Securities Holdings".

1. Visiting Card

1.2. Members of the Management Board



Chairman of the Board

Sergiy Mamedov

1975 year of birth

Education: Kyiv National Economic University

Experience in banking and finance: 16 years



First Deputy Chairman of the Board – member of the Board

Stanislav Shlapak

1978 year of birth

Education: Ostroh Academy National University, Loughborough University, Great Britain

Experience in banking and finance: 7 years



Deputy Chairman of the Board – member of the Board

Olena Dmitriyeva

1972 year of birth

Education: Zaporizhia State University, National University of Kyiv-Mohyla Academy, awarded Ph.D. in Physics and Mathematics

Experience in banking and finance: 15 years

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Deputy Chairman of the Board – member of the Board

Oleksii Krykhtin

1960 year of birth

Education: Donetsk State University,
awarded Ph.D. in Economics

Experience in banking and finance: 3 years



Deputy Chairman of the Board – member of the Board

Ruslana Lechekhlib

1967 year of birth

Education: Kyiv Institute of National Economy
Experience in banking and finance: 22 years



Deputy Chairman of the Board – member of the Board

Volodymyr Shapoval

1973 year of birth

Education: Kyiv State Economic University
Experience in banking and finance: 17 years



1. Visiting Card

1.3. Executives – Not Members of the Board

Chief Accountant

Nataliya Khrustalyova

1970 year of birth

Education: Kyiv National Economic University

Experience in banking and finance: 19 years



Deputy Chairman of the Board

Yuriy Deineha

1952 year of birth

Education: Kyiv Institute of National Economy named after D.S. Korotchenko

Experience in banking and finance: 38 years



Deputy Chairman of the Board

Serhiy Moskalenko

1958 year of birth

Education: Kharkiv Institute of Railroad Engineers named after S.M. Kirov, Inter-Regional Academy of Personnel Management

Experience in banking and finance: 7 years



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Deputy Chairman of the Board

Nataliia Rudukha

1975 year of birth

Education: Kyiv National Economic University

Experience in banking and finance: 15 years



Deputy Chairman of the Board

Nina Shpakovska

1967 year of birth

Education: Cherkasy Finance Economy College,

East Ukraine State University

Experience in banking and finance: 26 years



1. Visiting Card

1.4. Mission. Strategic Goals

Mission of JSB "Ukrgasbank" is lending to domestic enterprises and households and their provision with full range of high quality banking services to ensure Ukrainian economy renovation and sustainable GDP growth.

Goal of the Bank is to promote financial well-being of the clients, shareholders, society, employees and partners.

In its activities Bank is guided by the principles of professionalism, reliability, responsibility, fairness,

information transparency, respect, cooperation, collaboration and integrity.

JSB "Ukrgasbank" is a universal bank offering full range of banking services for the enterprises and population. Strategic concept of the universal bank provides for the range of products / services increase, distribution channels expansion, quality of banking services improvement and as a result - market share increase.

Strategic Goals for 2013:

- improving investment attractiveness of the Bank;
- decreasing share of bad assets by 15%;
- ensuring acceptable level of active banking transactions risk;
- loan portfolio of the Bank growth by 5%;
- expanding and diversifying client database by active and passive banking transactions;
- updating product line due to modern technological and innovative products;
- increasing share of non-interest income, excluding result from securities sale, in the structure of Bank's total income from 9% to 10%;
- increasing market share in the payment cards issue from 1,78% (as of 01.07.2012) to 2,1%;
- ensuring Bank's outlets efficiency;
- managing efficiently immediate and current liquidity and foreign exchange position of the Bank;
- implementing corporate culture and high quality standards of the banking services.

In 2013, the Bank will direct its efforts on forming long-term partnership with the clients, promoting their financial well-being and improving banking services to the population.

Status of strategic goals and key performance indicators implementation according to the Business Plan for 2012

Strategic goals and key performance indicators	Status (as of 01.01.2013)
Improving investment attractiveness of the Bank	<p>Financial result has amounted to UAH 1.1 billion for 2012. Operating cash flow made up UAH 457 million as of 01.01.2013.</p> <p>Rating Agency "Expert Rating" improved JSB "Ukrgasbank" credit rating and rating of its bonds series D and E to uaA- level, ratings forecast - positive.</p> <p>Bank took 4th position as to information transparency with index 72,63% based on the results of "Ukrainian Credit Rating Agency" studies made among 30 largest banks of Ukraine.</p> <p>Bank took leading positions in the reputation rankings made by Information Agencies.</p>

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Decreasing share of bad assets in assets of the Bank up to 13% till the end of 2012

As of 01.01.2013 share of bad assets in total assets made up 21.9%, having decreased by 18.3 percentage points for the year. Partial performance of goal is stipulated by the lack of legislative grounds to transfer bad assets to remedial bank in 2012.

Ensuring acceptable level of active banking transactions risk

Level of NPL (overdue liabilities for more than 90 days) for new loans granted to individuals in terms of loan programs as of 01.01.2013 complies with the levels established by the Bank, as specified in brackets, and makes up:

- loan for real estate purchase on the secondary market - 0.65% (no more than 4.2%);
- car loan (new cars) - 0.61% (no more than 3%);
- loan secured by real estate property - 1.59% (no more than 4.4%);
- loan / overdraft against deposit - 0% (no more than 3.5%).

Overall level - 0.56% (no more than 5%).

Level of formed reserves - 0.34% (no more than 4%).

In corporate segment:

- level of unsecured loans does not exceed 2% in the corporate loan portfolio as of 01.01.2013;
- 63% of the corporate loan portfolio is attributed to 1-6 classes in the structure of the loan portfolio by corporate borrower classes as of 01.01.2013;
- 62% of the corporate loan portfolio is attributed to 1-3 categories in the structure of the loan portfolio by borrower categories as of 01.01.2013;
- level of provision for corporate loan portfolio - 35.16% as of 01.01.2013.

Expanding and diversifying client database

Reduced concentration of state-sector enterprises in legal entities portfolio from 42.3% as of 01.01.2012 to 38.7% as of 01.01.2013 resulted in the share of private sector enterprises increase accordingly.

Concentration of 20 largest groups of clients as of 01.01.2013 made up 45% of the total loan and investment portfolio of the Bank, having decreased by 17 percentage points for 2012. Concentration of the largest group of clients (in TOP 20) made up 14.6%.

Updating product line due to modern technological and innovative products

Service "Sending SMS-messages about current accounts balances for legal entities connected to the "Client-Internet-Bank" system" has been implemented. Service "Top-up mobile operator accounts in ATMs" has been implemented. Work as to the "Internet banking for individuals" project realization has been started. Self-service terminal possibilities have been extended.

Increasing share of non-interest income in the structure of the Bank's total income up to 11%

As of the end of 2012 share of non-interest income in the total income made up 13.5%, which is 4.6 percentage points higher than this indicator last year.

1. Visiting Card

Implementing corporate culture and high standards of banking services quality

Average quality of clients servicing by branches of the Bank has made up 86.6% for 12 months.

Increasing market share in the payment cards issue from 1,65% to 2%

Bank maintained market share of payment cards issue at the previous year level during 2012.

Increasing Bank's outlets and distribution channels efficiency

For 2012 network efficiency has been increased by 0.23 – from 0.83 in January and up to 1.06 in December 2012.

Number of efficient branches increased from 79 in January up to 171 in December 2012.

Managing efficiently immediate and current liquidity and foreign exchange position of the Bank

Bank always complies with the regulations of immediate and current liquidity, currency position limits.

1.5. Licenses and Permits

Based on the banking license no. 123 dd. 06.10.2011, issued by the National Bank of Ukraine, Bank is entitled to provide the following banking services:

- 1) raising deposits and bank metals from unlimited number of legal entities and individuals;
- 2) opening and maintaining current (correspondent) accounts of the clients, including in bank metals;
- 3) placing raised deposits, including on current accounts, and bank metals on its behalf, on its own terms and conditions and at its own risk.

On October 6, 2011 Public Joint-Stock Company Joint Stock Bank "Ukrgasbank" obtained General license no. 123 and Appendix to the General license under which JSB "Ukrgasbank" is entitled to perform the following foreign exchange transactions:

- non-trade currency valubles transactions;

- transactions with cash foreign currency and checks (purchase, sale, exchange, acceptance and collection) carried out in cash departments and currency exchange offices of the banks;
- transactions with cash foreign currency (purchase, sale, exchange) carried out in currency exchange offices operating under Agency Contracts concluded between the banks and resident entities;
- accounts maintenance of the clients (residents and non-resident) in foreign currency and non-resident clients in the currency of Ukraine;
- correspondent accounts maintenance of the banks (residents and non-resident) in foreign currency;
- correspondent accounts maintenance of the banks (non-residents) in the currency of Ukraine;
- correspondent accounts opening in authorized banks of Ukraine in foreign currency and transactions on them;
- correspondent accounts opening in the banks (non-

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residents) in foreign currency and transactions on them;

- foreign currency attraction and placement in the foreign exchange market of Ukraine;
- foreign currency attraction and placement in the international markets;
- foreign currency trading in the foreign exchange market of Ukraine (except for transactions with cash foreign currency and checks (purchase, sale, exchange) carried out in cash departments and currency exchange offices of the banks and agents);
- foreign currency trading in the international markets;
- bank metals attraction and placement in the foreign exchange market of Ukraine;
- bank metals attraction and placement in the international markets;
- bank metals trading in the foreign exchange market of Ukraine;
- bank metals trading in the international markets;
- foreign exchange transactions in the foreign exchange market of Ukraine relating to the financial services in accordance with article 4 of the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" and not referred to in 2-17 paragraphs, section 2 Regulation on the Procedure of the Issue of General Foreign Exchange Transaction Licences to the Banks and Foreign Bank Branches approved by the Board of the National Bank of Ukraine no. 281 dd. 15.08.2011;
- foreign exchange transactions in the international markets relating to the financial services in accordance with article 4 of the Law of Ukraine "On Financial Services and State Regulation of Financial Services Markets" and not referred to in 2-17 paragraphs, section 2 Regulation on the Procedure of the Issue of General Foreign Exchange Transaction Licences to the Banks

and Foreign Bank Branches approved by the Board of the National Bank of Ukraine no. 281 dd. 15.08.2011.

The Bank also has such licenses for certain types of activities:

license series AB No.520292 issued by the State Commission for Securities and Stock Market of Ukraine on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market – Depository Activity and Custodian's Depository Activity;

license series AB No.520288 issued by the State Commission for Securities and Stock Market of Ukraine on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market - Activity in Securities Trading, Brokerage Activities;

license series AB No.520291 issued by the State Commission for Securities and Stock Market of Ukraine on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market - Activity in Securities Trading, Activity on Securities Management;

license series AB No.520289 issued by the State Commission for Securities and Stock Market of Ukraine on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market - Activity in Securities Trading, Dealer Activity;

license series AB No.520290 issued by the State Commission for Securities and Stock Market of Ukraine on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market - Activity in Securities Trading, Underwriting.

license series АД No.034432 issued by the National Securities and Stock Market Commission of Ukraine on 18.06.2012 with unlimited validity for Professional Activity in the Stock Market - Activity in Management of the Mortgage Pool.

1.6. Affiliated Persons

Institution with significant share in JSB "Ukrgasbank" as of 01.01.2013:

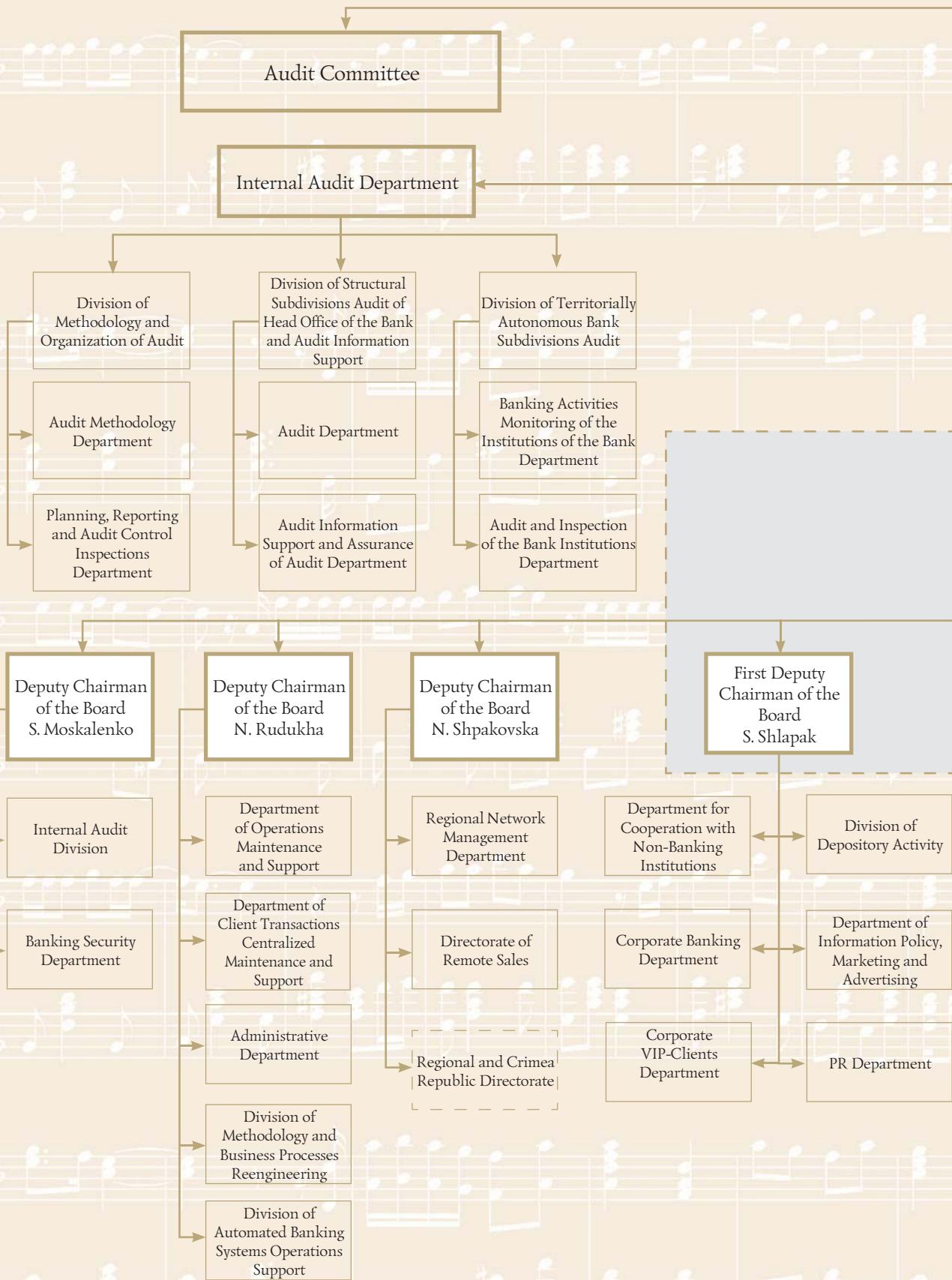
- Ministry of Finance of Ukraine (percentage of major shareholding – 92.9998%).

Institutions where JSB "Ukrgasbank" owns major shareholding as of 01.01.2013:

- CJSC "Clearing House "Kyiv Universal Stock Exchange" (percentage of major shareholding – 15%);
- LLC "Media-Service" (percentage of major shareholding – 10%).

1. Visiting Card

1.7. Organization Chart (as of 01.01.2013)



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General Meeting of Shareholders

Supervisory Board (6 persons)
Chairman of the Supervisory Board
Deputy Chairman of the Supervisory Board
Independent Member of the Supervisory Board
Members of the Supervisory Board – 3 persons

Corporate Secretary
Department

First Department

HR Department

Risk Management
Department

MANAGEMENT BOARD

Chairman of the Board
S. Mamedov

Deputy Chairman
of the Board
V. Shapoval

Deputy Chairman
of the Board
R. Lechekhlis

Deputy Chairman
of the Board
O. Dmitriyeva

Deputy Chairman
of the Board
O. Krykhtin

Chief Accountant
N. Khrustalyova

Treasury

Department of
Investments and
Authorized Capital

Mortgage Pool
Management
Department

Financial and
Economic
Department

Department of
Competitive Bidding

Financial Monitoring
Department

General Department
of Information
Technology

Retail Banking
Department

Department of Debt
Conflicts Settlement

Projects Division

Center of Credit
Solutions

Legal Department

Labor Protection
Department

Division of Tax
Accounting and
Settlements with
the Budget

Division of Intrabank
Transactions
Accounting

Methodology,
Control and
Reporting Division

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1.8. Staff

As of January 1, 2013 total staff number of JSB "Ukrgasbank" amounted to 3,862 employees, 68% of them are women, 32% are men.

HR policy of the Bank is based on the competent specialists selection and retention with potential for further development. Over 75% of JSB "Ukrgasbank" staff has higher education. Over 80% of the Bank's employees age from 25 to 49, average staff age - 36. Average work experience in the Bank - 4 years.

In 2012, the Bank implemented some projects on staff motivation, training and development in the sphere of human resources. So, subject to market conditions of the banking services, approaches to the incentive system

were improved for the staff selling banking products that allowed to significantly activate network operation and significantly increase volumes of banking products sale. The system takes into account both team achievements and individual result of every employee. More efficient training system was implemented together with the distant learning system applied. In addition, during the year appraisal system, which intends evaluation of the employees by their level of professional knowledge and individual sales, has been developed and implemented.

Modern training methods, incentive measures and personnel selection contributed to improvement of banking product sales dynamics by the network of the Bank.

1.9. History of Development

1993

Closed Joint-Stock Company - Commercial Joint-Stock Bank "Hadjibeibank" was registered, being legal successor of Ukrgasbank.

1995

Bank changed its name on JSB "Intergasbank" and consisted of the Head Office in Kyiv and Odesa branch. Vigorous commercial and financial activity of the Bank has been launched. Program complex "Client-Bank" was implemented ensuring qualitative and operating services for the clients.

1996

Bank changed its name on JSB "Ukrgasbank", obtained National Bank of Ukraine (NBU) licence for the operations with currency values, joined international system REUTERS and started vigorous activity in the currency market of Ukraine.

1997

Bank has been reorganized into Joint Stock Bank "Ukrgasbank" in the form of Closed Joint-Stock Company. The Bank has been actively integrating into gas complex of Ukraine: powerful gas suppliers became its clients – SJSCHC Ukrgaz, Closed Joint-Stock Company Intergaz, etc. Bank acquired general license for banking activities. Deloitte & Touche Auditing Firm has carried out audit of the Bank according to the international standards for the first time.

1998

Bank stepped up capitalization by second issue of shares. The same year, the Bank became a member of the Association of Ukrainian Banks.

1999

Bank performed third issue of shares, increasing authorized capital from UAH 6.90 mln. to UAH 13.95 mln. For realization of development strategic plan the Bank expanded license with the right for attraction and placement of foreign currency in the international markets.

2000

Bank emitted local payment cards "ENERGY™" and implemented salary projects for its biggest clients. The same year, the Bank became a principal member of the international association Europay International.

2001

Bank has been reorganized into Open Joint-Stock Company Joint-Stock Bank "Ukrgasbank". Bank continued active advancement of banking services into regions and as of the end of the year it had already 40 regional branches.

2002

Considering the dynamics of active and passive transactions of the Bank, Commission on Affairs of Supervision and Regulation of Activity of the Banks OJSC JSB "Ukrgasbank" was included into II group of Ukrainian banks. Bank extended its presence in the market and was represented in 13 oblasts of Ukraine.

2003

Bank emitted its own payment card IPS Visa International. The same year, the Bank has won the World Bank tender for servicing accounts with the World Bank funds directed on the project finance "Private Sector Development".

2004

Bank increased its authorized capital to UAH 120 mln. and entered the top twenty of Ukrainian banks. Issue of payment cards of the Bank has grown almost up to 180 thd. pieces. Salary projects of the clients continued to be actively implemented.

2005

Bank certified terminal equipment in the international payment system MasterCard WorldWide and launched acquiring of this payment system chip cards. New system of biometric identification of clients in the depository – "MUST IPRA "Depository" was implemented.

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2006

Bank has been confirmed as pilot bank in the project of International Financial Corporation (IFC) "Corporate Governance in the Bank Sector of Ukraine". International rating agency Moody's Investors Service provided the Bank with a long-term depositary rating in foreign currency B2 and rating of financial stability E+. Forecast based on ratings is "stable". All above said stipulated raise of debut syndicated loan from foreign banks for the amount of USD 16 mln. By the year end Bank has serviced more than 314 thd. individuals and corporate clients.

2007

Bank distinguished itself by considerable raising of performance indicators and increased the authorized capital up to UAH 500 mln. Bank obtained the second syndicated loan for the amount of USD 46 mln. and a club loan for the amount of USD 20 mln. This year reorganization of sales network management system by transition to a "single balance" has started. Number of Bank employees has exceeded 3,400 persons by the end of the year.

2008

Bank entered the group of largest domestic CFO and increased its authorized capital up to UAH 700 mln. Syndicated loan amounted to USD 23 mln. was raised, which funds were used to finance foreign trade transactions of the Bank's clients. The same year, the Bank timely and fully repaid club loan in amount of USD 20 million and syndicated loan in amount of USD 46 million raised in 2007. Bank introduced a new service for individuals - transactions in the Forex Market. By the results of 30 largest banks research conducted by the Agency of Financial Initiatives jointly with Standard & Poor's Corporate Governance Services Department, the Bank took the first place on the level of information transparency with the best in the history of such research transparency indicator in Ukraine – 71.2 %.

2009

Bank underwent certain changes. Considering the financial situation in Ukraine in 2009, shareholders appealed to the Government for State participation in the authorized capital of the Bank through its recapitalization. Cabinet of Ministers of Ukraine decided to increase authorized capital of the Bank to the amount of UAH 3.1 bln. So, authorized capital of the Bank increased up to UAH 3.8 bln. and 81.58% of its shares were owned by the State represented by the Ministry of Finance of Ukraine. The same year, the Bank was reorganized into a Public Joint-Stock Company. In the conditions of financial crisis, the Bank performed optimization of existing network for the purpose of administrative expenses reduction.

2010

Bank designed a new strategy for development, achieved considerable growth of financial performance indicators and lending restoration.

At the beginning of the year authorized capital of the Bank was increased by UAH 1.9 billion by additional issue of shares, the share of the Ministry of Finance of Ukraine in the authorized capital increased up to 87.72%. The Ministry of Finance of Ukraine has included the Bank in the list of commercial banks performing functions of agents on execution of VAT reward by the bonds of domestic state loan. The Cabinet of Ministers of Ukraine authorized the Bank to service special mode current accounts of guaranteed suppliers (gas supplying companies), their structural divisions, and also enterprises which sell natural gas to gas supplying enterprises.

National rating agency "Credit Rating" has confirmed long-term Bank credit rating as uaBBB. Forecast by rating is "stable", level of bank deposits reliability is "4" (high reliability).

2011

Bank obtained UAH 4.3 billion capital reaching UAH 10 billion, and capital share of the State reached 92.9998%. This enabled to complete required amount of reserves according to the NBU and international financial audit requirements. S.Mamedov has been appointed as a Chairman of the Board since May 30, 2011. The Bank held strong competitive positions in the group of the biggest Ukrainian banks. Rating agency "Credit Rating" twice during the year confirmed long-term credit rating and debt rating of the Bank at the level of uaBBB with the forecast "stable" and rating of bank deposits reliability at level "4" (high reliability). RA "Expert Rating" determined credit rating of the Bank and its debt liabilities (bonds series C, D, E) at the level of uaBBB+.

2012

The Bank continued successful strategy implementation and consolidated its leading positions among the biggest Ukrainian banks.

Participation of the Bank in the President of Ukraine social initiative - housing loans to individuals "Affordable Housing" became an important event of the year. In June, the Bank granted its first credit on easy terms at 3% per annum and became a leader in lending to individuals under this program by granting 752 such credits within the year.

Ukrgasbank, first in the stock market, obtained a license from the National Securities and Stock Market Commission for professional activities in the securities market - mortgage pool management and gained an exclusive right to provide relevant services to the issuers of securities.

1. Visiting Card

The Bank fulfilled its obligations to the foreign creditors and repaid syndicated loan for the amount of USD 23 million, granted in 2008 by a group of international banks - creditors.

Ukrgasbank initiated social program "Bank of good deeds" to conduct an information campaign among its employees and clients for possible tax risks the individuals, who open accounts for charitable fundraising, can expose to. Together with the Princes-Benefactors Ostrozky, Foundation Grants Competition "Save a good man" started under this program.

In order to improve financial awareness of banking services by users the Bank supported the World Savings Day first celebrated in Ukraine on 31 October on the initiative of the

Independent Association of the Banks of Ukraine. Within the project, the Bank introduced a new deposit product "Deposit for growth" to improve financial literacy of the younger Ukrainian generation.

Official web-pages of Ukrgasbank were opened in Facebook and Twitter social networks.

During the year, Ukrgasbank repeatedly confirmed its leadership in the market of government bonds.

Rating Agency "Expert Rating" raised Ukrgasbank credit rating and ratings of its bonds D and E series to uaA- level with ratings forecast as positive.

1.10. Main Achievements in 2012

Fulfillment of planned indicators

Net profit of the Bank amounted to UAH 1.1 billion. This is a record figure in the history of the Bank and one of the best performances of the domestic banks last year. Non-interest income of the Bank has increased by 85.5% comparing with 2011. Return on assets - 5.6%. Assets has increased by 15.6% for the year and reached UAH 20,997.2 mln. at the end of the year, enabling the Bank to keep its presence in the 1st group of the banks under NBU classification.

Raising of credit rating

Rating Agency "Expert Rating" confirmed JSB "Ukrgasbank" credit rating and rating of its bonds E series at uaA- level, giving evidence of sufficient creditworthiness of the financial institution.

Fulfillment of obligations to the foreign creditors

The Bank repaid its syndicated loan for the amount of USD 23 million granted in 2008 by a group of international banks - creditors.

Ukrgasbank is the first in Ukraine licensed manager of the mortgage pool

The Bank obtained a license from the National Securities and Stock Market Commission for professional activity in the securities market - mortgage pool management and became the only operator in this market.

Recognitions and Awards

3rd position among the most dynamic and biggest banks of Ukraine rated by the financial-economic weekly newspaper "Investgazeta" within the annual award UKRAINIAN BANKER AWARDS 2012.

4th position in terms of information transparency with 72.63% index as a result of "Ukrainian Credit Rating Agency" research.

10th position in the rating of the most expensive banking brands according to the "GVardia" publication. Ukrgasbank corporate brand was estimated at UAH 4,190.62 mln.

10th position among 30 safest banks in Ukraine according to the weekly newspaper "Korrespondent" and Dragon Capital Investment Company version.

11th position on efficient performance among 30 banks in the first two groups according to NBU classification in the rating prepared by FORBES publication.

Award "Product. Innovation. Partnership." from J.P. Morgan Chase Bank, N.A., one of the biggest banks in the world. As a state-owned bank, JSB "Ukrgasbank" obtained this award one of the first in the CIS.

*We are proud of our work results and appreciate their recognition
by business groups and public*

1.11. Ratings



On November 26, 2012 RA "Expert Rating" confirmed JSB "Ukrgasbank" credit rating and rating of its bonds E series according to the national scale at uaA- level.

1. Visiting Card

1.12. Review of Financial Performance at the End of 2012

JSB "Ukrgasbank" successful activity in 2012 which was a result of efficient management, prudent lending policy and reputation of the bank as well, which

beneficial owner is the State, allowed to retain its competitive positions in the market and strengthen positive image of the institution.

JSB "Ukrgasbank" key performance indicators at the end of 2012

Indicators	2011	2012	Change %
	Thd. UAH		
Balance-sheet indicators			
Assets	18,157,477	20,997,238	15.64%
Funds in other banks	2,140,504	1,613,112	-24.64%
Credits and indebtedness of the clients	8,283,219	8,675,121	4.73%
Funds of the banks	8,754,362	8,469,434	-3.25%
Funds of the clients	5,615,040	7,023,618	25.09%
Debt securities issued by the bank	20,384	1	-
Subordinated debt	50,435	0	-
Authorized capital	10,000,000	10,000,000	-
Equity Capital	2,804,104	3,814,550	36.03%
Statement of total gains and losses			
Net interest income	826,784	804,445	-2.70%
Net commission income	104,082	115,384	10.86%
Results from trading transactions	52,331	58,034	10.90%
Administrative and other operating expenses	-589,708	-722,220	22.47%
Reserves for loans	-3,712,212	761,513	-
Profit before taxation	-3,599,632	1,138,108	-
Net profit	-3,613,984	1,100,254	-

JSB "Ukrgasbank" positions in the banking market as of 01.01.2013¹

Indicator	Share in the market, %	Position among the banks of Ukraine
Assets	1.9%	15
Credits and indebtedness of the clients, incl.	1.2%	20
<i>legal entities</i>	1.2%	21
<i>individuals</i>	1.3%	18
Funds of the clients, incl.	1.2%	19
<i>legal entities</i>	0.8%	31
<i>individuals</i>	1.4%	17
Portfolio of securities	5.7%	4

¹ Calculated on the basis of Ukrainian banks financial statements provided on the NBU web-site.

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1.13. Membership in International Payment Systems

JSB "Ukrgasbank" is a member of the following card payment systems:

- MasterCard WorldWide, since 2000, Principal membership;
- Visa International, since 2002, Principal membership;
- UkrCard, since 2002.

In addition, since 2006 JSB "Ukrgasbank" has been distributing payment cards American Express based on the Marketing Agreement concluded with American Express.

JSB "Ukrgasbank" as a principal member of international payment systems (hereinafter – the "IPS") MasterCard Worldwide and Visa International has a long experience in assistance to the new banks entry into IPS and their further professional support.

Today the Bank provides its support to 27 Ukrainian banks in cooperation with the IPS, including 14 banks which are associated members

of Visa International and 13 - affiliated members of MasterCard Worldwide.

In case of bank membership in only one of IPS, JSB "Ukrgasbank" offers international payment cards servicing of another IPS on cash transactions through its own ATMs and banking POS-terminals according to the agent scheme without entering the IPS.

JSB "Ukrgasbank" also has licenses of two payment systems for transactions with merchant account and offers the banks to follow this direction on an agency basis.

JSB "Ukrgasbank" has proved to be a reliable and innovative partner with ten year experience in providing associated and affiliated membership to Ukrainian banks-partners with IPS Visa International and MasterCard Worldwide.

Provision of sponsorship support for banks admission to the IPS remains a priority direction for JSB "Ukrgasbank" card business development.

1.14. Membership in Interbank Unions, Stock Exchanges and Associations

JSB "Ukrgasbank" is a member of:

- Association "Independent Association of the Banks of Ukraine";
- Association "Ukrainian Credit-Banking Union";
- Deposit Guarantee Fund;
- Association "Fund Partnership";
- Association "Ukrainian Stock Traders";

- Private Joint-Stock Company "Ukrainian Inter-Bank Currency Exchange";
- PJSC "FSTS Stock Exchange";
- PJSC "Ukrainian Stock Exchange";
- PJSC "Stock Exchange "Perspectiva";
- Professional Association of Registrars and Custodians.

1.15. Structural Divisions (as of 01.01.2013)

As of 01.01.2013 JSB "Ukrgasbank" network consisted of 278 registered branches (including 233 operating ones), 573 ATMs, 14 self-service kiosks,

368 banking and 745 trading POS-terminals in 25 regions of Ukraine.

1. Visiting Card

Geography of the territory of Ukraine, which is covered by JSB "Ukrgasbank" operating branches and ATMs network as of 01.01.2013



branches
ATMs

2

Corporate Governance

Group of bowed instruments is truly considered as a soul of orchestra. It is full of melody and sound length of these graceful representatives of orchestra that crystallize picture of the whole symphony with its unity...

2. Corporate Governance

2.1. System of Corporate Governance

Corporate governance in JSB "Ukrgasbank" is carried out in accordance with applicable law of Ukraine requirements, in particular, according to the Principles of Corporate Governance approved by the State Commission for Securities and Stock Market Decision No. 571 dated 11.12.2003, Recommendations for Improving Corporate Governance in Ukrainian Banks, approved by the Resolution of the Board of the National Bank of Ukraine No. 98 dated 28.03.2007.

Corporate governance in the Bank is based on the following principles:

- providing shareholders with a real opportunity to exercise their rights related to participation in the Bank, and rights of the state as the main owner of the Bank within the limits set by the law of Ukraine;
- equal treatment of shareholders, regardless of the share amount held by them;
- strategic governance of Bank's activities by the Supervisory Board and efficient control over the Management Board activities as well as Supervisory Board members accountability to the shareholders of the Bank;
- weighed, fair and efficient governance of current activities by the Board and Management Board subordination to the Supervisory Board and shareholders of the Bank;
- timely disclosure of complete and accurate information about the Bank, including its financial standing, economic indicators, significant events, ownership and governance structure to ensure possibility of weighed decisions to be taken by the shareholders and clients of the Bank;
- efficient control over the financial and economic activities of the Bank to protect rights and legal interests of the shareholders and clients of the Bank.

These principles form Policy of Corporate Governance to comply with is a must for all departments and divisions of the Bank.

At the present-day stage of Bank's development it has a number of features that define approaches to the Bank's corporate governance system construction, impose additional requirements and restrictions to its activities. State represented by the Ministry of Finance of Ukraine has a significant (almost 93%) share in the authorized capital of the Bank. Such ownership structure of the Bank necessitates enforcement of the State rights as the main owner of the Bank within the limits established by the law of Ukraine, to meet state and public needs. Enforcement of the State rights can stipulate limited use of certain generally accepted standards of corporate governance elements. State interests implementation shall be controlled, in particular, by the Ministry of Finance of Ukraine representatives majority in the Supervisory Board and Audit Committee composition.

According to the JSB "Ukrgasbank" Articles of Association management bodies of the Bank are represented by the General Meeting of the Shareholders, Supervisory Board and the Board, control authorities of the Bank - Audit Committee and Internal Audit Department. Management and control authorities of the Bank constitute a single system through which shareholders of the Bank regulate and control its activities.

Management system of the Bank was established and operates on the principle of lowest management bodies subordination to the highest management bodies.

Distribution of rights and responsibilities among different bodies of the Bank, rules and decision-making procedures on Bank's affairs, as well as distribution of the rights and responsibilities between the Bank and other related parties shall be determined by the JSB "Ukrgasbank" Articles of Association and acts of internal regulation.

2.2. Major Shareholders (as of 01.01.2013)

In 2012 authorized capital of the Bank was not changed and made up UAH 10 billion. The biggest beneficial owner is the State represented by the Ministry of Finance of Ukraine, which owns 92.9998% of the authorized capital. No other

shareholder owns more than 3% of the authorized capital.

As of 01.01.2013 members of the Supervisory Board of the Bank and executive body of the Bank (Board) did not own shares of the Bank.

2.3. Share Capital Dynamics

Nº	Date of changes registration to the Articles of Association	Authorized capital, UAH
1	December 2002	64,567,571
2	December 2003	90,000,000
3	August 2004	120,000,000
4	June 2005	170,000,000
5	May 2006	200,000,000
6	December 2006	300,000,000
7	May 2007	400,000,000
8	November 2007	500,000,000
9	May 2008	600,000,000
10	December 2008	700,000,000
11	July 2009	3,800,000,000
12	January 2010	5,700,000,000
13	July 2011	10,000,000,000

2.4. Dividend Policy

Annually following the results of Bank's activities in the previous (reporting) year, General Meeting of the Shareholders take a decision on Bank's income distribution for the reporting year.

By Decision of the General Meeting of the Shareholders profit for the reporting year or its share may be due to shareholders - holders of the ordinary shares of the Bank. Holders of preferred shares are entitled to an annual fixed dividend, except as provided in part 3, article 31 of the Law of Ukraine "On Joint-Stock Companies", or other restrictions imposed by banking laws. Dividends on preferred shares are established in amount of UAH 0.01 per preferred share.

Dividends are paid once per year in full and only by cash. Dividends on ordinary shares should be finally paid within six months from the date of the General Meeting Decision on dividends payment. Dividends on preferred shares should be fully paid within six months from the date of reporting year end provided that no restrictions imposed by banking laws and subject to certain decisions of the Supervisory Board. Dividends are paid on shares of the Bank and report

on their placement is registered by the National Securities and Stock Market Commission.

It is not allowed to set preferences for dividends payment to different shareholder groups within one category of shares.

Deadline for dividends receipt by the shareholders is action limitation period set by the law, which starts from the date of shareholders notification, who are entitled to receive dividends, of the date, amount, order and terms of their payment for a specific year. Date of notification shall be determined by the postal stamp of the Post Office that delivered registered letters with said notification.

Dividends, which were not received by the shareholder during announced period, are deposited on relevant account of the Bank. Interests on deposited amounts are not accrued. After the deadline for shareholders to receive due dividends, amount which has not been received by shareholders for the relevant year is attributed from this account to the Bank's profit.

2. Corporate Governance

2.5. System of Remuneration for the Management and Supervisory Boards Members

In accordance with JSB "Ukrgasbank" Articles of Association the order of remuneration payment to the Supervisory Board members is defined in civil law contracts concluded with each member of the Supervisory Board. This civil law contract can be either chargeable or free of charge. Members of JSB "Ukrgasbank" Supervisory Board, who are employed by government, perform functions assigned to them by the Articles of Association of the Bank, Regulation on the Supervisory Board of the Bank and relevant civil law contracts on free of charge basis.

Terms for remuneration of the Chairman and Management Board members are defined in the contracts concluded with the Chairman of the Board accordingly and individually with each member of the Management Board. For the duties assigned to the members of the Management Board, they are set with salaries consisting of the base pay - official salary, additional salary and other incentive and compensation payments.

2.6. Conflicts of Interests Detection and Management

Conflicts of interests detection and management shall be effected in accordance with the requirements of the Regulation on Conflict of Interests of the Public Joint-Stock Company Joint-Stock Bank "Ukrgasbank" which is worked out in accordance with the laws of Ukraine, in particular, with the Corporate Governance Principles, approved by the State Securities and Stock Market Commission, Recommendations for Improving Corporate Governance in Ukrainian Banks, approved by the Resolution of the Board of the National Bank of Ukraine No. 98 dated 28.03.2007, as well as JSB "Ukrgasbank" Articles of Association and acts of internal regulation.

In order to detect potential and existing conflicts of interests among the management members of

the Bank and detect related parties of the Bank (in accordance with the Regulation on Transactions with Related Parties of the Bank), Supervisory Board via Risk Management Department of the Bank organize periodic questionnaire of the bank's management (at least once per year).

Information provided by the management in questionnaires is analyzed, accumulated and available free to the members of the Supervisory Board, Management Board, Audit Committee, Internal Audit Department and Risk Management Department.

Control over the process of potential and / or existing conflicts of interests determination, detection and management shall be made by the Supervisory Board.

3

Risk Management



Group of woodwind instruments ornaments the symphony with uniquely-bright shades from single deep notes to content virtuoso passages. Expressive voices of these instruments passionately tell the listeners about narrative varieties of the composition...

3. Risk Management

Risk management strategy of the Bank is based on the without loss principle and aims at ensuring optimal balance between profitability of individual business-directions and level of risks that the Bank accepts, performing certain operations.

Supervisory Board, Management Board, Credit Council, credit committees, Internal Audit Department, Asset and Liability Committee, Operational Risk Management Committee, Department for cooperation with non-banking institutions and special division - Risk Management Department are involved in the process of risk management.

Management Board of the Bank is responsible for internal control and risk management system functioning.

Supervisory Board regularly monitors the status of risk management, impacts on the Risk Management Policy selected by the Management Board.

Internal Audit Department evaluates adequacy of risk management, monitors system of internal control implementation and assesses its adequacy and efficiency.

Department for cooperation with non-bank institutions is working on interaction process organization, adjustment and coordination between the Bank and its structural divisions with the Bank's partners, and analyzes partners of the bank - insurance companies and estimating entities reliability.

Risk Management Department provides quantitative and qualitative assessment of the risks, development of risk management methodology, system for database automated management and processing in terms of risks and provision of continuous monitoring and evaluation of different risks; estimates limits for approval by designated collegial bodies of the Bank on assets and liabilities transactions and ensures their further control; analyzes possible scenarios of loan portfolio quality change; prepares reports on risk positions and makes recommendations to the Supervisory Board and Management Board as to their optimal value; participates in lending and debt restructuring process of the clients in assessing financial standing of borrowers and collateral liquidity.

The main components of certain risk management policy

Credit risk is an actual or potential risk for receipts and capital arising from failure of the party entered into a commitment to fulfil terms and conditions of any financial agreement with the Bank (its subdivision) or otherwise comply with assumed liabilities. Credit risk is present in all activities where outcome depends on counterparty, issuer or borrower activities.

The main body of credit risk management in the Bank is Management Board with the following authorities: credit policy creation, policies, regulations, methodologies and procedures for credit risk management approval and also key financial lending parameters approval.

Credit Council is an Executive Committee of the Board chaired by the Deputy / First Deputy Chairman of the Board and composed of the Board members of the Bank. Functions of the Credit Council are as follows: approval of financing terms in certain credit projects, approval of debt restructuring programs and some restructuring projects terms, loan portfolio classification and forming of reserve for active transactions, setting limits to collegial body authorities on lending issues and other limits.

Credit Committee is headed by the Chairman, appointed by the Management Board. Members of the Committee shall be appointed by the Order of the Chairman of the Board. Functions of the Credit Committee are as follows: reviewing overlimit credit applications submitted by the Directorates of the Bank on active transactions, including debt restructuring of borrowers.

Methods of credit risk mitigation used by the Bank:

- performance of risk rates;
- limitation;
- reviewing credit application by the Bank's departments providing independent assessment of the project (Risk Management Department, Legal Department, Security Department);
- provisioning (collateral, financial guarantee);
- selecting appropriate structure of Credit Agreement;

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- regular (planning) analysis of borrowers financial standing and receipts on current accounts.

The main tool for credit risk management in the Bank is system of limitation, which includes three types of limits: limits of individual credit risk, portfolio risk limits and limits of authorities.

Individual credit risk limits are established by analyzing financial standing of the borrower, credit project, collateral, structure of agreement, reputation of the borrower and legal examination of submitted documents.

Bank establishes the following portfolio limits: by sectors of economy, by individual programs and by counterparties. To monitor loan portfolio monthly Risk Management Department analyzes deposits concentration of the Bank by sectors of economy, geographic regions and certain programs. Level of bad debts in terms of divisions of the Bank and adequacy of reserves formed are analyzed.

Limits of authorities specify system of limits for Credit Committees / Commissions in terms of standard and non-standard credit products as to the amount of credit to one borrower and total portfolio of disbursed loans. Limits are set depending on generated portfolio quality, management quality, employees professional level, region and others.

Limits overview in terms of reduction or closing in case of quality portfolio deterioration or changes in Bank's strategy of lending can be initiated by the Supervisory Board, Management Board, Credit Council, Risk Management Department, Internal Audit Department and Department for Debt Conflicts Resolution.

Liquidity risk is an actual or potential risk for receipts and capital arising from failure of the bank to meet its obligations in due time and without unacceptable losses.

The main body of liquidity risk management in the Bank is the Management Board with the following authorities: creation of liquidity management policy, approval of relevant policies and procedures.

Assets and Liabilities Management Committee is an Executive Committee of the Management Board with the following functions: implementation of liquidity management policy, current decision-making regarding liquidity management and approval of internal limits of the Bank.

Liquidity management in the Bank is divided into three parts: daily liquidity management, current liquidity management and long-term liquidity management.

Quick liquidity is managed by the Treasury of the Bank by analyzing correspondent account balances at the beginning of the day, payment calendar data as to receipts and outflow of funds, plans of divisions of the Bank as to operations during the day, information about cash flows on client's accounts.

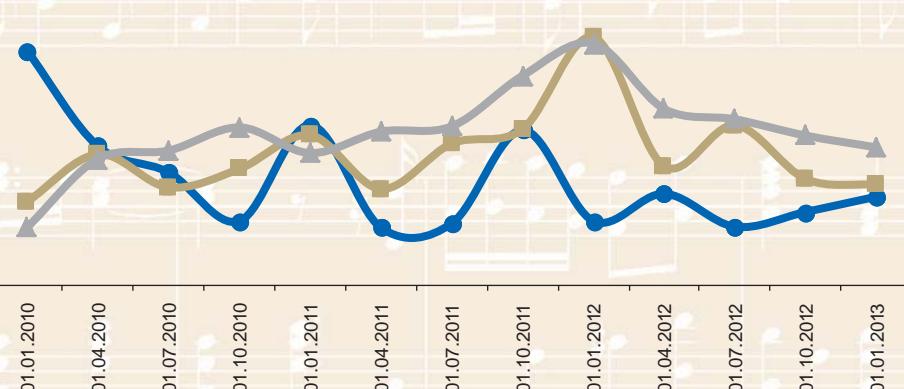
Current liquidity (for 1 month) is managed by the Risk Management Department identifying Bank's needs in liquid funds. In this case method of sources and funds use is applied where value of liquidity gap for a period is to be determined that equals to the difference between expected receipts and potential cash outflows.

Long-term liquidity (for more than 1 month) is managed by the Risk Management Department according to the method of resource gap (by assessing disbalance between term assets structure and term liabilities structure).

3. Risk Management

Dynamics of liquidity ratios during 2010-2012, %

Quick liquidity ratio
Current liquidity ratio
Short-term liquidity ratio



Regulation values in accordance with NBU requirements:

- Quick liquidity ratio (ratio of highly liquid assets to current liabilities of the bank) H4> 20%;
- Current liquidity ratio (ratio of assets with ultimate maturity up to 31 days (including) to the liabilities of the Bank with ultimate maturity up to 31 days (including) H5> 40%;
- Short-term liquidity ratio (ratio of liquid assets to liabilities with ultimate maturity up to one year) H6> 60% (regulation values changed from 40% to 60% from 01.02.2010 according to the NBU Resolution no. 764 of 24.12.2009).

Operational risk is an actual or potential risk for receipts and capital arising from the deficiencies in corporate governance, system of internal control or inadequacy of information technologies and information processing in terms of manageability, versatility, reliability, controllability and continuity.

The main body of operational and technological risk management in the Bank is the Management Board with the following authorities: creation of operational and technological risk management policy and approval of relevant policies and procedures. Operational Risk Management Committee is an Executive Committee of the Management Board, which functions include implementation of operational risk management policies, improvement of business processes, introduction of internal control systems, development of a set of measures as a result of

operational incidents review. Organization of works intended to minimize operational risk and control of decisions implementation taken by the Operational Risk Management Committee, and Internal Audit Department recommendations shall be effected by the Risk Management Department. Control of operational risk shall be carried by the Internal Audit Department in terms of advising structural divisions of the Bank at the stage of new products, processes and systems development and introduction, auditing structural divisions of the Bank; General IT Department - in terms of ensuring correctness of software systems operation in the Bank, establishing comprehensive information security system of the Bank, Structural Divisions of the Bank – within authorities, in terms of developing methodology of accounting system setting up and maintaining and complying with accounting policies requirements of the Bank.

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Interest-rate risk is an actual or potential risk for receipts and capital arising from the interest rates adverse changes.

The main body of interest-rate risk management in the Bank is the Management Board. Functions of interest-rate risk management policy implementation, decision-making in terms of interest-rate risk management, including decisions of interest-rate changes, interest rates monitoring and review by currencies, terms, product types, control over compliance with acceptable interest-rate risk and implementation of relevant decisions by structural divisions shall be relied on the Assets and Liabilities Management Committee.

Risk Management Department estimates the cost of liabilities and assets profitability, compliance with assets and liabilities maturity, return on assets of the Bank, net interest margin and spread of the Bank, makes recommendations to the Assets and Liabilities Management Committee of changes in interest rates for deposit and credit products.

Currency risk is an actual or potential risk for receipts and capital arising from adverse currency rates fluctuations and prices for bank metals.

Currency risk management is based on selected strategy of currency risk management, which includes the following elements: centralization of currency risk management, usage of all possible measures to avoid risk resulting in significant losses, losses control and minimization if there is no possibility to avoid risk.

The main tool of currency risk management in the Bank is limitation. The Bank applies this tool by setting limits on the total open currency position of the Bank as a whole, in terms of transactions (trade transactions, non-trade transactions with cash foreign currency, transactions with bank metals); establishes maximum potential losses in the absolute amount or as a percentage of realized result per closed positions from trade transactions for the current month.

Market risk is an actual or potential risk for receipts and capital arising from adverse fluctuations in securities, commodities value and foreign currencies according to those tools available in trading portfolio. This risk arises from market-making, dealing, accepting positions on debt and equity securities, currencies, commodities and derivative instruments (derivatives).

In order to manage market risk, the Bank applies the following tools: setting limits on amount of particular agreement for purchase or sale when it is concluded under conditions which implementation result depends on market prices fluctuation, setting limit on the total amount of foreign exchange position, setting limit on aggregate size of investment portfolio, assessment of quotes volatility, unscheduled limits review in case of rapid change in market conditions or significant reduction in Bank's funding base and formation of reserves for probable losses.

4

IT Development



*Group of brass instruments can be compared with the orchestra wings.
They magnify the symphony, enriching its sound with unique copper
taste and brilliance that polyphonically sound in the air,
creating compositional dynamics...*

4. IT Development

According to the strategy of JSB "Ukrgasbank" the main direction in the sphere of automation is to ensure technological and information competitiveness of the Bank on the up-to-date market of banking services.

One of the main objectives of the Bank in 2012 was to improve existing and implement new standardized software for business needs. Software module Web-bank and "Online Application" for retail lending were designed and put into operation, electronic document management system was replaced with domestic "DocS".

In order to reduce the risks arising from the use of in-house software, ABS module "Scrooge" "Treasury" was introduced in pilot operation regime, preparation for modules ABS "Scrooge" "Foreign Exchange Control" and "Securities" implementation was started.

Within the Resolution of the National Bank of Ukraine No. 23 dated 25.01.2012 implementation, reserves calculation tools were replaced with ABS "Scrooge".

To ensure stable operation of the branch network of the Bank during 2012, out-of-date equipment was replaced, personal computers were brought into compliance with banking standards in terms of main memory size and processor speed. Backup server was

started to be built, new Microsoft anti-virus software was implemented.

Within the framework of the project on centralization of work with telecommunication providers existing channels of communication were extended, single charge tariffs were set and Service Level Agreement (SLA) was concluded, monitoring of existing channels loading was introduced using SolarWinds software, which allows to track all problems in the network online.

In order to centralize IT functions project of JSB "Ukrgasbank" Directorates transition to a single financial institution within BCZ system was implemented, which processes financial transactions on plastic cards providing transparency of information for the whole BCZ system.

To optimize printing equipment base and expenses of the Bank, accounting of consumables, the project on outsourcing of Bank's printing equipment base servicing was started.

The process of telephony centralization by changing to SIP for transition to digital communications, which will reduce the costs of DLD communication and telephony support, was also launched.

5

Business Development



Group of voiced percussion instruments such as xylophone, triangle, bells etc. can be compared with culinary herbs and spices. They fill symphonic palette with colourful accents and improve its overall perception...

5. Business Development

5.1. Corporate Banking

Within the strategy of the universal bank, JSB "Ukrgasbank" actively operates both with large enterprises of Ukraine and representatives of small and medium businesses. However, to involve big corporate clients - leading public and private enterprises for complex servicing is promising for the Bank. The main objective of the Bank in this direction is to create high-quality and diversified loan portfolio.

In 2012, the Bank continued its work with the new corporate clients attraction for servicing. Thus, during the year about, 1.2 thd. new current accounts were opened and by the end of the year JSB "Ukrgasbank" has serviced about 4 thousand corporate clients. As of 01.01.2013 loan portfolio of JSB "Ukrgasbank" corporate clients² made up UAH 9,290.6 mln. During the reporting year more than 200 loans for the amount of UAH 2 bln. were granted to the corporate clients.

Bank's loan portfolio is diversified by sectors of economy. Thus, among borrowers of JSB "Ukrgasbank" are service enterprises, engineering companies, food industry firms and farmers, companies involved in wholesale and retail trading, transportation companies, as well as leading enterprises of Ukraine relating to oil and gas industry.

JSB "Ukrgasbank" offers 17 loan programs to its corporate clients, which cover both short-and long-term lending including special programs, which take into account specific features of the borrowers' activities (farmers, state-owned forestry enterprises etc.).

JSB "Ukrgasbank" loan programs advantages are as follows: competitive interest rates, lending both in national and foreign currencies (US dollar, EURO), working capital loans for up to 18 months, unsecured credits (overdrafts, programs for VIP-clients) and willingness to lend on individual conditions.

By the end of 2012 corporate clients' funds attracted onto the JSB "Ukrgasbank" current and deposit

accounts³ have amounted to UAH 1,491 mln. Thus, for the year liabilities have increased by almost 22% or by UAH 265 mln. Term deposits make up more than 56% of the corporate client funds portfolio. During the year their volume increased by UAH 390 mln. or by more than 86%, up to UAH 841 mln. as of 01.01.2013. Demand deposits have amounted to UAH 650 mln. by the end of the year and made up almost 44% of the corporate client liabilities portfolio.

In order to increase clients' database and amount of liabilities, the Bank repeatedly launched promotional offers for the corporate clients during the year: deposit "Term - New Year", deposit "Profitable - New Year", deposit "Optimal", deposit "Maximum" and deposit "Christmas Plus".

Also during the year loyalty program "Constant Depositor" was being operated, under which clients, who repeatedly placed their funds, received higher interest rate on deposits.

Tariff plans for different client groups and categories were regularly updated to take into account corporate clients' needs. Thus, tariff plans "Agricultural", "Special utility" and others were improved.

Special place in cooperation with the corporate clients is taken by the clients - insurance companies. The following leading insurance companies have already become the clients of the Bank: PJSC "IC "UIG", PJSC "IC "UIG "Life", JSC "UFIC", IC "Avesta Insurance", JSC NFIC "Dobrobut", PJSC "Ukrainian Insurance Company "Kniazha Vienna Insurance Group", PJSC "IC "Status", PJSC "IC "Kraina", PJSC "IC "Arma", JSC "IC "Kremin", PJSC "IG "U.B.I", PJSC IC "Inter", JSC "IC "Krona", PJSC IC "Jupiter Vienna Insurance Group".

As of 01.01.2013 more than 200 big corporate clients are serviced in JSB "Ukrgasbank", among which are:

- state-owned enterprises established by executive authorities (including by the Ministries and Agencies);

² Hereinafter in this section corporate loan portfolio (excluding portfolio of SME clients according to the internal segmentation) is given net of accrued income and before impairment provisions.

³ Hereinafter in this section amounts due to corporate clients (excluding SME clients according to the internal segmentation) is given net of accrued expenses.

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- insurance and transportation companies, including airports and railway stations;
- oil and gas sector enterprises of Ukraine;
- domestic manufacturers, who take a significant market share or monopoly position in the sector and / or region, etc.

Among the big JSB "Ukrgasbank" clients are such well-known enterprises: NJSC "Naftogas of Ukraine", SOE NNEGC "Energoatom", PJSC "Ukrhydroenergo", SOE "Prydniprovska Railway", SOE "Odesa Railway", State Territorial Branch Union "Pivdenno-Zakhidna Zaliznytsya" (South-Western Railway), SOE "Donetsk Railway", SOE "International airport "Boryspil", NJSC "Nadra Ukrainy", SOE "SPA "Pavlohrad Chemical Plant", State Mortgage Institution, LLC "Production Enterprise Agro-Soiuz", POSP "Uman Greenhouse Works", LLC "Eurocar", PJSC "Creative", LLC "Elevator Company "Kusto Agro", LLC AIC "Mais", Association of International Road Carriers of Ukraine, Motor (transport) Insurance Bureau of Ukraine, LLC "Synthesis Construction", LLC "Consent Capital Management", LLC "Altera Azteca Miling Ukraine", JE "Galka LTD", SOE "Lviv Aircraft Repair Plant", PJSC "Odesa TPP", Odesa National Academy of Food Technologies and others.

State-owned oil and gas and forestry enterprises, agricultural enterprises, leading manufacturers of light and heavy industries, oil traders, corn traders

and merchants will be priority clients for lending in 2013.

In addition, active selling of without resources transactions is planned – provision of guarantees, bills avalization etc.

In the sphere of liabilities attraction the Bank plans to focus on short-and medium-term deposits for corporate clients. Temporarily free funds from budget institutions are an important source of medium-term resources.

The main areas of activities are determined for efficient corporate business development in 2013, namely:

- to increase market share of the Bank by new promotions and programs targeted at liabilities attraction and assets placement;
- to improve quality of clients servicing, ensure efficiency in decision-making and individual approach to each client;
- to improve quality of Bank's portfolios by their diversification per sectors of economy, collateral types, reduce funds concentration etc.;
- to develop and update line of banking products, develop new tariff plans on cash and settlement services.

5. Business Development

5.2. Small and Medium Business Banking

In 2012, JSB "Ukrgasbank" changed its approaches to small and medium business servicing. Cooperation with the clients - small and medium business obtained the status of permanent activities of the Bank and relevant banking divisions started operating in all regions of the country. Thus, a new interbank system was established directed to the work exclusively with the small and medium business.

As a result of clients database segmentation, new lending programs were developed and tariff plans including special tariffs for specific clients segments servicing were implemented for the clients allocated to the small and medium business segment.

Growth of lending transactions in small and medium-sized business entities contributed to a higher level of diversification of lending, increase in client's database and introduction of the new sales technologies etc.

In December 2012 JSB "Ukrgasbank" signed Partnership Agreement with the German-Ukrainian Fund (hereinafter - the Fund). Having obtained a partner status the Bank was able to participate in all existing programs targeted to support small and medium enterprises funding in Ukraine implemented by the Fund, namely:

- lending programs per priority sectors directions with limited interest rate;
- programs on refinancing of lending support measures in rural areas;
- micro-lending programs.

Special lending program to small and medium business in rural areas at the Fund expenses was a result of this partnership. Moreover, consulting company Internationale Projekt Consult GmbH cooperates with the Bank within this partnership, due to which business processes in work with small and medium-sized business are updated.

In 2013 a number of measures are planned for small and medium business banking development as a separate direction of Bank's activities, in particular:

- active lending transactions development;
- further decision-making processes optimization;
- business environment monitoring;
- alternative sales channels introduction;
- further regional network staff formation and education;
- participation in state programs targeted to support small and medium business.

5.3. Retail banking

5.3.1. Credit Operations

To strengthen JSB "Ukrgasbank" positions in retail lending segment was one of Bank's priorities in retail business development in 2012. In order to increase consumer lending, the Bank introduced a range of measures in the following directions:

- *Credit policy and methodological support*

Methodology of individuals lending was improved, including changes in the current legislation, market conditions, lending practices in varying conditions of economic environment of the country.

- *Line of banking products development for different categories of the clients*

Range of retail lending was extended both by introducing new products and loan programs, and by existing products

adaptation and improvement based on competitive environment and consumer market needs.

Bank actively participated in state projects implementation on mortgage lending to the population, new markets expansion was carried out.

- *Distribution network improvement*

Channels for banking products selling were established via expanding partnerships with developers, realty firms, automobile holdings and corporations, car dealers, insurance companies, appraisers and also agents - individuals.

Active growth in retail loan portfolio⁴ during the year proves efficiency of implemented measures.

**Dynamics of credit portfolio of individuals
during 2012 (as of the end of the quarter), mln. UAH**



Thus, for 2012 JSB "Ukrgasbank" retail loan portfolio has grown by almost 17% - up to UAH 2,992.4 mln. by the end

of the year, which is the highest indicator since 2010.

⁴ Hereinafter in this section retail loan portfolio is given net of accrued income and before impairment provisions.

5. Business Development

Dynamics of credit portfolio of individuals, mln. UAH



The Bank also actively developed overdraft lending to individuals serviced within salary-card projects and lending secured by deposits. More than 11,000 card overdrafts amounting to UAH 110.8 mln. were granted in 2012.

Thus, as a result selected strategy implementation the Bank could:

- strengthen its market position in lending to individuals;
- improve credit business efficiency;
- improve decision-making, control and risk management system;
- automate retail lending business processes;
- optimize costs accompanying lending activities;
- increase interest and fee and commission income;
- successfully implement mortgage lending projects to the population;
- improve image of the Bank as an active player in retail lending.

5.3.2. Cash and Settlement Services

JSB "Ukrgasbank" offers full range of cash and settlement services for private clients and constantly improves its line of banking products.

By the end of 2012, more than 940 thd. current accounts (including card accounts) to individuals have been opened in JSB "Ukrgasbank", which account balances⁵ amounted to UAH 1,445.7 mln., that is UAH 283.1 mln. or 24.4% higher than at the beginning of the year. Increase was caused by increased balances particularly on card accounts. This result was achieved mainly by deposit-card products "ProZapas", which provide free funds withdrawal and replenishment and higher interest rates charged on account balances. "ProZapas" has

a great demand among the clients, as evidenced by the amount of balances on these accounts making up 54% of total balances on card accounts of individuals.

JSB "Ukrgasbank" is an authorized bank of the Pension Fund and Ministry of Social Policy of Ukraine in terms of pensions and monetary aid repayment. Currently, more than 40,000 people receive pensions and social benefits through the accounts opened in the Bank. Extension of Agreement made between the institutions up to 01.01.2014 allows JSB "Ukrgasbank" continue servicing pensioners and social beneficiaries in all regions of Ukraine, offering them a wide range of services.

⁵ Hereinafter in this section amounts due to retail clients is given net of accrued expenses.

5.3.3. Term Deposits

Attracting retail deposits is one of the most important sources for the Bank resource base formation. JSB "Ukrgasbank" offers its clients a variety of deposit products: classic deposits with interest paid monthly or at maturity, deposits with interest capitalization (interests incorporated into principal amount of deposit) and products with replenishment and partial withdrawal.

In 2012 the clients were offered with a number of deposit programs of the Bank, which provide advance interests payment on deposit ("Interests ahead"), possibility to automatically extend Agreement with interest payment at maturity or monthly ("Term with extension" and "Classic with extension").

Within the national project "World Savings Day in Ukraine", which co-organizers were Federal Ministry of Finance of Germany, KfW Bank (Germany), Independent Association of the Banks of Ukraine and National Bank of Ukraine, in November 2012 promotional deposit program "Deposit for growth" was running in JSB "Ukrgasbank" aimed at improving financial literacy of the population, in particular children. During the period of this program, the Bank

made nearly thousand of Deposit Agreements for the amount of more than UAH 15 mln.

In general, portfolio of term deposits to individuals has grown by UAH 645.9 mln. or 20.7% for 2012.

By the end of 2012, the Bank has opened more than 64.2 thd. deposit accounts, including 47.6% in local currency, 39.7% in US dollars, 12.2% in EUROS, 0.1% in Swiss francs and 0.4% in banking gold.

Also in 2012, tendency towards deposits extension for the new term by JSB "Ukrgasbank" clients was kept (more than 80% of deposit portfolio), indicating a high level of confidence from the side of the population to the financial institution and attractiveness of deposit programs of the Bank. More than 44,000 individuals became depositors of JSB "Ukrgasbank", which is 13% higher than at the beginning of the year. Over 30% of depositors have several deposits in the Bank.

During the year, a loyalty program for individuals ran in the Bank, which provides premium to the current deposit rates for repeated deposit, upon depositing a large amount and rolling deposit over for another term.

Dynamics of term deposits portfolio of individuals, mln. UAH



5. Business Development

5.3.4. Payment Cards Transactions

By the end of 2012 JSB "Ukrgasbank" has taken 7th position among the banks - participants of payment systems (according to NBU) by the number of payment cards in circulation, having issued more than 730 thd. cards that is higher than at the beginning of the year by more than 16 thd. cards. Over 80% of issued cards by the Bank are still active.

Grounds for JSB "Ukrgasbank" activity in Ukrainian market of payment cards is its principal membership in three international payment systems: Visa International (since 2002), MasterCard WorldWide (since 2000) and UkrCard (since 2002). Processing company JSC "UkrCard" provides servicing.

Prompt clients servicing is provided 7 days a week with 24-hour information and services support by the Bank's Services.

JSB "Ukrgasbank" is constantly in the process of technological improvement in order to put into effect innovative services that comply with the payment card users' needs. Bank offers cards of different classes: from simple Maestro, Visa Electron to elite MasterCard Platinum, Visa Platinum and Visa Infinite.

In 2012, the Bank introduced a new approach to premium segment card products. Clients were offered the cards with a package of additional services (concierge service, membership cards Priority Pass, insurance programs etc.) generated by the Bank on the basis of clients demand research and proposals on the market of premium cards. This package proposal became the most successful card project in 2012. So, only within the last 6 months of the reporting year, the Bank has issued over 500 such cards (mostly Visa Gold ProZapas and Visa Infinite).

Moreover, at the beginning of 2012 a new deposit and card product "ProZapas Three Months" was implemented, which accounts are opened

exceptionally in local currency. Almost 2.5 thousand accounts were opened based on this product during the year, which balances reached over UAH 50 mln., making up about 22% of the total balances on card accounts in national currency based on "ProZapas" and "ProZapas Three Months" products.

JSB "Ukrgasbank" provides services to individuals within the framework of agreements supporting salary-card projects for legal entities. More and more companies prefer to pay salary to their staff using efficient mechanism - payment cards. In 2012, 600 clients - legal entities were involved for servicing to the Bank under salary-card projects. Among the biggest clients, which have already used payroll projects of the Bank, are healthcare organizations, educational institutions, local authorities and fuel and energy complex enterprises. Thus, by the end of the year JSB "Ukrgasbank" has been servicing about 3.5 thd. salary-card projects.

During the year, the Bank actively developed merchant account and installed 238 new POS-terminals. Point-of-sale terminal network of the Bank has exceeded 740 units in more than 700 outlets by the end of the year. For non-cash payments JSB "Ukrgasbank" POS-terminals were installed in SOE "International Airport "Borispol", famous clothing store chain "Helen Marlene" and others.

The Bank also distributes American Express payment cards.

During 2012, account balances on card accounts of JSB "Ukrgasbank" individuals have increased by UAH 256.6 mln. and by the end of the year they have amounted to UAH 1,391.4 mln. Thus, the Bank has kept its leading positions among Ukrainian banks as to the account balances on current accounts of the clients.

5.3.5. Money Transfer and Payments

JSB "Ukrgasbank" continues developing services related to payments receipt and money transfer for individuals. In 2012, the Bank joined two international money transfer systems MIGOM and IntelExpress. Thus, by the end of 2012 the Bank has cooperated with ten international money transfer systems when transferring funds, in particular: Western Union, Unistream, CONTACT, International money transfers LEADER, MoneyGram, RIA Financial Services (RIA Money Transfer), AVERS JSC "Bank "Finance and Credit" and "Zolotaya Korona - Money Transfers", MIGOM and IntelExpress. The volume of money transfers by JSB "Ukrgasbank" has increased by more than twice since year beginning.

Moreover, Bank transfers money of individuals in foreign currency through SWIFT, transfers of foreign currency in Bank's Divisions network without international transfer systems use and local currency transfer through EPS of NBU.

The Bank also offers individuals to make payments for the benefit of enterprises, organizations and private individuals - entrepreneurs.

By the end of 2012 a new service – to buy air tickets in JSB "Ukrgasbank" branches - has been implemented. Clients can book and pay for electronic flight tickets in the cash offices of the Bank.

5.4. Individual Banking

JSB "Ukrgasbank" VIP-clients servicing is based on providing them with a full range of banking services ensuring the highest level of quality that means speed decision-making, individual approach to each client, implementation of innovative banking products and information systems.

Corporate VIP-clients are represented by the oil and gas companies of Ukraine, state-owned enterprises established by executive authorities (including Ministries and Agencies), big insurance and transportation companies and large domestic manufacturers.

VIP-client status is given to the individuals, which have significant turnover on card and deposit accounts, as well as founders and TOP-managers of big companies.

Separate Divisions for corporate VIP-clients and

individual VIP-clients function in the Bank for VIP-clients servicing. By the end of 2012 more than 200 corporate VIP-clients and approximately 200 private VIP-clients have been serviced in JSB "Ukrgasbank".

During 2012 JSB "Ukrgasbank" implemented new and updated existing banking products for VIP-clients. For the premium class cards under tariff plan "Prestigious", programs of additional servicing from the partner of the Bank – "Concierge Service Smart Line", membership under Priority Pass program and under International Air Passengers Association IAPA program, insurance while traveling abroad under "Travel" program, insurance of property and liability to the third parties under "My fortress" program have been implemented. In addition, for better and prompt private VIP-clients servicing the Bank was allocated with a private telephone line of the Contact Center for their all day information support.

5. Business Development

5.5. Investment Business. Securities

JSB "Ukrgasbank" is one of the largest and highly-experienced institutions of Ukrainian Stock Market.

In 2012, transactions in the stock market were performed by JSB "Ukrgasbank" under license of the State Commission for Securities and Stock Market for professional stock market activities, such as brokerage - series AB No. 520288 dd. 10.02.2010, dealership - series AB No. 520289 dd. 10.02.2010, underwriting - series AB No. 520290 dd. 10.02.2010, activities on securities management - series AB No. 520291 dd. 10.02.2010.

Also in 2012, JSB "Ukrgasbank" obtained the right to provide a new service on the securities market of Ukraine - mortgage pool management, obtaining the license series AD No. 034432 dd. 18.06.2012 based on the Decision of the National Securities and Stock Market Commission No. 480 dd. 18.06.2012. The term of the license is unlimited. This is the first and the only license of mortgage pool manager in Ukraine at the end of 2012. In 2012, the Bank entered into Agreements for Servicing of Mortgage Bonds Issuance as a manager of mortgage pool for a nominal amount of UAH 1 bln.

In 2012 JSB "Ukrgasbank" was repeatedly among the leaders of traders rankings on the volume of agreements with bonds of internal government loans

(BIGL), concluded both in stock exchange and third markets, made by the Information Agency Cbonds.

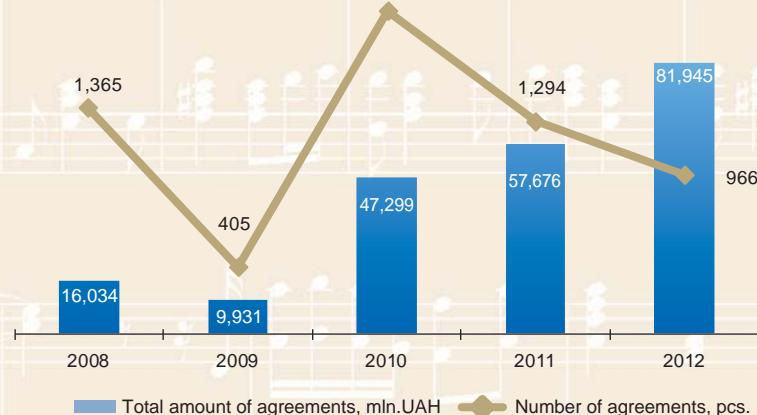
In addition, as the results of 2012, JSB "Ukrgasbank" took 5th place among municipal bonds traders and 6th place among BIGL traders in the rating of securities traders on PFTS Stock Exchange.

PJSC "Stock Exchange "Perspectiva" has determined that among its members JSB "Ukrgasbank" took 8th place on the volume and number of executed agreements on BIGL and 6th place on the volume of executed agreements on corporate bonds in 2012.

Since 2006, JSB "Ukrgasbank" has been the issuer of bonds with the total nominal value UAH 650 mln. Legal entities and individuals (residents and non-residents) are among the bondholders of the Bank. By the end of 2012, bonded obligations of all series have been successfully fulfilled and bonds have been repaid in full.

Volume of agreements (brokerage, dealership, underwriting, activity on securities management), concluded by JSB "Ukrgasbank" in the stock market in 2012, 1.4 time exceeded last year level and amounted to almost UAH 82 billion, reflecting positive stock market trends and significant investors interest in securities in Ukraine.

Amount of agreements concluded by JSB "Ukrgasbank" on the stock market in 2008 – 2012

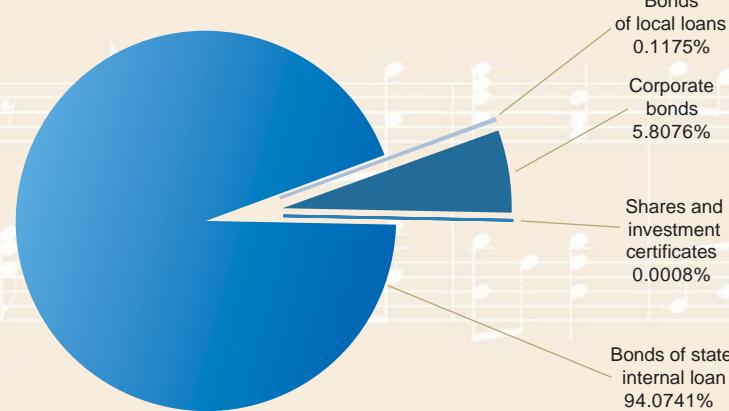


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In 2012, JSB "Ukrgasbank" made brokerage and dealership operations in all segments of the securities market, however, the most substantial share (94.07%)

constituted operations with the government bonds. The rest are operations with bonds of local loans, corporate bonds, shares and investment certificates.

Share of different types of securities in the structure of trading volumes in JSB "Ukrgasbank" for 2012, %



By the end of 2012 JSB "Ukrgasbank" securities portfolio has made up more than UAH 5,340 mln., which is 25% higher than the previous year indicator.

Volume of securities portfolio has increased due to investments into state, municipal and corporate debt securities.

Dynamics of JSB "Ukrgasbank" securities portfolio, mln. UAH

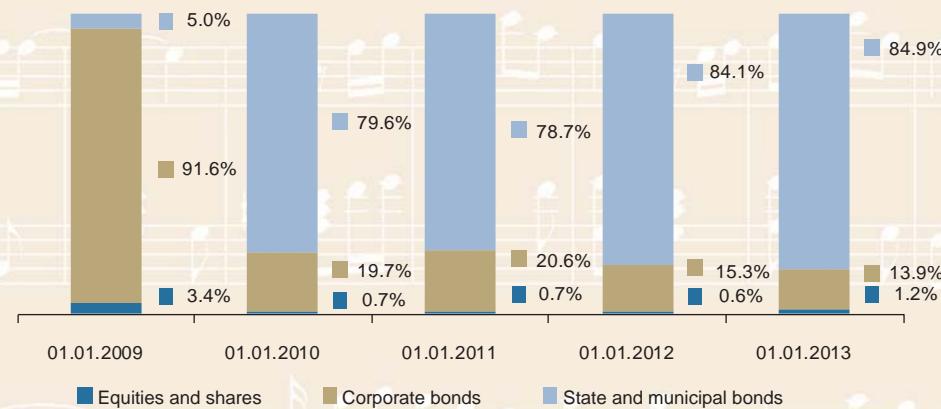


Structure of investments in securities by the Bank has not changed in 2012. In 2012, as in the previous year, the biggest share in JSB "Ukrgasbank" securities portfolio constituted government bonds.

As of 01.01.2013 more than 84% of securities portfolio of the Bank (at nominal value) fell on state and municipal bonds.

5. Business Development

Structure of JSB "Ukrgasbank" investments in securities, %



In 2012, JSB "Ukrgasbank" continued development of brokerage activities in the stock market. In particular, within the project "People's broker" Bank provided its clients opportunity to trade securities through authorized institutions network (branches), which amounted to 111

institutions in all regions of Ukraine as of 01.01.2013. Through this institutions network JSB "Ukrgasbank" together with asset management companies arranged Investment Certificates distribution and repurchase of some mutual funds.

5.6. Treasury Operations

5.6.1. Transactions in the Interbank Market

In 2012, the Bank actively traded in the Interbank Foreign Exchange Market, increasing volume of foreign currency purchase and sale transactions both to meet its own needs and by and on behalf of the clients for export and import operations. The main volume of transactions traditionally falls on the following currencies: US dollars, EUROS and Russian rubles.

In Resource Interbank Market the Bank traded in order to manage quick and short-term liquidity. The biggest share,

among all interbank transactions performed by the Bank, is taken by "swap" operations, under which banks provide each other loans (deposits) in various currencies for the equivalent amount and with the same maturity. Minor risk, inherent to these transactions, allows to maintain required level of short-term liquidity. At the same time, spotless reputation of the Bank allows actively involve interbank loans without collateral. The volume of JSB "Ukrgasbank" interbank portfolio has reached UAH 4.5 bln. by the end of 2012.

5.6.2. Transactions with Government Liabilities

In 2012, JSB "Ukrgasbank" has traditionally taken leading positions in the securities market. With a view to ratio of earned income to moderate risk from securities purchase-sale transactions, Bank primarily traded by bonds of domestic government loan (BDGL).

In 2012 total volume of BDGL purchase-sale transactions in the secondary market amounted to UAH 70 billion and as a primary dealer in government securities market the Bank purchased for

the amount of UAH 2.6 bln. and USD 181 million.

According to the rating of "Ukrainian Stock Traders" Association and Cbonds Information Agency, JSB "Ukrgasbank" became one of the three leaders under the volume of transactions with BDGL on stock exchange and third market as the results of 2012.

As of 01.01.2013 Bank's BDGL portfolio amounted to UAH 4,402.5 mln. at nominal value.

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5.6.3. Bank Metals

Market of gold, which reflects economic situation in the world, was characterized by constant price fluctuations in 2012. Uncertain situation in the international financial markets and uncertainty as to the main hard currencies accordingly increase demand for the bank gold from the population. Thus, in 2012 JSB "Ukrgasbank" sold about 800 kg of gold in Ukrainian market and volume of deposit portfolio in gold has exceeded 140 kg by the end of the year.

The Bank also actively traded on the Interbank Currency Exchange Market of Ukraine, in particular, volume of gold sale transactions to Ukrainian banks exceeded 330 kg.

In 2012, the Bank purchased 752 kg of bank gold. The main contractor of the Bank - gold bullions supplier is recognized affinage company Argor Heraeus S.A. (Switzerland).

Since the beginning of 2012, JSB "Ukrgasbank" has been offering a new product to its clients - investment coins made of precious metals (gold and silver), issued by the National Bank of Ukraine. Investment coins differ from

collectible coins with high rate (999.9) and their possible repurchase by the banks. This allows to consider them not only from an aesthetic point of view, but also as a bank metal, which became one of the most profitable investment targets in recent years. As a tool of saving such coins are an alternative to foreign currency as the precious metals have their real value, which in turn makes them more resistant to inflation.

In May 2012, JSB "Ukrgasbank" started selling of silver coins with a high level of artistic design and perfect quality of coinage made by recognized international manufacturers. The Bank represents a wide range of coins of different subjects, which is constantly renewed. As a result in 2012, the Bank sold more than 2.5 thousand such coins.

Operations with precious metals are performed in 190 branches of the Bank throughout Ukraine.

Information about gold purchase-sale rate is provided on official web-site of the Bank and on finance.ua.

5.6.4. Development of the Correspondent Relationship

JSB "Ukrgasbank" pays great attention to correspondent accounts network development. By the end of 2012, the Bank has had about 130 correspondent accounts of "nostro" type in 49 banks in different countries of the world. Correspondents and contractors of JSB "Ukrgasbank" are stable and reliable financial institutions, guaranteeing mutual cooperation both in domestic and international markets.

To improve clients servicing in the sphere of settlement services, JSB "Ukrgasbank" constantly expands and strengthens cooperation with financial institutions of

Ukraine and foreign countries, establishes correspondent relations and offers attractive rates for loro accounts servicing in national and foreign currencies. Thus, JSB "Ukrgasbank" was one of the first banks in CIS which was awarded with "Product. Innovation. Partnership." by one of the world's major banks – J.P. Morgan Chase Bank, N.A. recognizing Bank's innovative approach to clients servicing. This award also evidences extremely dynamic JSB "Ukrgasbank" development, which has four times increased the number of payments in 2012 due to the new products offered to the clients.

5.6.5. Margin Trading Operations

JSB "Ukrgasbank" was first Ukrainian bank which registered with the National Bank of Ukraine "Rules for Arbitrage Transactions under Margin Trading" according to the new requirements of the Resolution of the National Bank of Ukraine No. 461 dd. 05.11.2012.

JSB "Ukrgasbank" offers its private clients an opportunity to trade 24 hours on the global foreign-exchange market under margin trading conditions via the Internet without physical currencies delivery. An additional advantage over other Ukrainian banks is a possibility to sign agreements in any of more than 200 branches of the Bank across Ukraine.

In order to provide the best quality and more convenient

services, JSB "Ukrgasbank" constantly updates them. Thus, in 2012 the Bank provided its clients possibility to conduct margin trading transactions using devices with iOS from Apple and Android operating systems.

Thus, the number of clients, conducting margin trading transactions, has risen to 2,500 persons, who have conducted more than 400 thousand transactions.

Reliability of the Bank, favourable trading conditions, fast and quality servicing and wide branches network contribute to JSB "Ukrgasbank", which is fairly considered as one of the most attractive institutions in Ukraine providing margin trading services.

5. Business Development

5.7. Custodian Operations

JSB "Ukrgasbank" performs custody activities as Custodian on the basis of the license issued by the State Commission on Securities and Stock Market for the right to perform professional activities as custodian series AB No. 520292 dd. 10.02.2010 and provides all custody services.

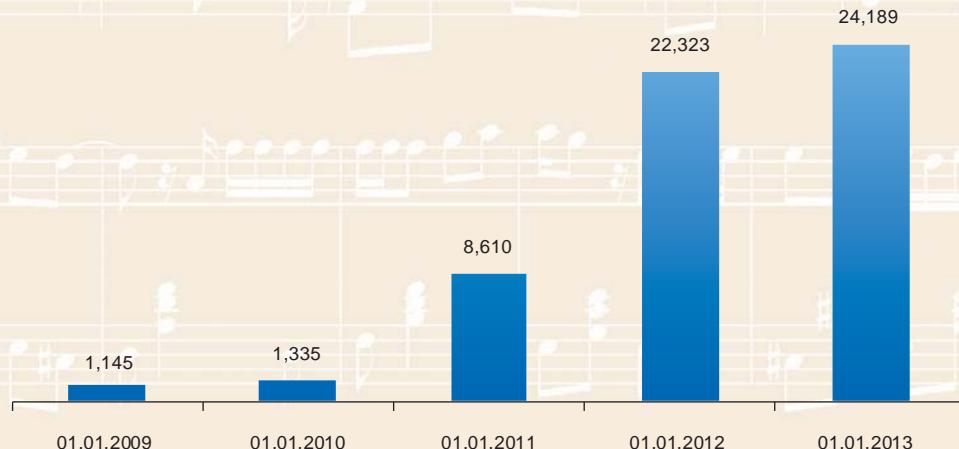
JSB "Ukrgasbank" has accounts in securities in all existing depositories of Ukraine:

- depository - Private Joint Stock Company "Ukrainian Securities Depository", account number 001158;

- depository of government securities - National Bank of Ukraine, code of inter-depository account 300996;
- depository - Public Joint Stock Company "National Depository of Ukraine", account number 100024-UA30300996.

By the end of 2012, JSB "Ukrgasbank" has serviced more than 24 thousand securities accounts. The list of securities, registered on these accounts, includes securities of 290 Ukrainian issuers. The volume of depository assets of JSB "Ukrgasbank" as Custodian has reached UAH 9,683.9 mln. as of 01.01.2013.

Dynamics of securities accounts opened by JSB "Ukrgasbank" as Custodian in 2008 – 2012, units



Securities accounts breakdown per groups of clients as of 01.01.2013, units

Clients	Number of accounts
Individuals	23,545
residents	23,501
non-residents	44
Legal entities	644
residents	618
non-residents	26

Within the project "People's broker" JSB "Ukrgasbank" as Custodian actively attracts new depositors implementing up-to-date technologies for their servicing.

Within JSB "Ukrgasbank" cooperation with 29 companies on securities dematerialization, more than 20 thousand accounts were opened as of 01.01.2013,

on which securities are accounted for the total nominal value of about UAH 500 mln.

According to the rankings of Professional Association of Registrars and Depositories custodians, JSB "Ukrgasbank" as Custodian was in TOP five in terms of accounting transactions and took 12th position as to the volume of depository assets at par value in 2012.

5.8. Distant Client's Servicing

Distant client's servicing becomes increasingly popular and is a very dynamic segment at the present stage of banking services development. Valuing clients wish to obtain high-quality banking services at any time and in any place, JSB "Ukrgasbank" offers such channels of distant servicing:

- Call Center.
- ATMs network, trade POS-terminals and Self Service terminals.
- Internet banking for legal entities.
- Mobile banking.
- Web-site of the Bank.

Call Center

Call Center of the Bank is a centralized division, which processes calls and emails received to the "hot line" 24 hours and is an efficient and accessible channel of banking products and services distant selling. Priorities in Call Center work are given to professionalism, personal approach and effective communication with existing and potential clients.

Call Center provides the following services:

- providing additional information about the work of the Bank;
- advising clients on banking products, services, promotional offers and tariffs;
- supporting cardholders;
- registering clients' complaints and proposals.

In 2012, Call Center has processed over 247 thd. telephone calls from the clients, in average 20.6 thd. applies per month. In most of cases clients consulted on card servicing, deposit and lending programs of the Bank issues.

In order to attract new clients for servicing into the Bank, as well as motivate and inform existing clients, Call Center makes outgoing calls, sends information SMS-messages about new banking products, services, promotional offers and changes in servicing.

As a result of this work clients were motivated to place new deposits for the amount of UAH 36.2 mln., to execute overdrafts on salary cards for the amount of more than UAH 3 mln. and credit products to buy residential real estate or car and credits on mortgage totaling UAH 28.7 mln. In addition, almost 10 thousand clients - owners of card accounts were attracted for M-banking.

An important criterion for JSB "Ukrgasbank" operation is the level of clients' satisfaction with the quality of servicing. In 2012, Call Center made more than 8,600 contacts to question clients of the Bank about their satisfaction with the quality of servicing and control evaluating calls to the Bank network staff by the Mystery Calls method.

ATMs, trade POS-terminals and payment Self Service terminals network

In order to improve conditions for payment cards servicing Bank constantly expands its infrastructure and offers new services through the terminal equipment network.

In general, 41 ATMs were installed and connected to the terminal network of the Bank during the year. 7.4 mln. transactions totalling UAH 4.8 bln. were conducted through the network of ATMs by the clients in 2012. Average amount received by the clients monthly through the ATMs network has increased up to UAH 403 mln. comparing with UAH 350 mln. last year. Due to optimization of ATMs location in 2012, fee amount obtained by the Bank from Interchange transactions has increased by 68%.

In 2012, JSB "Ukrgasbank" significantly expanded

5. Business Development

functional of self-service terminals that positively affected the amount of payments received, which total amount has exceeded UAH 300 thd. per month.

POS-terminals network of the Bank has increased by almost 30%, up to 745 units, for 2012, which resulted in turnover from trading operations increase by 32% comparing with the last year.

Internet banking for legal entities

JSB "Ukrgasbank" offers modern system of distant accounts servicing in real time - system "Client-Internet-Bank" for legal persons, individuals - entrepreneurs and also private notaries and attorneys where the following functionalities were realized:

- payments in local currency, foreign currency and precious metals;
- applications for purchase / sale / conversion of foreign currency;
- account statements, turnover and balances on accounts review;
- electronic messages exchange with the Bank;
- additional services: salary projects servicing, Center of Financial Control (control over reporting organizations accounts);
- SMS-information about entering the system using login of the client, cash flows and current account balances, deviations from the client's document and message from the Bank.

As of 01.01.2013 "Client-Internet-Bank" system was used by 5,237 clients in JSB "Ukrgasbank". Also, 11 Centers of Financial Control were registered in the system that manage 104 reporting organizations.

Taking client's wishes into account, the Bank expanded functionality of "Client-Internet-Bank" system in 2012, having implemented SMS-information service to the clients - legal entities about current account balance. Updated USB-tokens to store electronic-digital signatures

were also implemented, which are much cheaper and have improved functionality.

For the convenience of "Client-Internet-Bank" system use in Bank's units, special places for Self Service were created, where clients could independently make all necessary transactions on their accounts in the system.

M-banking

JSB "Ukrgasbank" offers its clients - cardholders "Mobile Banking" ("M-banking") service, whereby clients using their own mobile phones can have at any time access to information about their card account and may make some transactions with their cards. Bank developed special Java-based application that is easily loaded in client's mobile telephone and has a user-friendly interface. In addition, the service of SMS-information about funds crediting to the card account operates. Currently, this service becomes more and more popular among the clients of the Bank. As of 01.01.2013, more than 111 thd. clients have been using "M-banking" service that is almost 40% more than at the beginning of 2012.

Web-site of the Bank

Web-site of the Bank is actively used by the clients as a source of information about the Bank and its activities, as well as a channel of distant sales. Number of web-site visits in 2012 has increased by 43% comparing with the last year. Moreover, almost 2,600 on-line requests from the clients for banking products and services were obtained through the web-site of the Bank to the Call Center during 2012 that is 52% more than in 2011.

In 2013, the Bank plans to further develop distant clients servicing and new services implementation. In particular, it is planned further development of ATMs and self-service terminals network and extension of their functionality, complete implementation of "Internet-Banking for Individuals" system, updating of the software and hardware platform in the Call Center, introduction of relationship management with the customers (CRM) and self-service via IVR for the Call Center.

6

Partnership and Cooperation

Group of membrane percussion instruments is considered just as the heart of the orchestra. These noisy but respectful participants of the group fill the symphony with viable rhythm taking responsibility for its beat...

6. Partnership and Cooperation

6.1. International Systems of Money Transfer

While making money transfer transactions Bank cooperates with ten international money transfer systems.

Western Union

From June 2002 to June 2009, the Bank has operated as a subagent of JSCB "Transbank", from February 2010, the Bank resumed its work with the system and operates as a subagent of JSC "Bank Finance and Credit", which is a system agent.

Unistream

The Bank has been working with the system as a direct agent since May 2009.

CONTACT

The Bank has been working with the system as a direct agent since June 2006.

International money transfers LEADER

The Bank has been working with the system as a direct agent since October 2006.

Money Gram

The Bank has been working with the system as a direct agent since May 2007.

RIA Financial Services (RIA Money Transfer)

The Bank has been working with the system as a direct agent since September 2010.

AVERS JSC "Bank "Finance and Credit"

The Bank has been working with the system as a direct agent since April 2010.

"Zolotaya Korona - Money Transfers"

The Bank has been working with the system as a direct agent since September 2009.

MIGOM

The Bank has been working with the system as a direct agent since May 2012.

IntelExpress

The Bank has been working with the system as a direct agent since August 2012.

6.2. Car Dealers and Car Importers

In 2012, JSB "Ukrgasbank" fruitfully cooperated with more than 200 car dealers and car importers within the programs of targeted lending "Car Loans". The following leading companies of Ukrainian car market are among the Bank's partners:

UkrAVTO Corporation is a leader in the car market of Ukraine, general importer and authorized dealer of more than 20 world-known car brands. Bank cooperates with the Corporation through its "Express Credit" system based on "UkrAVTO" Corporation structural division LLC "UKRAVTOLEASING".

"VD Group" is one of the biggest operators in the motor car market of Ukraine. Company's strategy is to develop a new format of selling and servicing – car cities "VD AutoCity". Today "VD AutoCity" is a union of modern dealer centers in Kyiv and Odesa with the total area of 50,000 m² (Toyota Center Kyiv "VD Autostrada", "Lexus Kyiv West", Land Rover/Range Rover "VD Power Motors", Nissan "VD Sunrise Motors", Infiniti "VD Liberty", Mazda "VD Sky Motors", Ford "VD Kray Motors", Citroën "VD Elegance", Subaru "VD Star Motors", Peugeot "VD Avenue", Toyota Center Odesa

"VD Palmira", Honda "VD Dream Motors", Peugeot "VD Concord", Center selling used cars "VD AutoMarket"). It is more than 100 models of famous brands, more than 150 service points servicing up to 470 cars daily.

"Autotrading Atoll Group" is a car sub-holding management company, which main activities are distribution and after-sale servicing of VW Group (Skoda, Seat, VW), Ford, Hyundai, Suzuki, Renault, Peugeot, as well as motorcycles Harley-Davidson®. "Autotrading Atoll Group" is one of the companies of Atoll Holding Group, which is among three players of the Ukrainian car market.

Private Joint Stock Company "Boryspil Car Plant" is a leading vehicles (buses, trucks) manufacturer and supplier to Ukrainian market and is a part of "Etalon" Corporation. Dealer network accounts more than 80 sales outlets in the territory of Ukraine.

Annual Report' 2012

Bogdan Corporation is one of the leading car operators, which has its own branched sales and service network and represents the following brands on the car loans market: Hyundai, Subaru, Bogdan, Great Wall, Lifan, Lada, Uz-Daewoo. The Bank cooperates with the Corporation in the sphere of lending and insurance through its assisting company LLC "Autoretail Assistance", which representatives are available in LLC "Bogdan Auto Holding" network, LLC "Hyundai Motor Ukraine" and LLC "Bogdan Industry" car showrooms.

Group of Companies "AIC" is one of the biggest car operators, which represents 18 car brands in the Ukrainian market. Group of companies "AIS" has 37 car centers and service stations, 31 spare part shops, 2 production plants, logistic centers for cars and spare parts storage.

Private Joint Stock Company "AutoCapital" is an official importer of Mercedes-Benz in Ukraine and a part of "UkrAVTO" Corporation. Dealer network amounts 20 representatives in the biggest cities of Ukraine.

6.3. Companies-Developers

Under the mortgage lending programs, JSB "Ukrgasbank" cooperates with more than 70 accredited developers from different regions of Ukraine. Key partners under the real estate lending programs in the primary market are the following:

Public Joint Stock Company "Holding Company "Kyivmiskbud" is one of the biggest representatives in construction industry. Currently, Company consists of 68 enterprises, where PJSC "Holding Company "Kyivmiskbud" has shares in the authorised capital in 47 of them and 21

enterprises where Company cooperates as a member of the Board of Directors.

Development Company "OMOKS" is a well-known real estate operator - developer of residential complex "Chaika".

6.4. Banks - Partners in Consumer Lending

In 2012, the Bank continued development of such innovative service as agent sale of other banks consumer loans. Three banks, which actively operate in the market of consumer lending, have become JSB "Ukrgasbank" partners by the end of the year.

6.5. Company of Concierge Services

"Concierge Service Smart Line" provides 24-hour assistance in household and business requests in different directions. Clients can always rely on fast and professional

resolution of any issue, individual approach and quality servicing.

6. Partnership and Cooperation

6.6. Insurance Companies

Private Joint Stock Company "Ukrainian Fire Insurance Company" was established in 1992 and has licenses for more than 50 types of voluntary and compulsory insurance, with 300 branches and representatives in all oblast and many regional centers of Ukraine.

Private Joint Stock Company "Insurance Company "Ukrainian Insurance Group" has been operating on the Ukrainian insurance market since 2000, has licenses for 15 voluntary and 9 compulsory insurance. Its own regional network has 116 representatives throughout Ukraine.

Private Joint Stock Company "Ukrainian Insurance Company "Knyazha Vienna Insurance Group" has been operating on the Ukrainian market for more than 15 years and is a part of Vienna Insurance Group – leader of insurance market in Central and Eastern Europe. Insurance Company offers such insurance products: car insurance, personal and medical insurance, personal property insurance etc, and represented by a network in all regions of Ukraine.

Private Joint Stock Company "Ukrainian Insurance House" was founded in 2003. It has licenses for 13 types of voluntary and 7 types of compulsory insurance. Branch network covers all oblast centers of the country and AR of Crimea.

Additional Liability Company "Insurance Company "Dominanta" has been operating in insurance market of Ukraine since 2007 and has 25 licenses for compulsory and voluntary insurance. Insurance company representatives are located in the most oblast centers and Simferopol.

Private Joint Stock Company "Insurance Company "AXA Insurance" is a part of French group AXA and has licenses for more than 22 types of insurance servicing more than half a million clients. Regional network is represented in more than 45 cities of Ukraine.

Private Joint Stock Company "Insurance Company "Status" is a universal insurance company with exceptionally Ukrainian capital and has 21 licenses for compulsory and voluntary insurance. Insurance company network covers almost all oblasts of Ukraine and consists of 44 separate divisions.

Private Joint Stock Company "Insurance Company "Unives" has 17 licenses for the basic compulsory and voluntary insurance. Company has obtained reputation of a reliable partner among industrial and financial organizations of Ukraine for 10 years of activities in the market.

Private Joint Stock Insurance Company "ARMA" was founded in 1994 and provides insurance services for voluntary and compulsory insurance based on 23 perpetual licenses. Insurance Services Sales Centers are located in Kyiv, Donetsk, Dnipropetrovsk and Odesa.

Public Joint Stock Company "Ukrainian Insurance Company "Garant-Auto" was founded in Kyiv in 1992 and is specialized in car insurance but actively develops other types of insurance, in particular, property insurance, voluntary medical insurance, construction risks insurance, financial risks insurance etc. Following the results of 2012, insurance company took leading positions in terms of insurance indemnities.

Additional Liability Company "Insurance Company "VD Insurance" was incorporated in 2007, has perpetual licenses for 11 types of voluntary insurance and is a part of "VD Group" - group of companies, which has been an active participant in car business of Ukraine for 18 years.

Additional Liability Company "Insurance Company "Avesta Insurance" is a classical insurance company specialized in corporate and banking insurance, being the general partner of the leading financial institutions with retail mortgage insurance programs.

Public Joint Stock Company "Insurance Company "Krayina" has been operating in the insurance market of Ukraine since 1994, has licenses for 21 types of insurance and is among TOP-20 insurers of Ukraine by amount of insurance payments.

Private Joint Stock Company "Insurance Company "Kremin" was founded in 1996 and has licenses for 12 voluntary and 6 compulsory insurance.

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Private Joint Stock Company "Insurance Group "U.B.I" was founded in 2000 and has licenses for more than 40 types of insurance, is universal Ukrainian insurance company specialized in insurance of oil and energy enterprises risks and is a strategic partner of a number of powerful Ukrainian enterprises. Regional and representative network covers all the territory of Ukraine.

Additional Liability Company "Express Insurance" is an insurance company established with the participation of vehicles market leader of Ukrainian - Ukrainian Automobile Corporation "UkrAVTO". Company has licenses for 23 types of insurance.

Private Joint Stock Company "Insurance Company "Grandvis" cooperates with the Bank in the sphere of car insurance, insurance of movable and immovable property pledged by borrowers and personal accident insurance of borrowers - individuals.

Private Joint Stock Insurance Company "Grand-Policy" has 9 years experience in insurance and reinsurance in the global market. The insurance company cooperates with the Bank in terms of car insurance, insurance of movable and immovable property pledged by borrowers and personal accident insurance of borrowers.

Private Joint Stock Company "Insurance company "KRONA" was founded in 2000, has 22 licenses for more than 30 types of voluntary and compulsory insurance and takes leading positions in insurance compensations in Ukraine.

Private Joint Stock Company "Insurance Company "VUSO" has been operating since 2001 and specializes in providing compulsory and voluntary insurance for both individuals and legal entities.

Private Joint Stock Company "Insurance Company "Arsenal Insurance" provides a full range of services in insurance sphere and is among TOP-10 of insurers in Ukraine by the amount of premiums.

Private Joint Stock Company "Insurance Company "Ukrainian Insurance Standard" cooperates with the Bank in terms of car insurance, insurance of movable and immovable property pledged by borrowers and personal accident insurance of individual borrowers.

Private Joint Stock Company "Insurance Company "Zlagoda" was founded in 1997 and provides a wide range of insurance services under the licenses for 11 types of insurance.

6.7. Assets Management Companies

Limited Liability Company "Asset Management Company "Dragon Asset Management" is a subsidiary of IC Dragon Capital.

As of the end of 2012, AMC had four public funds: IDMIF "Platinum", IDMIF "Aurum", ODMIF "Argentum", CNMIF "Ferum" with the total net assets value of more than UAH 27 mln.

JSB "Ukrgasbank" sells investment certificates of above funds.

Limited Liability Company "Asset Management Company - Pension Funds Administrator "Troika Dialog Ukraine" is a part of the Group of Companies "Troika Dialog" – leading independent investment company operating in the CIS markets since 1991, in Ukrainian market - since 2005. Currently, the company is among three market leaders.

By the end of 2012, "Troika Dialog Ukraine" has offered

6. Partnership and Cooperation

to sell securities of two Public Investment Funds: ODMIF "Troika Dialog Equities", ODMIF "Troika Dialog Bonds", which assets make up more than UAH 2 mln. Total value of assets under management of the company exceeds UAH 70 mln.

JSB "Ukrgasbank" sells investment certificates of above funds.

Limited Liability Company "Asset Management Company "UNIVER Management" was founded in 2008 and manages assets of collective investment institutions and non-state pension funds. By the end of 2012, AMC has managed assets of collective investment institutions with the total value of about UAH 7 mln.

JSB "Ukrgasbank" sells investment certificates of such funds: ODMIF "UNIVER.UA/ Yaroslav The Wise: Fund of Equities", ODMIF "UNIVER.UA/Volodymyr the Great: Balanced Fund", IDMIF "UNIVER.UA/Otaman: Fund of Perspective Equities".

Limited Liability Company "Asset management company "Concord Asset Management" has been operating since 2007 and is a part of Investment Group "Concorde". By the end of 2012, AMC managed assets of four public investment funds: ODMIF "Concorde Prosperity" ODMIF "Concorde Stability", IDMIF "Concorde Perspective" and CNMIF "Concorde Oligarch" with the total value of net asset of more than UAH 11.5 mln.

JSB "Ukrgasbank" sells investment certificates of above funds.

6.8. Securities Depositories

Private Joint Stock Company "Ukrainian Securities Depository" was established in 2008 and provides quality depository and clearing services. JSB "Ukrgasbank" is one of PJSC "USD" shareholders and clients.

Public Joint Stock Company "National Depository of Ukraine" (hereinafter – the NDU) provides functioning of a single system of depository accounting and custody

services provision. Exceptional competence of the NDU is numbering (codification) of securities, standardization of depository accounting and documentation for securities transactions and others. JSB "Ukrgasbank" has been a client of the NDU since 2009. In this particular depository global certificates of both ordinary and preferred shares of the Bank were deposited.

6.9. Stock Exchanges

Public Joint Stock Company "Stock Exchange "Perspectiva". The Bank has been a member of PJSC "Stock Exchange "Perspectiva" since 2007 and trades with securities on this Stock Exchange.

Public Joint Stock Company "Stock Exchange PFTS" is one of the biggest organizers of trade on the securities market of Ukraine, supports interregional system of electronic securities trading in real time. JSB "Ukrgasbank" is among PJSC "Stock Exchange PFTS" shareholders. The Bank has been a member of PJSC "Stock Exchange

PFTS" since 1997 and trades with securities on this Stock Exchange both from its own portfolio and on behalf of its clients.

Public Joint Stock Company "Ukrainian Stock Exchange" is one of the biggest organizers of trade on the securities market of Ukraine. The Bank has been a member of PJSC "Ukrainian Stock Exchange" since its foundation (2008) and trades with securities on this Stock Exchange both from its own portfolio and on behalf of its clients.

6.10. Evaluating Companies

Limited Liability Company “Credit Brokerage Agency” provides services on property evaluation, in particular tangible and intangible objects, and monetary evaluation of land plots. It has been working in Ukrainian market since 2007 and has representatives network in 17 oblasts of Ukraine.

Limited Liability Company “Renta Group” provides services of tangible and intangible assets evaluation and monetary evaluation of land plots. It has been working in Ukrainian market since 2004 and has 18 representatives in 13 oblasts of Ukraine.

Group of Companies “Uvekon” provides services of property evaluation in the line of tangible and intangible objects evaluation and monetary evaluation of land plots. It has been working in Ukrainian market since 1996 and has a network of 14 branches and 13 representatives in all oblasts of Ukraine.

Private Enterprise “Academy of Evaluations and Law” provides services for property evaluation, in particular tangible and intangible objects and land plots. It has been working in Ukrainian market since 2002, is a part of self-regulatory organizations in the sphere of evaluation and has its network of 24 representatives in all oblasts of Ukraine.

Limited Liability Company “BK-Expert” provides services for property evaluation in the line of tangible and intangible objects evaluation and has affiliated division PE “TA-Expert-Service”, which evaluates land plots. It has been working in Ukrainian market since 2009 and has representative network in 10 oblasts of Ukraine.

Limited Liability Company “BGS-Asset” was founded in 2003 and is a part of Consulting Group BGS-Group. It provides services for property evaluation in the line of tangible objects evaluation, having representatives in some oblasts of Ukraine.

Limited Liability Company “Kanzas” provides services of tangible and intangible objects evaluation and monetary evaluation of land plots. It has been working in Ukrainian market since 2002 and has representatives network in 20 oblasts of Ukraine.

Private Enterprise “Active Plus” provides services for property evaluation in the line of tangible and intangible objects evaluation and monetary evaluation of land plots. It has been working in Ukrainian market since 2002 and has representatives network in 7 oblasts of Ukraine.

Limited Liability Company “GLOBAL APPRAISAL” provides services for property evaluation in the line of tangible and intangible objects evaluation, information and advisory services relating to the real estate market analysis, surveys and market forecasts. The company has representatives network in all oblasts of Ukraine.

Limited Liability Company “Company “Parus” provides services for property evaluation in the line of tangible and intangible objects evaluation. It has been working in Ukrainian market since 2006 and operates in Odesa and Kyiv oblasts.

6.11. Financial Institutions Refinancing Home Mortgage Loans

State Mortgage Institution (hereinafter – the SMI) was established by the Resolution of the Cabinet of Ministers of Ukraine No. 1330 of 08.10.2004 “Some Aspects of Mortgage Institutions”. Currently, SMI is the only state institution of the second level for mortgage loans refinancing in Ukraine. As of 30.10.2012,

5,153 loans for the amount of UAH 846 mln. were on the SMI balance.

JSB “Ukrgasbank” acts as a manager of mortgage pool of ordinary mortgage bonds series “H” for the total nominal value of UAH 500 mln., which issuance was registered by SMI in NSSMC in December 2012.

6. Partnership and Cooperation

“Home Loans Refinancing Agency” Public Joint-Stock Company (hereinafter – the HLRA) was established in February 2012. JSC “Oshchadbank” (70.87%), JSC “Ukreximbank” (9.71%), JSB “Ukrgasbank” (9.71%) and PJSC “JSCB “Kyiv” (9.71%) became its founders.

HLRA activities are aimed at providing access to the banks - mortgage lenders to the capital market in order to reduce liquidity risk from granting long-term loans,

lower borrowings value and improve market competition. The main activities of HLRA are to acquire rights of claims on long-term mortgage home loans issued by the banks - mortgage lenders and attract long-term funds for mortgage lending by issuing ordinary mortgage bonds.

JSB “Ukrgasbank” acts as a manager of mortgage pool of ordinary HLRA mortgage bonds series “A” and “B” for the nominal value of UAH 250 mln. each.

Review of Financial Activities

Harp is a mysterious and the most poetic guest of orchestral group. It is entrusted with the most heaven solo Glissando and antique like sophisticated passages. Harp is very fastidious to artistic images that embodies and reflects in compositions slightly bohemian moods...

7. Review of Financial Activities

7.1. Financial Result

JSB "Ukrgasbank" financial result demonstrated stable growth in 2012. Significant increase in financial result in October–December 2012 was resulted, in particular, in reduction of

provisions formed against bad debts on active transactions appeared prior to 2011.

Dynamics of JSB "Ukrgasbank" financial result and allocations to reserves during 2012 (as of the end of the month), mln. UAH

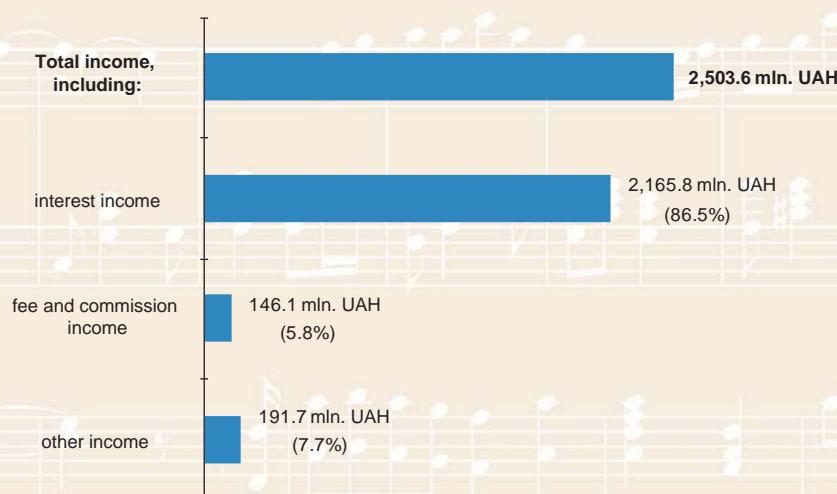


7.2. Income

Total income⁶ of the Bank in 2012 amounted to UAH 2,503.6 mln., including interest income – UAH 2,165.8 mln. (86.5%),

fee and commission income – UAH 146.1 mln. (5.8%), other income - UAH 191.7 mln. (7.7%).

Income of JSB "Ukrgasbank" in 2012



⁶Hereinafter in this section income are given according to the data of management accounting.

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The biggest share in the income structure of the Bank traditionally has interest income, which amount has increased by UAH 299.3 mln. for 2012 and as of 01.01.2013 has reached UAH 2,165.8. The biggest increase in interest income in 2012 was due to securities transactions (by UAH 240.7 mln.) and credit and deposit transactions with

other banks (by UAH 188.3 mln.). Interest income from lending to the clients amounted to UAH 1,266.9 mln., including UAH 1,033.2 mln. of interest income received from corporate lending and UAH 233.7 mln. – from retail lending.

Dynamics of interest income of the Bank broken down by business directions in 2010–2012

Business direction	2010		2011		2012	
	Income, mln. UAH	Share in interest income, %	Income, mln. UAH	Share in interest income, %	Income, mln. UAH	Share in interest income, %
Corporate banking	1,414.2	63.8	1,132.5	60.7	1,033.2	47.7
Retail banking	353.4	16.0	264.1	14.1	233.7	10.8
Treasury transactions	101.8	4.6	130.1	7.0	318.4	14.7
Investment business	346.6	15.6	339.8	18.2	580.5	26.8
Totally	2,216.0	100.0	1,866.5	100.0	2,165.8	100.0

In 2012, the same as in the previous reporting years, the biggest share of interest income (47.7%) the Bank obtained from corporate banking. Reduction in interest income from corporate and retail banking in 2012 shall be explained by suspension of interests accrual on bad assets. However, in the reporting year the volume of interest income from treasury and securities transactions has significantly increased that

resulted in their share increase in the total volume of interest income of the Bank.

As a result of 2012, the Bank obtained UAH 146.1 mln. of fee and commission income (5.8% of the total income), which is by UAH 17.1 mln. or 13.3% more than the last year.

Dynamics of fee and commission income of the Bank broken down by business directions in 2010–2012

Business direction	2010		2011		2012	
	Income, mln. UAH	Share in fee and commission income, %	Income, mln. UAH	Share in fee and commission income, %	Income, mln. UAH	Share in fee and commission income, %
Corporate banking	31.8	26.7	35.0	27.1	38.1	26.1
Retail banking	68.4	57.4	74.7	57.9	78.7	53.9
Treasury transactions	18.1	15.2	18.3	14.2	28.3	19.3
Investment business	0.8	0.7	1.0	0.8	1.0	0.7
Totally	119.1	100.0	129.0	100.0	146.1	100.0

Increase in fee and commission income in 2012 was due to activities of the Bank in the sphere of transactions with the banks.

7. Review of Financial Activities

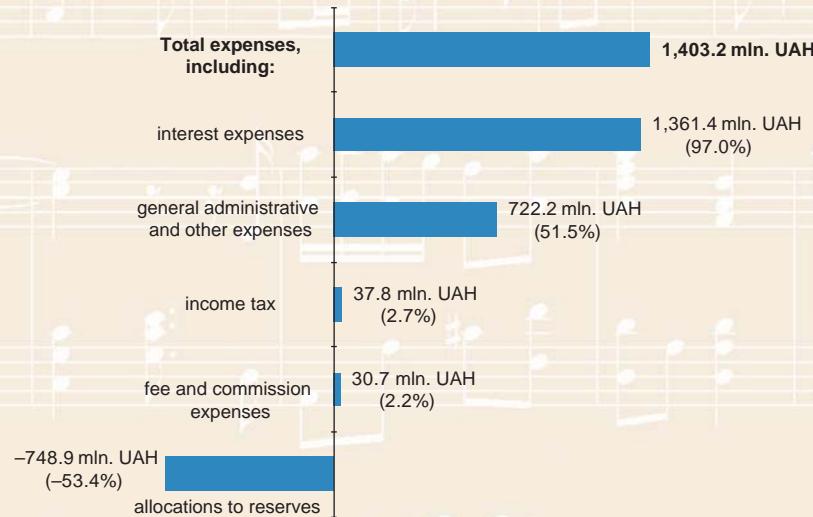
7.3. Expenses

General expenses of the Bank in 2012 have decreased by 4 times (by 4 259.0 mln.) comparing with the last year and amounted to UAH 1,403.2 mln., including interest expenses - UAH 1,361.4 mln. (97.0%), fee and commission expenses - UAH 30.7 mln. (2.2%), administrative and other

expenses - UAH 722.2 mln. (51.5%), income tax - UAH 37.8 mln. (2.7%).

The result of allocations to reserves has decreased the amount of general expenses of the Bank by UAH 748.9 mln. (-53.4%).

JSB "Ukrgasbank" expenses in 2012



In 2012, interest expenses of the Bank have increased comparing with the last year by UAH 321.7 mln. (30.9%) and amounted to UAH 1,361.4 mln. by the end of 2012.

Such increase shall be explained by the intensification of the Bank's treasury transactions and corporate banking.

Dynamics of interest expenses of the Bank broken down by business directions in 2010–2012

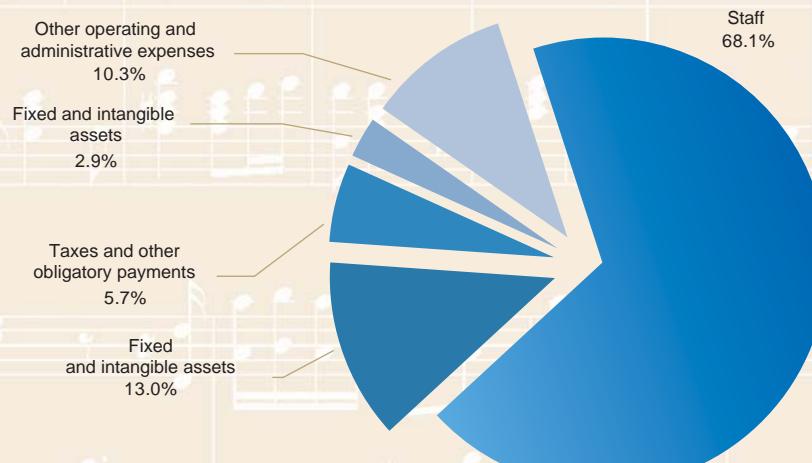
Business direction	2010		2011		2012	
	Expenses, mln. UAH	Share in interest expenses, %	Expenses, mln. UAH	Share in interest expenses, %	Expenses, mln. UAH	Share in interest expenses, %
Corporate banking	112.5	10.3	106.8	10.3	219.5	16.1
Retail banking	557.1	51.1	432.8	41.6	463.5	34.1
Treasury transactions	420.3	38.6	500.1	48.1	678.4	49.8
Totally	1,089.9	100.0	1,039.7	100.0	1,361.4	100.0

General administrative expenses in 2012 have amounted to UAH 587.1 mln. (41.8% of the total expenses of the Bank), including expenses for the staff – UAH 400.0 mln. (68.1%), maintenance of fixed assets and intangible assets – UAH 76.1 mln. (13.0%), taxes and other

obligatory payments – UAH 33.2 mln. (5.7%), other administrative expenses – UAH 17.2 mln. (2.9%) and other maintenance and administrative expenses – UAH 60.6 mln. (10.3%).

⁷ Hereinafter in this section expenses are given according to the data of management accounting.

Structure of general administrative expenses in 2012

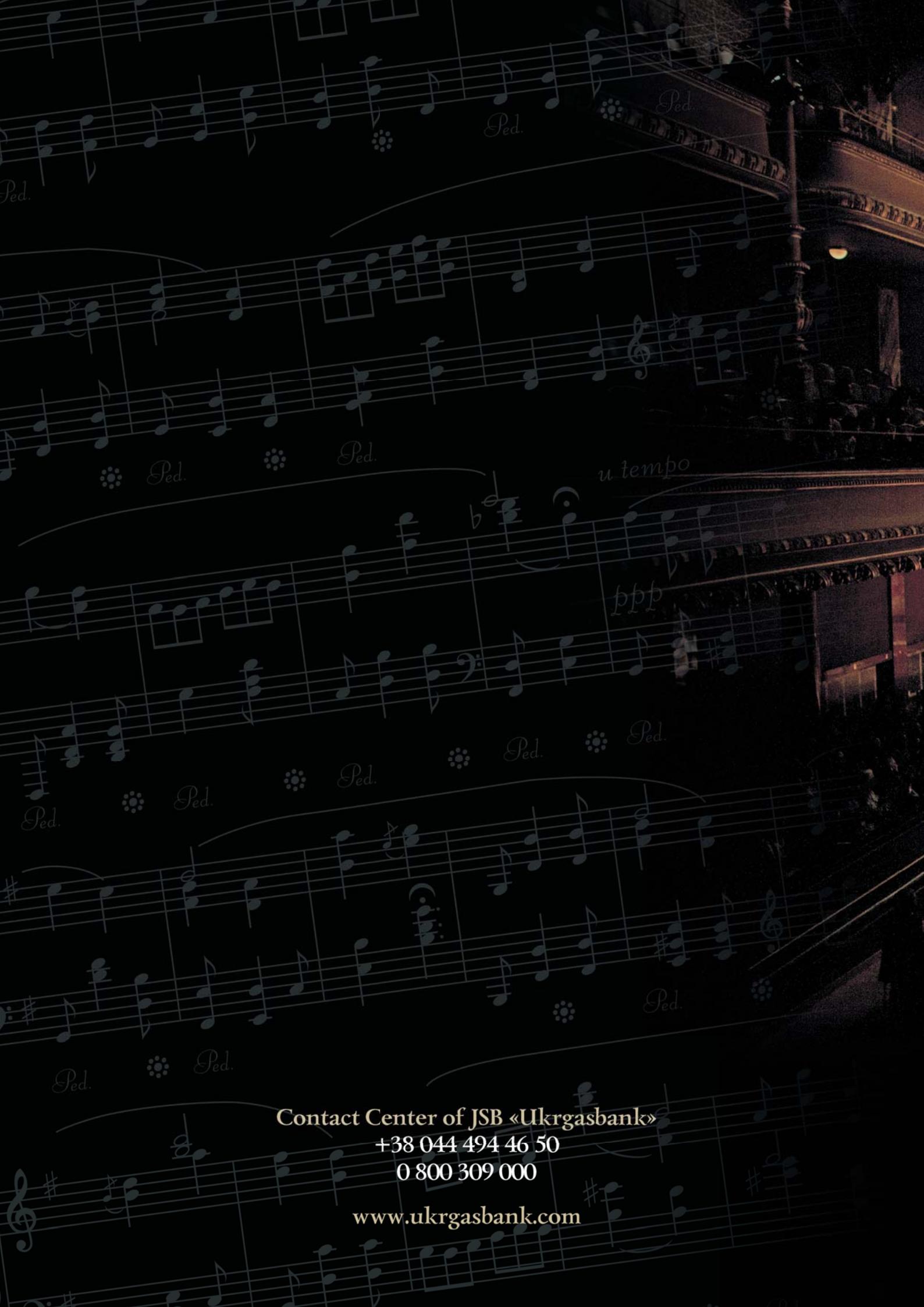


The biggest share of general administrative expenses (68.1%) has fallen on the staff maintenance. Increase in staff maintenance expenses by 25.2% comparing with 2011 was stipulated by increase in salaries to the staff of the Bank in order to adjust them to the market level.

Reduction in the amount of other administrative expenses (by UAH 18.8 mln.) was explained by completion of the process of Bank's network reorganization in 2012.



Orchestra headed by conductor gives its listener harmony of sounds and melodies just like Ukrgasbank team daily gives its client pleasure from professional and skilful banking. Bringing banking to the level of art we, as harmonious orchestra, aim for sincere applauses from our sophisticated public!

The background of the entire image is a dark, slightly grainy photograph of a piano keyboard and musical notes on five-line staves. The notes are white, and the piano keys are visible through them. The lighting is dramatic, coming from the side to highlight the texture of the piano and the movement of the notes.

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