

ukrgasbank

ANNUAL REPORT

2013

...I recognize the Ukrainian traits

Information from sections 1-8 is based on the figures from JSB "UkrGasbank" financial statements for the 4th quarter of 2013, without regard to annual adjustments and transformation in accordance with the requirements of international financial reporting standards.

Section 9 contains key figures from the JSB "UkrGasbank" annual financial statement for the year that ended on December 31, 2013.

It was prepared in accordance with the requirements of international financial reporting standards.

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Dear Shareholders and Clients,

Year 2013 became another remarkable milestone in the history of JSB “Ukrigasbank”. Last year consolidated success of the Bank and confirmed that efficient 2012, for which the Bank earned the largest in its history net income of UAH 1.1 billion and increased its assets by 15%, was a logical result of daily fruitful and patient activities of JSB “Ukrigasbank” highly professional team. So, the 20th anniversary of its operation the Bank marked with annual income in amount of more than 1 billion hryvnias.

JSB “Ukrigasbank” continues to successfully operate in the market remaining one of the most socially oriented institutions. Thus, the Bank provides Ukrainian citizens with entire range of services: cash and settlement services (among others, JSB “Ukrigasbank” is an authorized bank of the Pension Fund and Ministry of Labour and Social Policy of Ukraine in terms of pension and monetary aid payments), deposits, money transfers (also by its own remittance system Welsend), credit cards of international payment systems, consumer loans and mortgages (Bank is a leader in program implementation targeted at reduction of real estate initial cost “Affordable Housing”) and banking services via the Internet, etc.

High professionalism of Bank staff was recognized with numerous awards. So, JSB “Ukrigasbank” took 1st place by return on equity indicator among 35 the most reliable banks of Ukraine ranked by “Correspondent” magazine and Dragon Capital Investment Company, 2nd place in the category “Financial Success of the Year” of the annual bank award “Ukrainian Banker Awards” held by weekly “Investgazeta”, 8th place among the most efficient banks by Forbes magazine and entered TOP 10 banks by the ranking of safe deposits assigned by the rating agency “Standard-Rating” following the bank performance results in January – September 2013.

Today it is clear that 2014 became the year of serious challenges for our country. At the price of significant efforts and big losses our society defines the vector of its further development, at least for the next years. In such circumstances, confidence in stable banking system operation and maintenance



of banking savings are essential to proper functioning of society and entire economic and political system of the country. I am a great believer that in the new year JSB “Ukrigasbank”, which many times proved its ability to work efficiently in difficult conditions, will remain one of the flagships of Ukrainian banking system, continue to efficiently operate in future and fulfil its obligations to the clients clearly consistently and timely.

On behalf of the Supervisory Board of JSB “Ukrigasbank” I would like to thank the Management Board and Bank employees for professional and hard work, our clients for trust and support, partners for fruitful and reliable cooperation.

With regards,

V.A. Ivchenko,
Chairman of the Supervisory Board
JSB “Ukrigasbank”

A handwritten signature in blue ink, appearing to read 'Ivchenko', written over a horizontal line.

Dear Shareholders, Clients and Colleagues,

In 2013 Ukrgasbank celebrated its 20th anniversary. It was marked with worthy financial results. Annual income of the Bank exceeded UAH 1 billion, equity capital increased by 17%, assets by 14%.

Expanding our business activities, we contribute to financial growth of our clients, shareholders and Ukrainian society in general. Ukrgasbank has unique experience in lending to domestic enterprises and implementation of loan programs that solve actual social and economic problems.

Last year we were the first among all banks in Ukraine, who introduced loans to Housing cooperatives. This financial product gained a reputation in Central and Eastern Europe and helped to significantly improve energy efficiency of the residential sector. Ukrgasbank also continued to finance the program of mortgage loans value reduction to provide the citizens with affordable housing. In different regions of Ukraine Bank issued about 1,500 mortgage loans amounting to nearly UAH 350 million according to the program "Affordable Housing".

In general for 2013 loan portfolio of Ukrgasbank has grown by 9% and bad assets reduced by 24.5%. For several years running, dynamics of our development is much better than the growth rate of Ukrainian banking system.

Bank works at expansion of its product line and innovative products implementation. Last year we offered the clients our own system of international money transfers Welsend. Its turnover has amounted to UAH 300 million and the number of sales points has increased beyond one thousand.

In 2014 our strategic goals are based on four directions: improvement of investment attractiveness of the Bank; reduction of non-performing loans on credit operations by 10%; improvement of network efficiency and increasing the number of profitable branches up to 95%; development of corporate culture and maintenance of high quality standards of banking services.

We realize that this year we will have to work under difficult for Ukrainian financial system conditions. But we are ready for the new challenges. Professionalism, patriotism, honesty to the clients



and shareholders are the basic principles that our staff is guided by.

I have no doubts, Ukraine will overcome those challenges the country faced with. We will also make every effort necessary to restore sustainable growth of national economy.

With regards,

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

A stylized, handwritten signature in blue ink, consisting of several fluid, overlapping strokes that form the name S.G. Mamedov.

Full name:

Public Joint Stock Company Joint Stock Bank “Ukrgasbank”

Address:

Chervonoarmiyska str., 39, Kyiv, 01004

Chairman of the Board –

Sergii Mamedov

JSB “Ukrgasbank” today:

- universal banking institution servicing significant client database;
- 20 years experience in financial market;
- belongs to the beneficial owner – the state represented by the Ministry of Finance of Ukraine (92,9998% authorized capital);
- included in the Ist group of the banks under NBU classification;
- consists of 237 operating branches located in all regions of Ukraine (139 settlements);
- represented with professional team of more than 4,000 employees;
- payment organization of money transfer system Welsend;
- settlement bank of “UkrCard” payment system;
- active participant of Ukrainian stock market;
- one of the TOP 10 issuers by the number of active payment cards (according to the National Bank of Ukraine);
- constant participant of Depositors 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;
- one of the banks authorized by the state to serve current accounts with special regime of use for guaranteed suppliers and owners of gas, heat and power enterprises and enterprises making settlements on investment programs in the sphere of heating and centralized water supply and sewerage;
- member of international payment systems MasterCard Worldwide, Visa International and national “UkrCard”, National Mass Electronic Payment System (NMEPS);
- well known and reputable representative of banking community.

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

“Indeed, such an immense number of ballads have originated in the rich and fertile steppes of the Ukraine, that it would seem as if each bough of their forest trees must harbour a singer, and each blade of grass on these endless blooming plains whisper the echo of a song”

Therese Robinson (Talvi),
American writer, translator,



01
Visiting Card

1.1. Members of the Supervisory Board

VIKTOR IVCHENKO

Chairman of the Supervisory Board JSB “Ukrigasbank”

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 Organization Management.

Position of primary employment:

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

TETIANA SYSOIEVA

Member of the Supervisory Board JSB “Ukrigasbank” – Deputy Chairman of the Supervisory Board

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 “Ukrigasbank”

Date and place of birth:

February 27, 1975, Kyiv.

Education:

1999 – graduated from the International Solomon University, majoring in Law.

2003 – graduated from the Higher Education Institution the 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.

YAROSLAV MATUZKA

Member of the Supervisory Board JSB “Ukrigasbank”

Date and place of birth:

January 29, 1974, Khmilnyk, Vinnytsa 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 “Ukrigasbank”

Date and place of birth:

July 20, 1984, Kyiv.

Education:

2006 – graduated from the Public Higher Education Institution Kyiv National Economic University named after V. Hetman, majoring in International Economics.

Position of primary employment:

From October 2012 – Deputy Director of Private Enterprise “Oasis PLUS”.

KLAUS BERND GLIEMANN

Independent Member of the Supervisory Board JSB “Ukrigasbank”

Date and place of birth:

December 22, 1941, Radebeul, Germany.

Education:

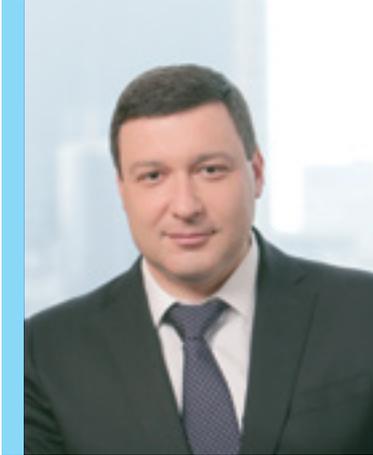
1966 – graduated from Higher School for Engineers in the Machine-Building and Textile Industry, Karl-Marx-Stadt, German Democratic Republic, qualification: Engineer.

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”.

1.2. Members of the Management Board



Chairman of the Board

Sergii Mamedov

1975 year of birth

Education: Kyiv National Economic University

Experience in banking and finance: 17 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: 8 years



Deputy Chairman of the Board – member of the Board

Olena Dmitriyeva

1972 year of birth

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

Experience in banking and finance: 16 years

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: 4 years



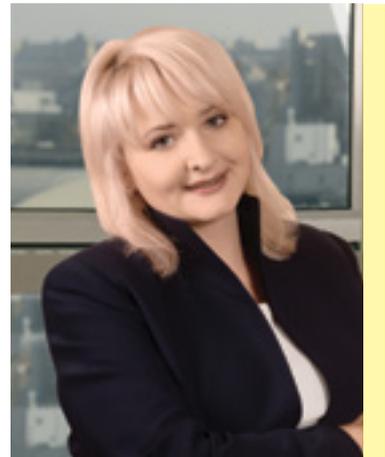
Deputy Chairman of the Board – member of the Board

Ruslana Lechekhib

1967 year of birth

Education: Kyiv Institute of National Economy

Experience in banking and finance: 23 years



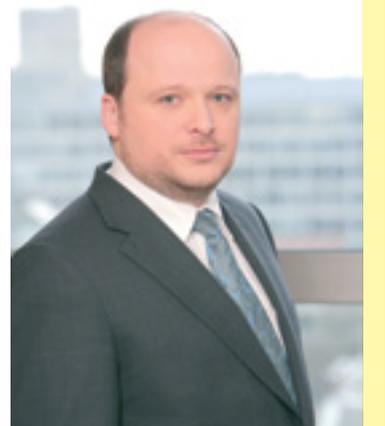
Deputy Chairman of the Board – member of the Board

Volodymyr Shapoval

1973 year of birth

Education: Kyiv State Economic University

Experience in banking and finance: 18 years



1.3. Executives – Non-Members of the Management Board



Chief Accountant

Nataliia Khrustalova

1970 year of birth

Education: Kyiv National Economic University

Experience in banking and finance: 20 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: 39 years



Deputy Chairman of the Board

Sergiy 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: 8 years

Deputy Chairman of the Board

Nataliia Rudukha

1975 year of birth

Education: Kyiv National Economic University

Experience in banking and finance: 16 years



Deputy Chairman of the Board

Nina Shpakovska

1967 year of birth

Education: Cherkasy Finance Economy College,
East Ukrainian State University

Experience in banking and finance: 27 years



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 to the enterprises and population. Strategic concept of the universal bank provides for the development of client-oriented banking products; innovative technologies implementation, efficient network activities, efficient system of business-processes management and rendering of high quality services.

Strategic Goals for 2014:

- improve investment attractiveness of the Bank;
- reduction of non-performing loans by 10%;
- increase efficiency of network activities (growth in number of profitable branches by 95%);
- develop corporate culture and support high standards of banking services quality.

In 2014, 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.

Performance of strategic goals and key performance indicators in 2013

№	Strategic goals and key performance indicators	Status (as of 01.01.2014)
1	Improve investment attractiveness of the Bank	Financial result for 2013 has amounted to UAH 1.002 bln. For two consecutive years now, the Bank shows its annual income amounting to more than UAH 1 bln. Operating cash flow as of 01.01.2014 amounted to UAH 516 mln. Rating Agency “Expert Rating” and “Ukrainian Credit Rating Agency” improved credit rating of JSB “UkrGasbank” to uaA+ level. Borrower with uaA+ rating has high creditworthiness as compared with other Ukrainian borrowers. Bank took leading positions in reputable rankings assigned by Information Agencies.
2	Decrease share of bad assets by 15%	For 2013 bad assets have decreased by 24.53%.
3	Ensure acceptable level of active banking transactions risk	On retail loans as of 01.01.2014, level of non-performing loans (overdue liabilities for more than 90 days) corresponds to defined indicatives. Overall level makes up 1.19% (not exceeding 5%). By corporate segment: - level of unsecured loans in corporate loan portfolio as of 01.01.2014 makes up 1.11% (indicative value not exceeding 3%); - share of overdue loans in corporate business segment as of 01.01.2014 makes up 25.97% (indicative value not exceeding 29%).
4	Growth of loan portfolio of the Bank by 5%	For 2013 loan portfolio of the Bank has increased by 9%.

№	Strategic goals and key performance indicators	Status (as of 01.01.2014)
5	Growth of corporate clients loan portfolio	For 2013 loan portfolio of corporate clients has increased by UAH 612 mln. or by 7%.
6	Growth of corporate clients deposit portfolio	For 2013 corporate clients deposit portfolio has increased by UAH 1,217 mln. or by 82%.
7	Growth of SME clients loan portfolio	For 2013 small and medium-sized enterprises (SME) loan portfolio has increased by UAH 125 mln. or by 62%.
8	Growth of SME clients deposit portfolio	For 2013 SME clients deposit portfolio has increased by UAH 33 mln. or by 14%.
9	Growth of individuals loan portfolio	For 2013 individuals loan portfolio has increased by UAH 327 mln. or by 11%.
10	Growth of individuals deposit portfolio	For 2013 individuals deposit portfolio has increased by UAH 413mln. or by 8%.
11	Expand and diversify client database by asset and liability-related transactions of the Bank	<p>Concentration of state-owned enterprises in legal entities portfolio as of 01.01.2014 has amounted to 47.30% (indicative value not exceeding 52%).</p> <p>Concentration of 10 biggest groups of clients as of 01.01.2014 has amounted to 46.38% of the overall loan portfolio of the Bank (indicative value not exceeding 49%).</p> <p>Concentration of 20 biggest groups of clients as of 01.01.2014 has amounted to 45.45% (indicative value not exceeding 49%) of the overall loan and investment portfolio of the Bank.</p>
12	Update product line due to modern technological and innovative products	<p>Possibilities to pay via self-service terminals and ATMs were expanded.</p> <p>The work on project of internet banking for individuals continued.</p> <p>System of Customer Relationship Management and Internal Processes Organization in the Bank (CRM) for Call Center of the Bank is still being implemented.</p>
13	Growth of non-interest income share (excluding result of securities sale) in the structure of the Bank's total income from 9% to 10%	For 2013 share of non-interest income (excluding result of securities sale) in the structure of the Bank's total income has increased by 2.66 percentage points comparing with the result of 2012 and makes up 11.66%. In particular, for 2013 it was earned UAH 188 mln. of fee and commission income, which is UAH 42 mln. or 29% more than in 2012.
14	Growth of market share in payment cards issuance	According to official statistics provided by the National Bank of Ukraine as of 01.01.2014, the Bank took 8th position in the banking system of Ukraine by the number of active payment cards.

№	Strategic goals and key performance indicators	Status (as of 01.01.2014)
15	Ensure efficiency of the Bank's sales points	For 2013 network efficiency has increased by 0.19 – from 0.99 in January to 1.18 in December 2013. Number of efficient branches (efficiency ratio is greater or equal to 1.0) has increased from 119 in January to 182 in December 2013.
16	Manage efficiently quick and current liquidity and foreign exchange position of the Bank	Bank constantly observes quick and current liquidity ratio and foreign exchange position limits.
17	Implement corporate culture and high quality standards to banking services	For 2013 average level of services quality rendered by the Bank's branches has made up 89.26%, which is 2.66 percentage points higher than in 2012. The best indicators of clients servicing were shown by Zhytomyr Directorate (93.72%), Ivano-Frankivsk Directorate (92.82%) and Chernivtsi Directorate (92.45%).

So, following the results of 2013 JSB “UkrGasbank” has performed its basic strategic goals.

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) raise deposits and banking metals from unlimited number of legal entities and individuals;
- 2) open and maintain current (correspondent) accounts of the clients, including in banking metals;
- 3) place raised deposits, including on current accounts, and banking 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 valuables 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-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;
- banking metals attraction and placement in the foreign exchange market of Ukraine;
- banking metals attraction and placement in the international markets;
- banking metals trading in the foreign exchange market of Ukraine;

- banking 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 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.520288](#), issued by the Securities and Stock Market State Commission on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market – Securities Trading Brokerage Activity;
- [license series AB No.520291](#), issued by the Securities and Stock Market State Commission on 10.02.2010 valid up to 10.02.2015 for Professional

Activity in the Stock Market – Securities Trading Securities Management Activity;

- [license series AB No.520289](#), issued by the Securities and Stock Market State Commission on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market – Securities Trading Dealer Activity;
- [license series AB No. 520290](#), issued by the Securities and Stock Market State Commission on 10.02.2010 valid up to 10.02.2015 for Professional Activity in the Stock Market – Securities Trading Underwriting;
- [license series АД No.034432](#), issued by the National Securities and Stock Market Commission on 18.06.2012 with unlimited validity for Professional Activity in the Stock Market – Activity in Mortgage Pool Management;
- [license series AE No.263236](#), issued by the National Securities and Stock Market Commission on 28.08.2013, with unlimited validity from 12.10.2013, for the Right to Depository Activities of Depository Institution;
- [license series AE No.263237](#), issued by the National Securities and Stock Market Commission on 28.08.2013, with unlimited validity from 12.10.2013, for the Right to Activities as Custodian of Collective Investment Institutions;
- [license series AE No.263238](#), issued by the National Securities and Stock Market Commission on 28.08.2013, with unlimited validity from 12.10.2013, for the Right to Activities as Custodian of Pension Funds Assets.

1.6. Affiliated Persons

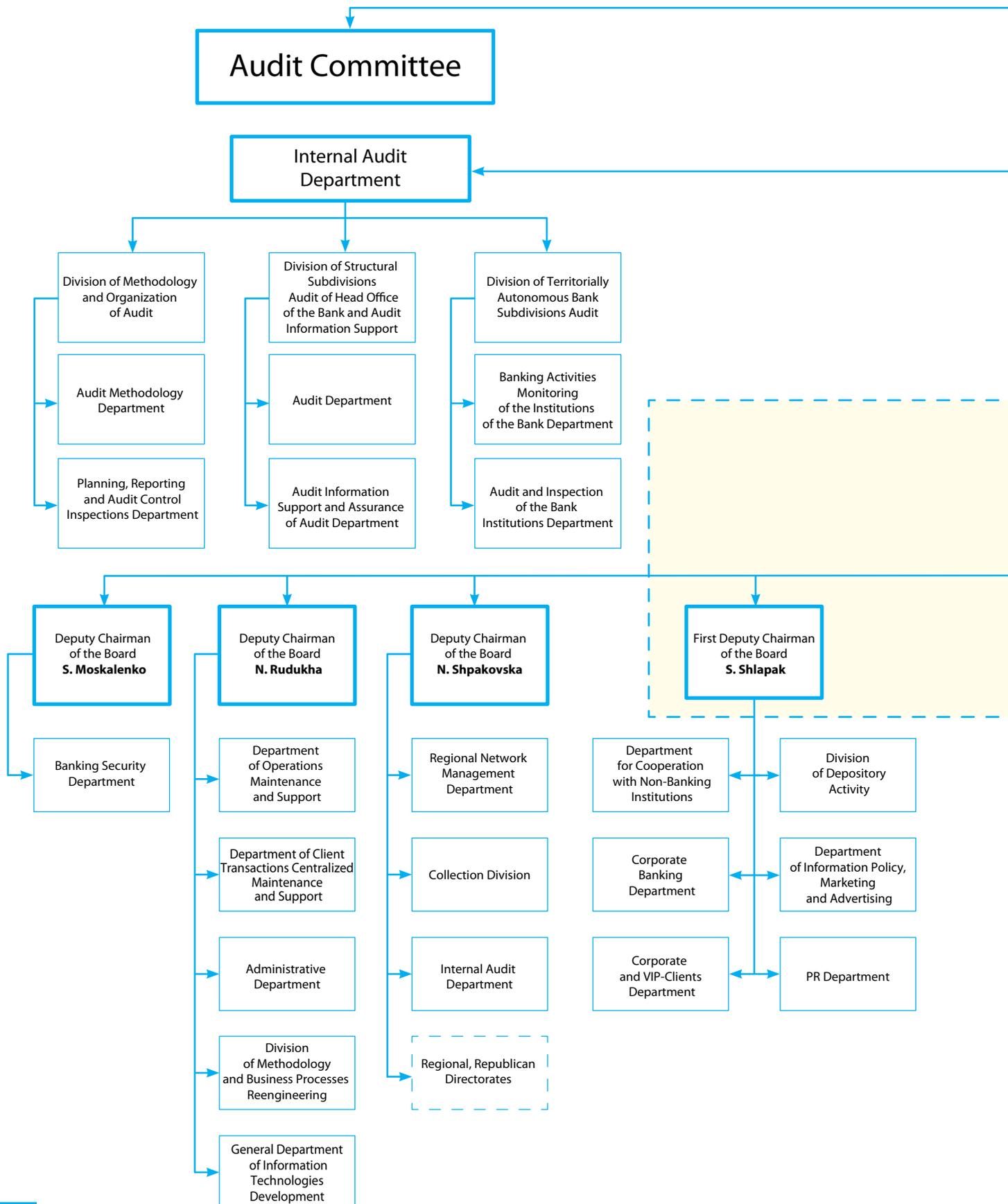
Institution with substantial shareholding in JSB “UkrGasbank” as of 01.01.2014:

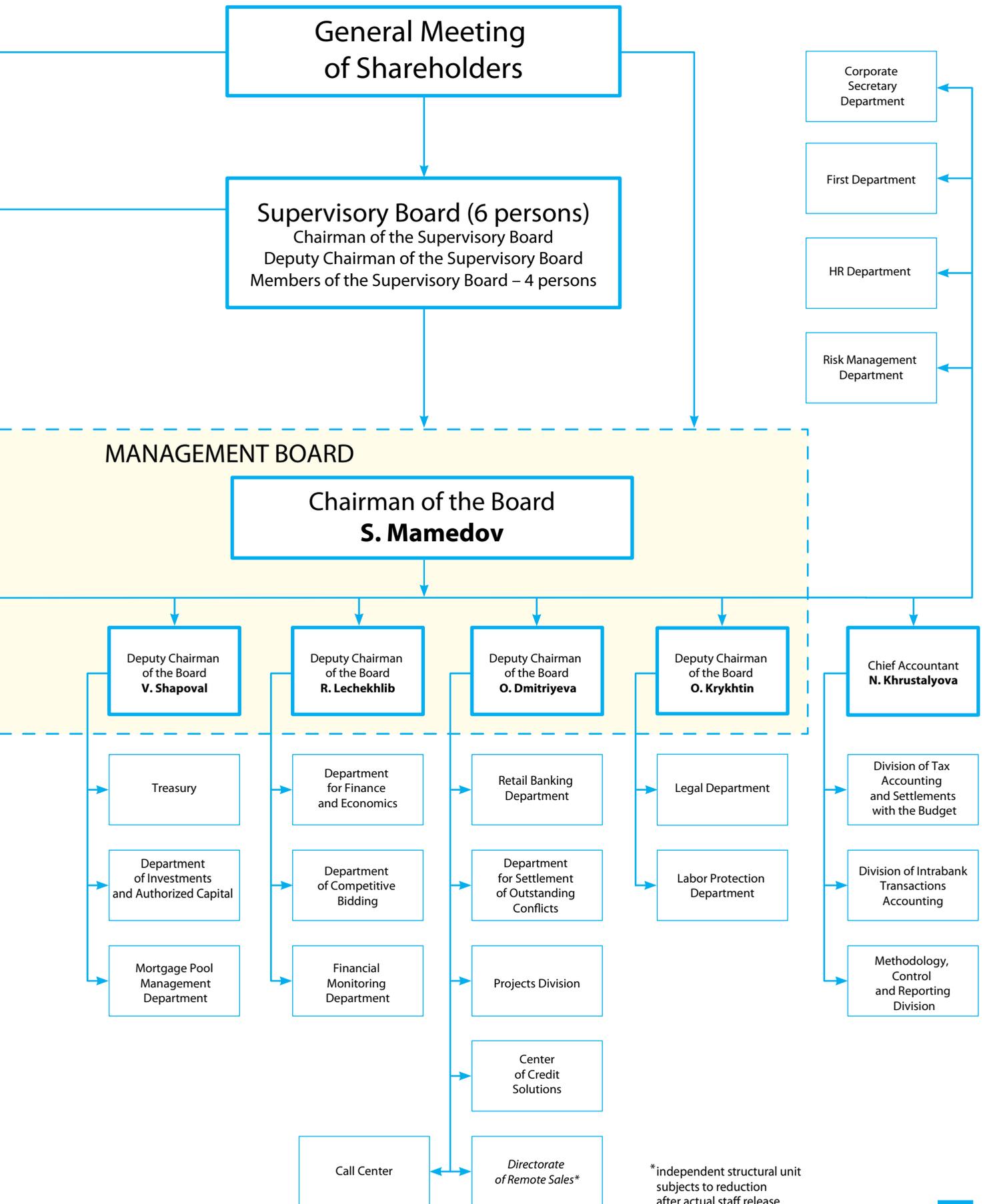
- State of Ukraine (Ministry of Finance of Ukraine), percentage of major shareholding – 92.9998%.

Institutions where JSB “UkrGasbank” owns substantial shareholding as of 01.01.2014:

- CJSC “Clearing House “Kyiv Universal Stock Exchange”, percentage of major shareholding – 15%;
- LLC “Media-Service”, percentage of major shareholding – 10%.

1.7. Organization Chart of JSB "Ukrigasbank" (as of 01.01.2014)





1.8. Staff

As of January 1, 2014 total staff number of JSB “Ukrigasbank” amounted to 4,002 employees, 68% of them are women, 32% are men.

HR policy of the Bank is based on selection, development and retention of highly professional specialists with potential for further development. Almost 75% of Bank 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 2013, Bank implemented new projects on staff motivation, training and development. So, existing system of staff motivation was improved by taking into account both team achievements and individual results of every employee. New training programs

were developed and implemented together with the distant learning system applied for the network staff. Following the results of training programs by each direction, staff knowledge level was audited during the year.

The Bank guarantees high social standards, fair wage, staff training and development, ensure staff health and occupational safety and employ people with disabilities. So, JSB “Ukrigasbank” was recognized as one of the most socially responsible employer and winner in the category “Social Integration of Disabled People into Work” within the Third Congress of Employers in Kyiv organized by Kyiv City Employment Center.

1.9. History of Development

1993

Closed Joint-Stock Company – Commercial Joint-Stock Bank “Hadjibeibank” was registered, being legal successor of Ukrigasbank.

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 “Ukrigasbank”, obtained National Bank of Ukraine (NBU) licence for the operations with currency values, joined international system REUTERS and started vigorous activity in the foreign exchange market of Ukraine.

1997

Bank has been reorganized into Joint Stock Bank “Ukrigasbank” in the form of Open Joint-Stock Company. The Bank has been actively integrated into gas complex of Ukraine: powerful gas suppliers became its clients – SJSHC 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 the 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 changed its official name into Open Joint-Stock Company Joint-Stock Bank “Ukrigasbank”. Bank continued active promotion of banking services into regions and as of the end of the year it had already 40 regional branches.

2002

Considering dynamics of active and passive transactions of the Bank, Commission on Affairs of Supervision and Regulation of Activity of the Banks included OJSC JSB “Ukrigasbank” into

II group of Ukrainian banks. The 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 “Private Sector Development” project finance.

2004

Bank increased its authorized capital up to UAH 120 mln. and entered the TOP 20 of Ukrainian banks. Issue of payment cards of the Bank has grown almost up to 180 thousand 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.

2006

Bank has been confirmed as a pilot bank in the project of International Financial Corporation (IFC) “Corporate Governance in the Banking Sector of Ukraine”. International rating agency Moody’s Investors Service provided the Bank with a long-term depository 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 thousand individuals and corporate clients.

2007

Bank distinguished itself by considerable growth of performance indicators and increased its 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 3400 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 the 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, 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 has undergone 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, Bank was reorganized into a Public Joint-Stock Company. In conditions of financial crisis, 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 bln. by additional issue of shares, 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.

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 bln. capital reaching UAH 10 bln., 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.G. Mamedov has been appointed as a Chairman of the Management 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.

The Bank became active participant of state program of housing loans to individuals “Affordable Housing”.

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

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

Ukrgasbank initiated social program “Bank of Good Deeds”.

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

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.

2013

On July 21, 2013 Ukrgasbank celebrated its 20th anniversary. In the year of its anniversary the Bank demonstrated one of the best performance results among domestic financial institutions. Ukrgasbank net profit for the year has exceeded UAH 1 bln., taking the second position in the market. The Bank expanded its own network, implemented new products and services, increased reliability in transactions and improved servicing of existing offers.

Introduction of its own multi-currency remittance system Welsend became an important event in the history of Ukrgasbank, which was launched in the international market and became available in Georgia in autumn.

Before school year beginning, the Bank has introduced a special product for pupils – Friendly Card.

First in Ukrainian banking market, Ukrgasbank offered special lending program for Housing cooperatives.

The Bank celebrated its fifth anniversary of Forex market activities and first among Ukrainian banks registered Rules for Arbitrage Transactions on the Terms of Margin Trading in the National Bank of Ukraine.

Ukrgasbank became a member of the government program of Poland “Financial Support for Export” implemented by Polish state-owned bank Bank Gospodarstwa Krajowego and obtained limit for Euro 14 mln.

Rating agency “Expert Rating” increased Ukrgasbank credit rating to uaA+ level according to the national scale. “Ukrainian Credit Rating Agency” LLC also assigned Ukrgasbank credit rating of the same class (uaA+) with “stable” forecast and deposit rating at B (high reliability) level.

During the year, Ukrgasbank was repeatedly awarded and recognized by its partners and counterparties, taking top positions in the rankings of national publications. In 2013, Chairman of Ukrgasbank Management Board Sergii Mamedov won the title “Man of the Year – 2013” in nomination “Financier of the Year”, gained the victory in the category “Respect from Colleagues” within the annual banking award – Ukrainian Banker Awards and also became one of the winners in the nomination “Best Top-Manager of the Bank” according to “Kommersant” Publishing House. “Capital” newspaper acknowledged Sergii Mamedov as the most efficient banker for five years.

1.10. Main Achievements in 2013

Planned indicators performance

Net income of the Bank exceeded UAH 1 bln. This is one of the best results of Ukrainian banks operation for the year. Bad assets have decreased by 24.5%. Portfolio performance indicators increased in all business directions. Assets have increased by 14% and reached UAH 23,793.9 mln. by the end of the year enabling the Bank to maintain its position in group I of the banks under NBU classification.

Credit rating improvement

Rating agency “Expert Rating” twice a year increased JSB “UkrGasbank” credit rating according to the national scale: to level uaA (Decision dd.

29.03.2013) and to level uaA+ (Decision dd. 22.05.2013).

“Ukrainian Credit Rating Agency” LLC assigned JSB “UkrGasbank” credit rating of the same level according to the national scale – uaA+ with “stable” forecast (Decision dd. 09.09.2013).

Implementation of Welsend money transfer system for individuals

JSB “UkrGasbank” implemented Welsend money transfer system for individuals and launched it in the international market. Ukraine and Georgia corridor became the first international destination.

RECOGNITIONS AND AWARDS

2nd position on the level of information transparency with index 75.0% following the results of “Ukrainian Credit Rating Agency” research among 30 largest banks of Ukraine.

5th position among the most reliable banks of Ukraine following the results of “Correspondent” magazine and Dragon Capital Investment Company research, conducted among 100 banks, which cover more than 90% of Ukrainians deposits.

7th position among the most dynamical banking institutions according to “Capital” business newspaper. In forming the ranking, publication analyzed dynamics of assets growth in each of Ukrainian banks over the past 5 years.

8th position in the ranking of twenty most efficient Ukrainian banks according to “Forbes Ukraine” publication. The Bank became a “champion” in ranking on its return on assets and equity.

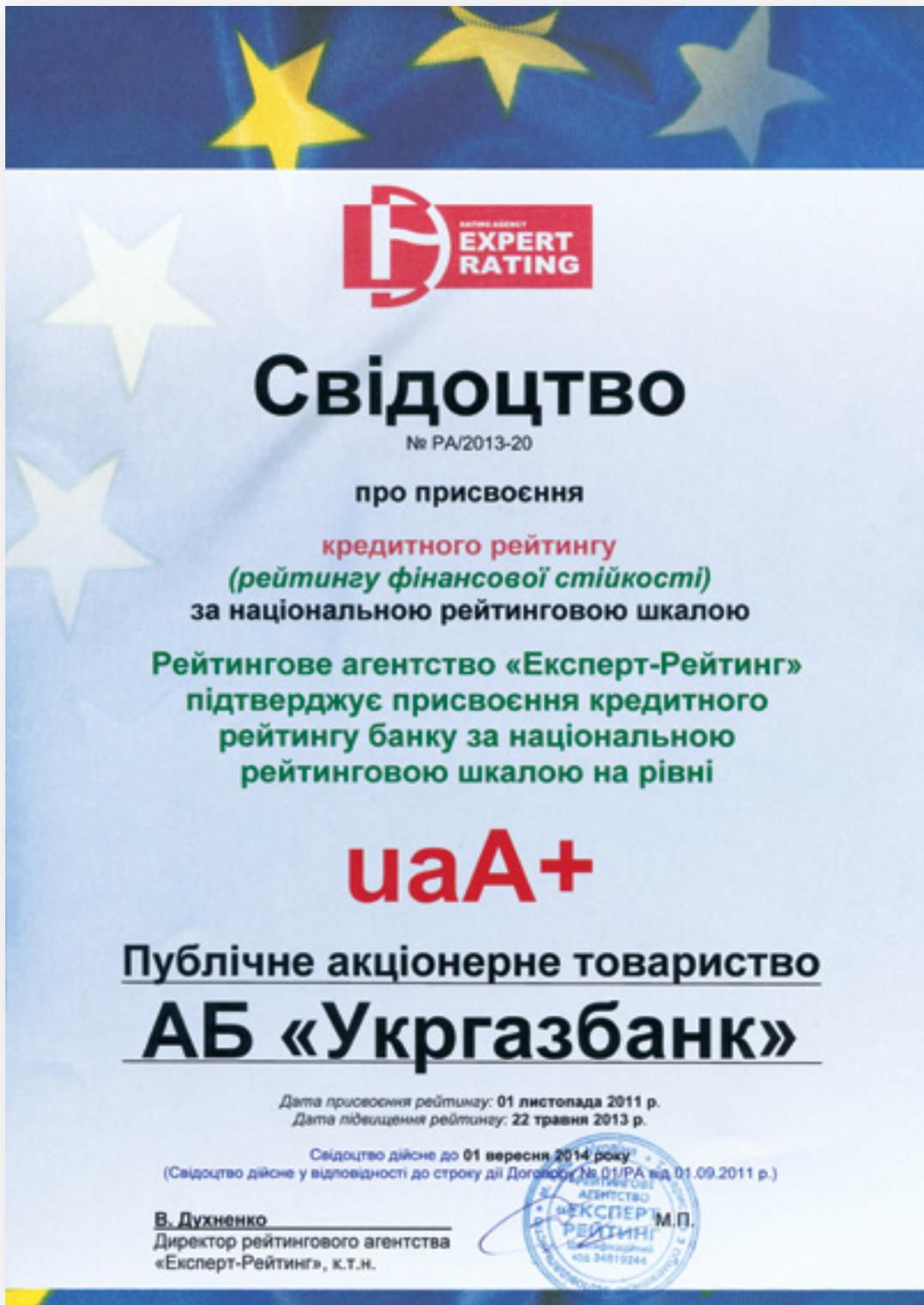
JSB “UkrGasbank” election for performance of settlement bank functions in “UkrCard” payment system. This confirms stability and reliability of the Bank and shows confidence from partners and counterparties.

Diploma “FOR THE MOST PROMINENT PREMIUM-BANKING” within Ukrainian annual forum “Innovision-2013” organized by VISA company, where innovative solutions in the sphere of payment cards were presented.

Diploma for victory in nomination “For Advanced Technologies Implementation in the Sphere of Money Transfers” in II International Competition “Leader in the Sphere of Payment Systems and Technologies – 2013” according to “Banker” magazine.

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

1.11. Ratings



On November 14, 2013 RA “Expert Rating” Rating Committee took a decision, which confirmed JSB “UkrGasbank” credit rating according to the national scale at uaA+ level.

Decision dd. 09.09.2013 of the Rating Committee “Ukrainian Credit Rating Agency” LLC assigned JSB “UkrGasbank” credit rating at uaA+ level with “stable” forecast and deposit rating at B (high reliability) level.



Рейтинговое решение №В-20130909-KRGZ-01 от 09.09.2013 г.

Рейтинговым комитетом Общества с ограниченной ответственностью «УКРАИНСКОЕ КРЕДИТНО-РЕЙТИНГОВОЕ АГЕНТСТВО» (Свидетельство о включении в Государственный реестр уполномоченных рейтинговых агентств от 10.04.2012 №7) принято решение о присвоении кредитного рейтинга Публичному акционерному обществу акционерному банку «УкрГазбанк» (код ЄГРПОУ 23697280).

Объект рейтингования:	Публичное акционерное общество акционерный банк «УкрГазбанк»
Тип рейтинга:	Долгосрочный кредитный рейтинг по Национальной рейтинговой шкале
Уровень кредитного рейтинга:	uaA+
Прогноз:	«стабильный»
Действие:	присвоение

Генеральный директор



С.А Дубко



Рейтинговое решение №В-20130909-KRGZ-02 от 09.09.2013 г.

Рейтинговым комитетом Общества с ограниченной ответственностью «УКРАИНСКОЕ КРЕДИТНО-РЕЙТИНГОВОЕ АГЕНТСТВО» (Свидетельство о включении в Государственный реестр уполномоченных рейтинговых агентств от 10.04.2012 №7) принято решение о присвоении рейтинга депозитов Публичного акционерного общества акционерного банка «Укргазбанк» (код ЄДРПОУ 23697280).

Объект рейтингования:	Публичное акционерное общество акционерный банк «Укргазбанк»
Тип рейтинга:	Рейтинг депозитов
Уровень рейтинга депозитов:	В (высокая надежность)
Действие:	присвоение

Генеральный директор



С.А Дубко

1.12. Review of Financial Performance at the End of 2013

Successful JSB “Ukrigasbank” operation in 2013, 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 “Ukrigasbank” key performance indicators at the end of the year

Indicators	2012	2013	Change
	thd.UAH		%
Balance-sheet indicators			
Assets	20,868,085	23,793,944	14.0%
Amounts due from other banks	1,613,112	716,711	(55.6%)
Loans and indebtedness of the customers	8,645,104	10,257,721	18.7%
Liabilities	17,007,984	19,271,462	13.3%
Amounts due to banks	8,469,434	8,565,484	1.1%
Amounts due to customers	7,023,617	8,698,688	23.8%
Equity capital	3,860,101	4,522,482	17.2%
Registered authorized capital	10,000,000	10,000,000	-
Statement of total gains and losses			
Net interest income	804,445	973,302	21.0%
Net fee and commission income	115,384	157,832	36.8%
Result from trading	58,034	48,276	(16.8%)
Administrative and other operating expenses	(756,038)	(766,915)	1.4%
Loan impairment reserve	731,496	495,474	(32.3%)
Profit before taxation	1,073,355	1,002,788	(6.6%)
Net profit	1,155,583	1,001,972	(13.3%)

JSB “Ukrigasbank” positions in the banking market as of 01.01.2014¹

Indicator	Share in the market	Position among the banks of Ukraine
Equity capital	2.3%	9
Assets	1.9%	16
Portfolio of securities	5.0%	3
Loans and indebtedness of the customers, incl.	1.3%	20
legal entities	1.3%	20
individuals	1.4%	17
Amounts due to customers, incl.	1.2%	19
legal entities	1.1%	23
individuals	1.3%	16

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

1.13. Membership in Payment Systems

JSB “UkrGasbank” is a member of the following international and national card payment systems:

- MasterCard Worldwide, since 2000, Principal membership;
- Visa International, since 2002, Principal membership;
- “UkrCard”, since 2002;
- NMEPS, since 2008.

In addition, within the Marketing Agreement concluded with American Express, JSB “UkrGasbank” offers its clients premium payment cards American Express.

On July 1, 2013, JSB “UkrGasbank” became a settlement bank of “UkrCard” payment system and by the end of the year it has provided services to 32 Ukrainian banks on card transactions made on the territory of Ukraine. The fact that “UkrCard” payment system chose JSB “UkrGasbank” to act as a settlement bank confirms stability and reliability of the Bank and is a sign of trust from the side of partners and counterparties.

With more than ten year experience in providing Ukrainian banks-partners with associated and affiliated membership in international payment systems MasterCard Worldwide and Visa International (hereinafter – the IPS), JSB “UkrGasbank” proved to be a reliable and innovative partner and actively continued this activity in 2013. So, in 2013, 4 new banks

were attracted for servicing in accordance with JSB “UkrGasbank” sponsorship of membership. Thus, in 2013 JSB “UkrGasbank” provided financial guarantees of membership to 13 banks – associated members of Visa International and 15 - affiliated members of MasterCard Worldwide.

Advantages of JSB “UkrGasbank” as bank-sponsor of membership in IPS are the possibility to use joint ATM network, which covers all regions of Ukraine and as of 01.01.2014 exceeds 1300 ATMs, including more than 600 JSB “UkrGasbank” own ATMs and more than 700 ATMs owned by banks-members of “UkrCard” payment system.

In addition, JSB “UkrGasbank” partners in ATM networks are OJSC “Oschadbank” (1926 ATMs), PJSC “UkrSotsbank” (1145 ATMs) and PJSC CB “PRAVEX-BANK” (316 ATMs).

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.

Moreover, JSB “UkrGasbank” has licenses for merchant acquiring transactions in two payment systems and also offers the banks to conduct this activity on an agency basis.

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:

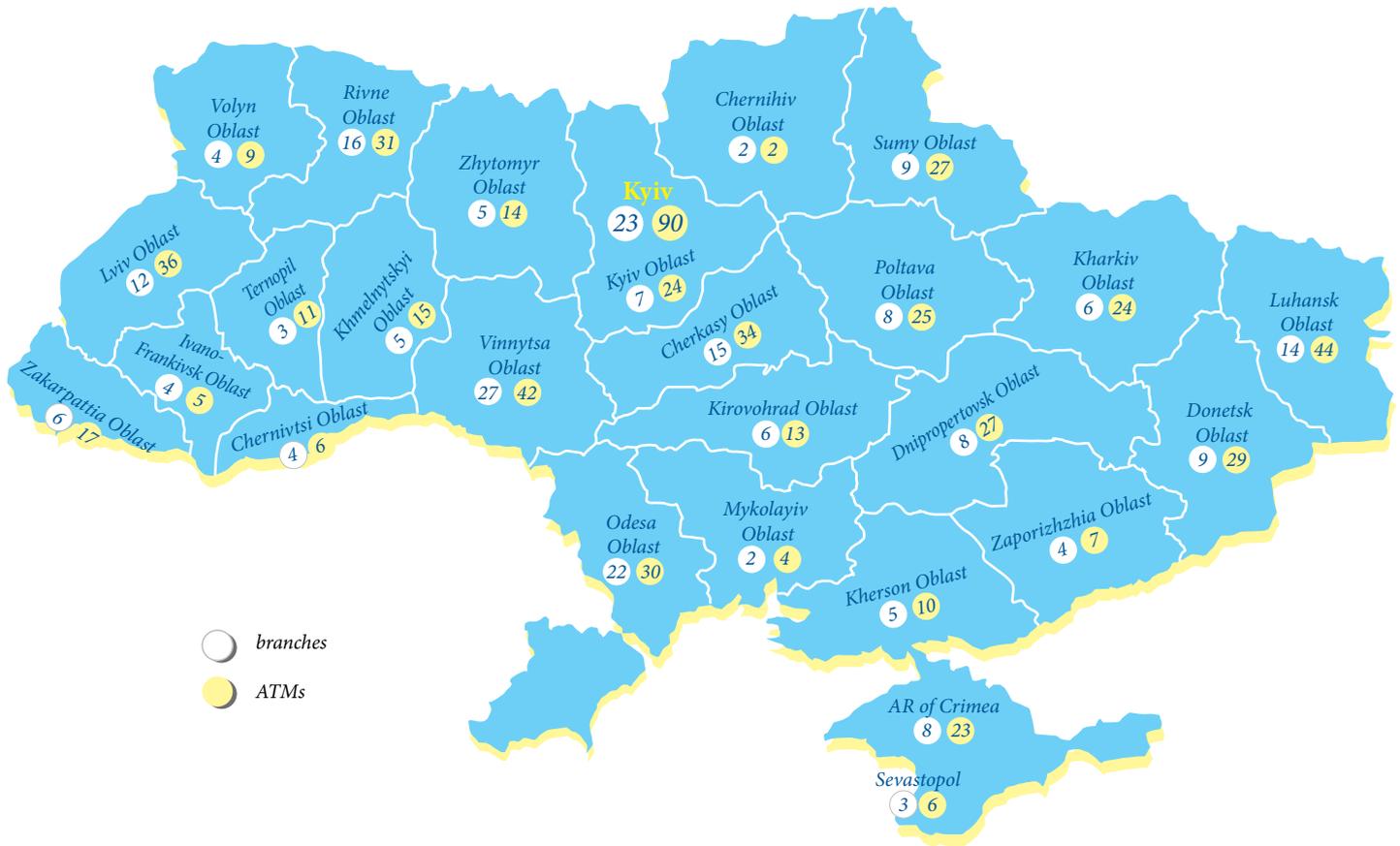
- Association “Independent Association of the Banks of Ukraine”;
- Association “Ukrainian Credit-Banking Union”;
- Depositors Insurance Fund;
- Association “Fund Partnership”;
- Association “Ukrainian Stock Traders”;
- Private Joint-Stock Company “Ukrainian Inter-Bank Currency Exchange”;
- PJSC “PFTS Stock Exchange”;
- PJSC “Ukrainian Stock Exchange”;
- PJSC “Stock Exchange “Perspectiva”;
- PJSC “Kyiv International Stock Exchange”;
- Professional Association of Registrars and Custodians.

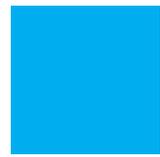
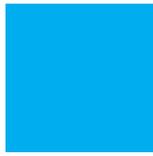
1.15. Structural Divisions (as of 01.01.2014)

As of 01.01.2014 JSB “UkrGasbank” network consisted of 278 registered branches (including 237 operating ones), 605 ATMs, 22 self-service

kiosks, 381 banking and 764 trading POS-terminals in 25 regions of Ukraine.

Geography of the territory of Ukraine, which is covered by JSB “UkrGasbank” operating branches and ATMs network as of 01.01.2014





*«Ukraine is dear and close to my heart. I like its literature, music,
and its wonderful Ukrainian song full of enchanting melody...»*

Anton Chekhov, Russian playwright, 1898



02

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 Securities and Stock Market State Commission Decision No. 571 dated 11.12.2003, Recommendations for Improving Corporate Governance in Ukrainian Banks, approved by the Resolution of the Management 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 Management 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 structure, impose additional requirements and restrictions to its activities. State represented by the Ministry of Finance of Ukraine has a significant (92.9998%) 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 ensured, in particular, by the Ministry of Finance of Ukraine representatives majority in the Supervisory Board and Audit Committee of the Bank.

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 Management Board, control authorities of the Bank – Audit Committee and Internal Audit Department. Management and control authorities of the Bank constitute a single system of management and control authorities of the Bank, through which its shareholders regulate and control activities of the Bank.

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 activities, 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 01.01.2014)

In 2013 authorized capital of the Bank was not changed and made up UAH 10 bln. 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 1.5% of the authorized capital.

As of 01.01.2014 members of the Supervisory Board of the Bank and Executive Body of the Bank (Management Board) did not own shares of the Bank.

2.3. Share Capital Dynamics

№	Date of changes registration to the Articles of Association	Authorized capital amount, 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 takes a decision on Bank's income distribution for the reporting year.

By the Decision of the General Meeting of the Shareholders profit for the reporting year or its part may be due to shareholders – holders of the ordinary shares of the Bank as dividends. 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 the relevant account of the Bank. Interests on deposited amounts are not accrued.

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

In accordance with JSB “Ukrigasbank” Articles of Association the order of remuneration payment to the Supervisory Board members is defined in the 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 “Ukrigasbank” 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 Management 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 basic wage – 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 “Ukrigasbank”, which is worked out in accordance with the laws of Ukraine, in particular, with the Corporate Governance Principles, approved by the Securities and Stock Market State 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 “Ukrigasbank” 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.

“The road through Ukraine was mainly among the abundant gardens, which were innumerable, and through fields of grain tall as a man, as if it was a boundless sea, wide and long. Oh, what a blessed country! What a blessed people! And so numerous!”

Pavlo Alepskyi, Syrian archdeacon,
traveler, “Journey of the Patriarch Macarius”, 1656



03

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-Banking 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-related 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 formation, 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 Management Board chaired by the Deputy/ First Deputy Chairman of the Management Board. Management Board of the Bank appoints Chairman and Deputy Chairman of the Council, members of the Council is determined by the Order of the Chairman of the Management Board. 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, decision-making on developers/construction facilities accreditation in the Bank, 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 Credit Committee shall be appointed by the Order of the Chairman of the Management Board. Functions of the Credit Committee are as follows: reviewing overlimit credit applications submitted by the Directorates and branches of the Bank on active transactions, including debt restructuring of borrowers, settlement of other issues related to active transactions.

Retail Credit Committee of the Bank is established as a permanent collegial body authorized to make decisions on the possibility of credit transactions in terms of standardized and conditional-standardized loan products (borrower – individual (including individual, who is also business entity but credited as an individual) to settle other issues of Bank's relations with the borrowers. Chairman

of the Committee and its Deputies (if any) shall be appointed by the Decision of the Management Board of the Bank. Personal and quantitative composition of the Committee shall be defined by the Order of the Chairman of the Management Board.

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, Center of Credit Solutions);
- provisioning (mortgage, collateral, financial guarantee);
- selecting appropriate structure of Credit Agreement;
- regular (planning) analysis of borrowers financial standing and receipts on current accounts.

The main tool for credit risk management in the Bank is the 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 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, geographical regions and certain programs. Level of non-performing loans 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 credits 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 closure in case of quality portfolio deterioration or change 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.

Asset and Liability 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.

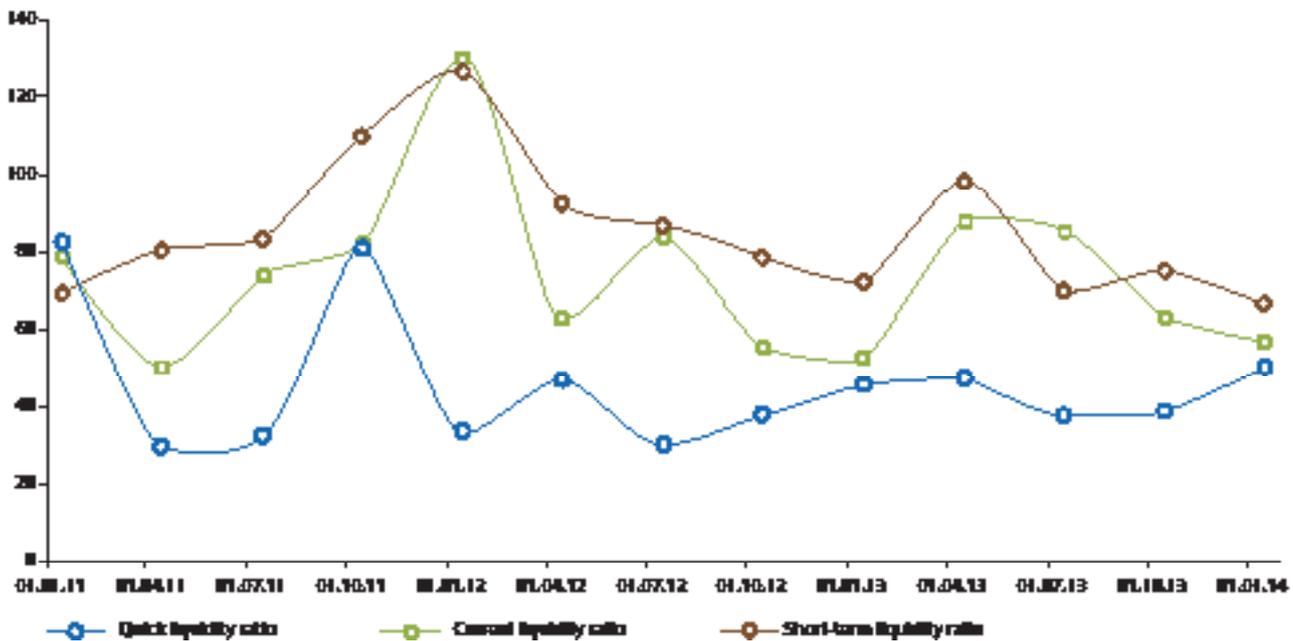
Liquidity management in the Bank is divided into three parts: daily liquidity management, current liquidity management and long-term liquidity management.

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).

Liquidity ratios during 2011-2013, %



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 31st day (including) to the liabilities of the Bank with ultimate

maturity up to 31st day (including) H5 > 40%;

- Short-term liquidity ratio (ratio of liquid assets to liabilities with ultimate maturity up to one year) H6 > 60%.

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 work 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 implementation, 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.

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 Asset and Liability Committee.

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

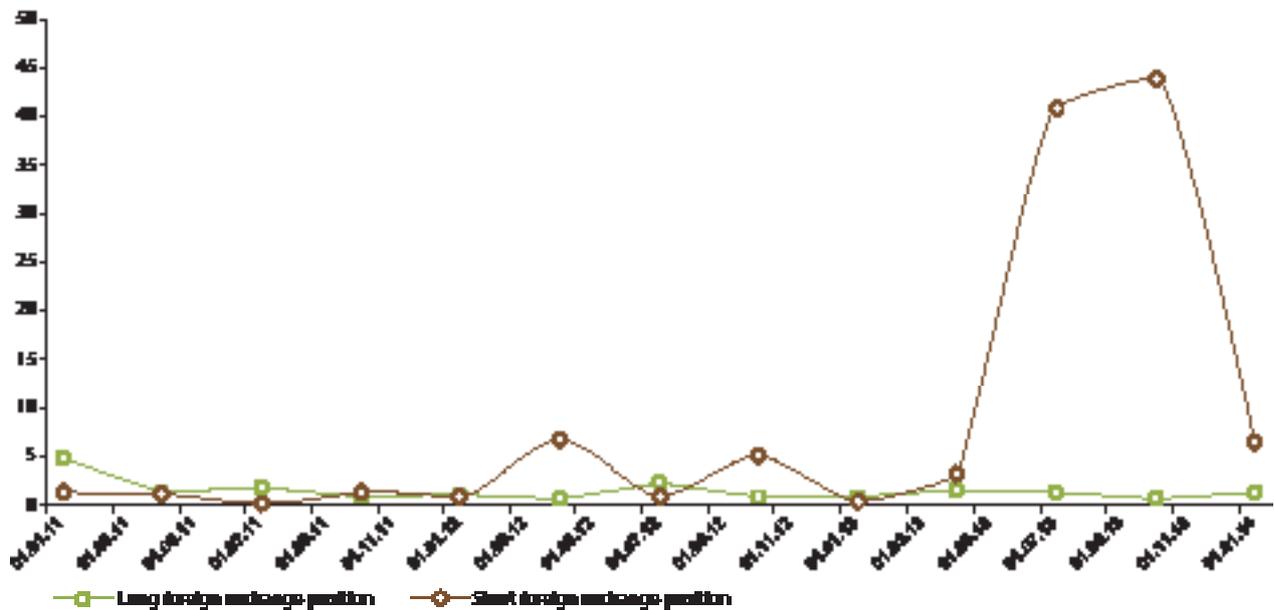
Currency risk is an actual or potential risk for receipts and capital arising from adverse currency rates fluctuations and prices for banking metals.

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 the 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 foreign exchange position of the Bank as a whole and limits on maximum amount of potential losses for transactions with currency in cash and cashless foreign currency.

Currency risk ratios during 2011-2013
(open foreign exchange positions to regulatory capital of the Bank ratio), %



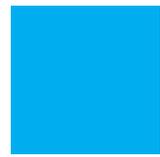
Limit values in accordance with NBU requirements:

- long foreign exchange position (long foreign exchange position to regulatory capital ratio) <20% (20.05.2011 regulatory value changed from 20% to 5% according to NBU Resolution No. 111 dd. 13.04.2011);
- short foreign exchange position (short foreign exchange position

to regulatory capital ratio) <10% (from 28.03.2012 Bank is involved in pilot project of transition to international standards of open foreign exchange position calculation according to which the Bank is set with individual values of short open foreign exchange position).

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 limit on the total amount of foreign exchange position; calculation of stop loss limit based on own available funds; 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.



“How wonderful is the Dnieper in a calm weather, when freely and smoothly it rushes its full waters through the forests and mountains...”

Mykola Hohol, Ukrainian writer,
“Evenings on a farmstead near Dikanka”, 1831



04

System of Internal Control

JSB “UkrGasbank” has a reputation of reliable and transparent Bank, which activities meet requirements of the current legislation of Ukraine. Such reputation support is stipulated by the strategy chosen and efficient system of internal control, that ensures legitimacy, efficiency and security of banking transactions and protects from potential risks and losses.

Particular role in the system of internal control is given to Internal Audit Department as a body of operational control of the Supervisory Board, which has sufficient powers and status of independence that predetermine fulfilment of its tasks on a high quality level.

The Bank is constantly developing: new services are implemented, reorganization of management is performed, modern technological complexes and automated systems are used. This requires a comprehensive assessment of all directions of banking activities with determining the level of risk inherent to each of them and control over implementation of recommendations provided by audit.

Internal audit procedures are based on the methodology of banking risks assessment introduced by Basel Committee on Banking Supervision and take into account international experience obtained. The auditors have highly professional skills, access to implemented software in the Bank and apply international achievements in the sphere of internal audit to the full extent. Appliance of modern techniques, technologies and

information systems by Internal Audit Department for planning and conducting audits enables to concentrate on the most important aspects of banking activity, improve audit efficiency, reduce time and cost for audits and provide reasonable recommendations and business consultations.

Internal Audit Department operates in the following directions: verification of compliance by the Bank with current laws of Ukraine and regulations of the National Bank of Ukraine, timely detection of shortfalls and weaknesses; assessment of introduced systems of internal control and operating procedures adequacy; assessment of the Bank’s divisions compliance with accepted policies and provision of recommendations on requirements to efficient risk management in banking activities.

During 2013 Internal Audit Department conducted over 250 audits and control activities, which covered majority of Bank’s structural units and business processes. The results of audits along with suggestions for improvement of existing systems of internal control were provided to the Bank’s management for the relevant management decisions.

According to the results of audits, Internal Audit Department has made a general conclusion that non-influenceable risks are not available in the Bank, i.e. clients’ interests are safely protected with weighted strategy, reliable system of internal control, professionalism and high responsibility of the staff.

“..They are zealous about their freedom and not fit to wear a yoke..”

Jean Benoit Scherer about the Ukrainians,
French historian, geographer, “Chronicle of Malorosia”, 1800



05

Information Technologies Development

According to the strategy of JSB “Ukrgasbank” the main directions in the field of automation is to ensure technological and information competitiveness of the Bank on the up-to-date market of banking services. Strategic direction of the Bank’s information technologies development is complete automation of business processes that improves clients servicing and, consequently, their level of satisfaction with services received.

In 2013, one of the main tasks of the Bank was to improve and standardize existing and introduce new standardized software that reduced the number of software used in banking transactions to optimize clients servicing time.

To ensure smooth and prompt clients servicing, due to branches stable operation during 2013, old equipment replacement continued and structural cabling network in the regional divisions of the Bank was upgraded.

Ensuring strategic plans implementation targeted at expansion of clients segment – individuals, JSB “Ukrgasbank” introduces Internet banking

service for individuals, enabling the clients to manage funds on their own accounts from any part of the world in a convenient time.

To optimize printing equipment complex and operational processing of clients’ documents in the Bank, old printing equipment was replaced with more powerful and speed one within the project of printing equipment complex outsourcing servicing.

As a part of new standardized software implementation for business units, WebBank “Online-Application” for retail lending was taken in commercial operation; system of international funds transfers Welsend was launched; software maintenance for payments acceptance was centralized.

Every year, JSB “Ukrgasbank” more and more focuses on contemporary needs of its clients in the sphere of information technologies, ensuring convenient access to banking services. Next year Bank will satisfy its clients with free guest access to Wi-Fi at the branches of the Bank.

«...In modern times it was the great and wealthy region, with the beauty of its fields and steppes, hamlets and villages, Dnieper and Kiev, with strong and tender people, nice and neat in every detail of its life...»

Ivan Bunin, Russian writer, poet,
“Life of Arseniev: The Youth”, 1930



06

Business Development

6.1. Corporate Banking

JSB “Ukrigasbank” operation in 2013, according to the strategy approved, was targeted at the growth

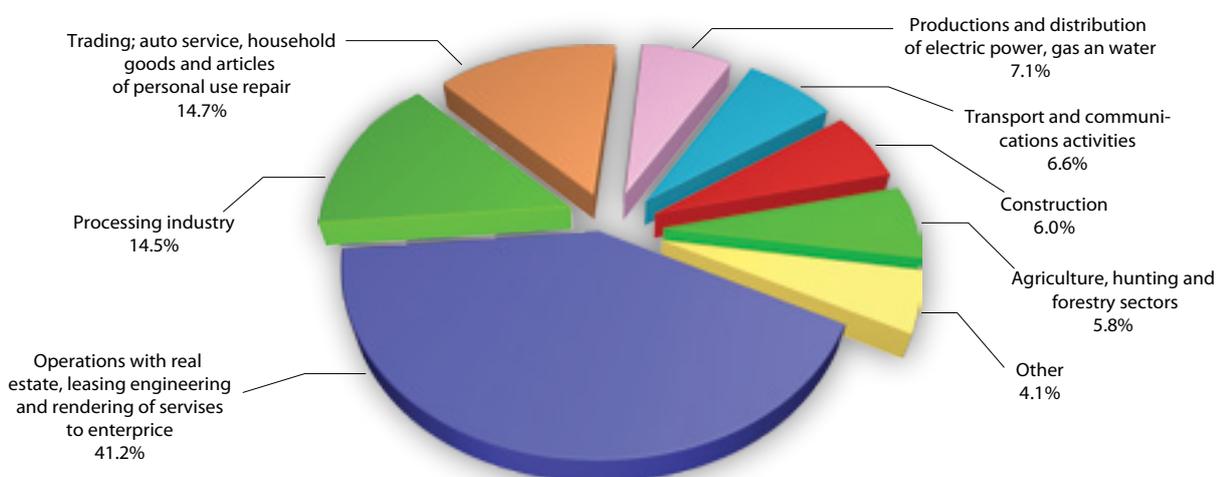
of corporate clients assets and liabilities portfolio, flexible and individual approach to their servicing.

6.1.1. Assets Transactions²

Lending to corporate clients is a priority direction of corporate business development in the Bank. So, in 2013 corporate loan portfolio of JSB “Ukrigasbank”

increased by UAH 612.0 mln. and amounted to UAH 9,902.6 mln. as of 01.01.2014.

Structure of corporate clients loan portfolio by activities, %



JSB “Ukrigasbank” offers both standard corporate lending programs in local and foreign currencies and programs that account for the specifics of clients activities in individual sectors of economy:

- lending of operating cycle of the enterprise;
- overdrafts;
- loans for purchasing of the new equipment / facilities for business and commercial real estate;
- loans secured by deposits placed with the Bank;
- lending to state forestry enterprises;
- lending to agricultural and processing enterprises, and corn traders;
- guarantees, securities and other liabilities of third parties that require cash fulfilment;
- bill avalization;
- other programs.

In accordance with the Resolution of the Cabinet of Ministers of Ukraine dd. 03.06.2013 No. 404, the Bank became a member of the state program related to the Bank’s involvement in financing of chief controllers of budgetary funds against state guarantees projects in 2013.

Among JSB “Ukrigasbank” borrowers are such well-known enterprises: NJSC “Naftogas of Ukraine”, SOE NNEG “Energoatom”, PJSC “Ukrhydroenergo”, SE IA “Boryspil”, PJSC “Holding Company “Kyivmiskbud”, PJSC “Creative”, SOE “Prydniprovskaya Railway”, SOE “Odesa Railway”, State Territorial Branch Union “Pivdenno-Zakhidna (Southwestern) Railway”, SOE “Donetsk Railway”, POSP “Uman Greenhouse Works”, LLC “Production Enterprise Agro-Soyuz”, SE “SPC “Iskra”, LLC “Agroindustrial Company “Mais”, LLC “Elevator Company “Kusto Agro” and many others.

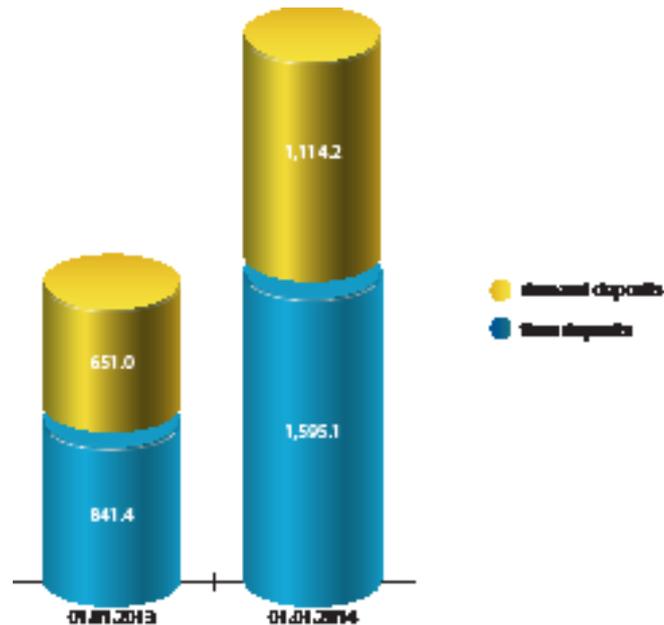
² Corporate loan portfolio (excluding portfolio of SME clients according to the internal segmentation) in this section is given net of accrued income and before impairment provisions.

6.1.2. Liabilities-Related Transactions³

During 2013 amounts due to corporate customers of JSB “UkrGasbank” increased by UAH 1,216.9 mln. (82%) and as of 01.01.2014 amounted to UAH

2,709.3 mln. Share of time deposits – 59%, customers demand deposits – 41%.

Amounts due to corporate customers, mln. UAH



For 2013 corporate time deposits portfolio has increased by UAH 753.7 mln., demand deposits – by UAH 463.2 mln.

Special attention was drawn by the Bank to collaboration with budgetary institutions as to attraction of liquid assets through participation in competitive tendering. Only in 2013, JSB “UkrGasbank” participated in 294 competitive tendering, 115 of them it won.

For active attraction of time deposits, the Bank developed and standardized deposit programs, which conditions meet corporate clients’ needs, account for specifics of their activities and allow accomplishing set goals as to deposit portfolio growth.

Economically grounded and competitive tariffs on cash and settlement services to corporate clients and their prompt upgrade, extensive regional network and coordinated work of a professional team enabled the Bank, in terms of severe competition in the Ukrainian market of banking services, to increase the number of corporate clients by 7% – nearly 250 clients during 2013. By the end of the year

nearly 4000 corporate clients have been provided with services in JSB “UkrGasbank”.

In 2013, relevant tariff plans: “Utility”, “Investment” and “Social” were developed and introduced accounting for the specifics of utility enterprises servicing, accounts with special regime of use for enterprises in the sphere of heating, centralized water supply and water drain and separate accounts for crediting insurance funds of fuel and energy sector clients-enterprises of Ukraine.

In 2013, the Bank offered new promotional deposit programs with special attractive conditions: “Deposit “Holiday” and “Deposit “New Year” as a gratitude of the Bank to its clients for trust.

Among clients of the Bank, which ensured a significant growth of corporate deposit portfolio in 2013 are the following enterprises: State Mortgage Institution, PJSC “Ukrtelecom”, NAK “Nadra Ukraine”, Motor (Transport) Insurance Bureau of Ukraine, Globyno Meat Factory LLC, Corporate Non-State Pension Fund of the National Bank of Ukraine, “Kryukov Railcar Plant” PJSC,

³ Amounts due to corporate customers (excluding SME clients according to the internal segmentation) in this section are given net of accrued expenses.

Association of International Road Carriers of Ukraine, State Innovation Finance and Credit Organization, Synthesis Construction LLC, “Ukrainsky papir” LTD, Ukrainian State Enterprise of Postal Services “UKRPOSHTA”, “Altera Azteca Milling Ukraine” LLC, Consent Capital Management LLC and others.

In order to further efficiently develop corporate

business in JSB “UkrGasbank” the following tasks are determined for 2014:

- maintain and improve Bank’s positions in the group of largest banks of Ukraine;
- reduce concentration of big clients’ assets and liabilities, diversification of client database;
- develop long-term partnership with corporate clients of the Bank.

6.2. Small and Medium-Sized Banking

In 2013, JSB “UkrGasbank” actively developed lending to almost all sectors of small and medium-sized business.

From the very beginning of the year, lending to the clients – representatives of small and medium-sized business actively started within agreement concluded with the German-Ukrainian Fund in accordance with the program of refinancing targeted to support lending to rural areas. Totally for 2013 within this program loans in amount of Euro 2.3 mln. were granted.

Also lending for the new car and farm machinery purchasing by small and medium-sized entrepreneurs (hereinafter – the SME) was actively conducted due to extension of Bank’s cooperation with the manufacturers and sellers of farm machinery. Thus, for the year number of activity-specific partners of the Bank has increased almost three-fold – to 34 enterprises.

All this allowed JSB “UkrGasbank” to become one of the key players in the market of clients – SME representatives servicing in a short time in many regions of Ukraine.

In general, for 2013 SME loan portfolio has grown by 62%.

At the end of 2013 “Kontrakty” edition recognized JSB “UkrGasbank” as one of the winners in “Best Banks for Small and Medium-Sized Enterprises” nomination.

Also in 2013, Bank entered the market with two innovative products: loans for franchising development and lending to housing cooperatives (OSBB) and became the first bank in Ukraine, which started lending to OSBB.



In 2014 JSB “UkrGasbank” strategy anticipated SME lending development and growth of relevant loan portfolio by 60%. Planned measures for small and medium-sized business development include:

- optimization of decision-making processes for SME lending;
- extension of product line;
- staff increase and training of the employees servicing SME clients;
- participation in government programs targeted to support small and medium-sized business and OSBB.

6.3. Retail Banking

6.3.1. Credit Operations⁴

Growth of quality individuals loan portfolio was one of the priorities of the Bank in 2013. Improvement of existing and introduction of the new credit proposals stipulated improvement of competitive positions of the Bank. As a result of the year, JSB “UkrGasbank” took 10th position among the banks of Ukraine in terms of growth of individual loan portfolio before impairment provisions⁵.

In severe competition during 2013, the Bank granted loans to individuals for the amount of nearly UAH 1 bln.

Strengthening of Bank’s positions in the retail lending market and achievement of planned growth indicators in lending contributed to performance of a set of measures in the following directions:

Credit policy and methodological support

Methodology for individuals lending was improved in variable economic environment taking into account changes in current law, innovations, variability of market conditions and lending practices in Ukraine.

Line of banking products development for different categories of retail clients

Bank actively improved its existing product line and created new products and programs to meet

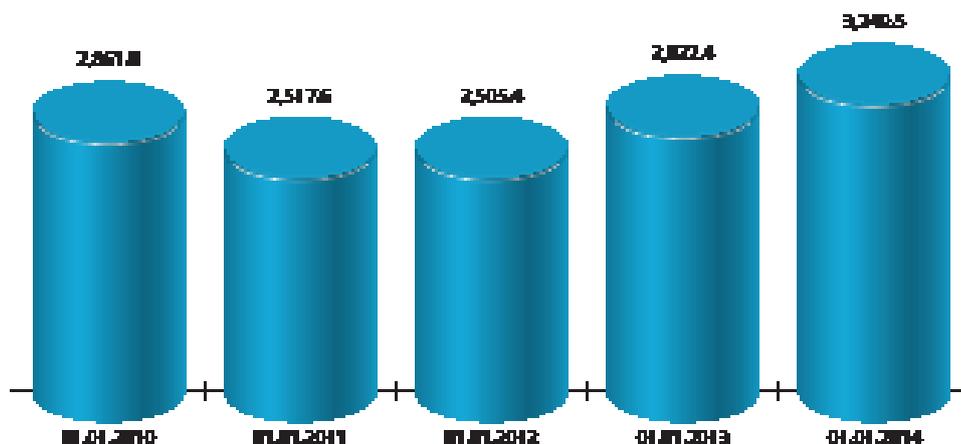
market’s needs and take competitive environment into account.

Distribution network improvement

The main channels of Bank’s services sale is its own network of branches and partners. The Bank is constantly improving efficiency of its own network by optimizing business processes and training employees. Also to promote bank lending products Bank actively develops partnerships with developers, real estate agencies, automotive holdings and corporations, car dealers, insurance companies, appraisers and also agents – individuals – employees of stated institutions, who provide the clients with practical assistance in package of documents preparation, required to obtain the loan, consult and direct the client in terms of bank selection.

So, as a result of approved strategy implementation individuals loan portfolio has increased by UAH 327.1 mln. (11%) for 2013 and amounted to UAH 3,249.5 UAH by the year end.

Individuals loan portfolio, mln. UAH



⁴ Individuals loan portfolio in the section is given net of accrued income and before impairment provisions.

⁵ Calculated on the basis of Ukrainian banks financial statements provided on the NBU web-site.

Thus, as a result of approved strategy implementation it was possible:

- to strengthen Bank's positions in the market of individuals credit servicing;
- to improve efficiency of Bank lending business;
- to update system of decision-making, management, control and risk management;
- to automate business processes of lending to individuals;

6.3.2. Cash and Settlement Services

JSB "UkrGasbank" offers full range of cash and settlement services for private customers and constantly improves its line of banking products. By the end of 2013, almost 650 thd. current accounts (including card accounts) to individuals have been opened in JSB "UkrGasbank", which account balances amounted to UAH 1,629.4 mln., that is UAH 183.7 mln. or almost 13% more 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" products have constant great demand among the clients,

6.3.3. Time Deposits⁶

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, as well as deposit programs, 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 October 2013 JSB "UkrGasbank" implemented promotion

- to optimize expenses associated with lending activities and increase interest and fee income from assets operations with individuals;
- to successfully implement state projects of mortgage lending to the population;
- to improve image of the Bank as active player in the market of retail lending.

as evidenced by the amount of balances on these accounts, which exceeds 50% 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 payments. Currently, more than 42 thousand people receive pensions and social benefits through the accounts opened in the Bank. Extension of Agreement made between the institutions up to 01.01.2015 allows JSB "UkrGasbank" to continue servicing pensioners and social beneficiaries in all regions of Ukraine, offering them a wide range of services.

event "World Savings Day" aimed at increasing financial awareness of the population and desire to educate from childhood literate clients – consumers of financial services. The specifics of this event were in involvement of parents and their children aged from 6 to 17. In placing deposit adults were offered a higher interest rate on the deposit and possibility to obtain guaranteed gift in the form of silver coin "Treasure of traditions", dedicated to the 20th anniversary of JSB "UkrGasbank". And child could obtain gift in the form of economic game.

More than 43 thousand individuals became depositors of JSB "UkrGasbank" by the end of the year, more than 30% of them have several deposits in the Bank.

By the end of 2013, the Bank has opened over 59 thd. individuals deposit accounts, including 56.3% in local currency, 32.5% in U.S. dollars, 10.7% in Euro, 0.1% in Swiss francs and 0.4% in banking gold.

⁶ Amounts due to individuals in this section are given net of accrued expenses.

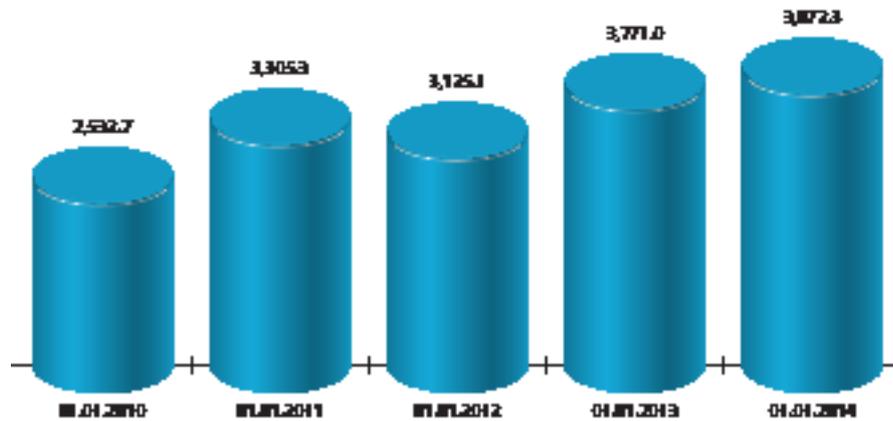
Also in 2013 tendency towards deposits extension for the new term to the clients (more than 80% of deposit portfolio) was kept, indicating a high level of confidence from the side of the population to the financial institution and attractiveness of deposit programs of the Bank.

So, during the year, individuals deposit portfolio of the Bank increased by UAH 201.3 mln. and

amounted to UAH 3,972.3 mln by the end of the year.

During the year, loyalty programs for individuals ran in the Bank, which provided premiums to the current deposit rates for repeated deposit to the clients, upon depositing a large amount and rolling deposit over for another term. Holders of pension card accounts had a possibility to obtain premium in placing deposit for a certain period.

Individuals time deposits portfolio, mln. UAH



6.3.4. Payment Cards Transactions

By the end of 2013, 649.7 thousand payment cards have been in circulation issued by JSB “UkrGasbank”. Comparing with 2012 their number reduced by 80 thd. pcs. due to measures taken by the Bank in 2013 targeted at closure of inactive card accounts and withdrawal of relevant payment cards making possible to improve client database quality. Thus, following the results of 2013 JSB “UkrGasbank” took 8th position among the banks – members of payment systems (according to NBU data) in the number of active payment cards. Over 80% of payment cards issued by JSB “UkrGasbank” are active.

Grounds for JSB “UkrGasbank” activity in Ukrainian market of payment cards are its principal membership in international payment systems: Visa International (since 2002) and MasterCard Worldwide (since 2000) and also “UkrCard” (since 2002).

Moreover, in October 2013, the Bank has passed test program for connection to the Central Router and Clearing and Settlement Center of the National Mass Electronic Payment System (NMEPS) of the National Bank of Ukraine and started issuance of NMEPS payment cards.

From year to year, JSB “UkrGasbank” supports and

improves existing card products and introduces new, expanding the range of services for cardholders.

As in previous years, in 2013 positive tendencies in deposit and card product “ProZapas” development were observed. Balances on card accounts “ProZapas” steadily increase and account for more than 50% of the total balances on card accounts opened in JSB “UkrGasbank”.

In 2013, Bank offered its clients, who prefer to make settlements on the Internet, an improved card product MasterCard Virtual. Since April 2013, payment cards MasterCard Virtual have been produced by new technology 3-D Secure, which ensures increased security of Internet transactions.

Also at the end of 2013 new card product “Friendly Card” targeted at improving financial literacy of school children was launched. In November – December 2013, 87 payment cards “Friendly Card” were issued.

For premium class cardholders a number of new services, namely: concierge-service of increased level of servicing, membership in the International Air Passengers Association (IAPA) program, property and third party liability insurance under “My Fortress” program and international travel

insurance under “Travel” program were implemented in 2013. By the end of 2013, JSB “Ukrigasbank” issued more than 1,200 premium cards that satisfy needs of VIP- clients. The share of premium cards Visa Infinite issued by JSB “Ukrigasbank” increased from 2.0 % to 7.9% during 2013.

6.3.5. Money Transfers and Payments

JSB “Ukrigasbank” continues actively developing services related to payments receipt and money transfers for individuals.

Creation of the international money transfer system Welsend became the main event for the Bank in the sphere of money transfers in 2013. Since March 2013, the Bank has started to provide services of this system to the clients on the territory of Ukraine and in September Welsend system entered the international market. The first country, Welsend system entered in, became Georgia. Over 2013, 14 financial institutions became Welsend agents. Thus, as of 01.01.2014 money transfers by the system can be implemented in more than 1000 servicing points.

6.3.6. Investment Coins and Coins of Foreign Make

In 2013, JSB “Ukrigasbank” initiated cooperation with recognized international manufacturers in the market of numismatic products. During the year, the Bank concluded direct agreements with Polish Mint (Mennica Polska), Australian Mint (Perth mint), New Zealand mint, companies JVP Investment Coins (Germany), Treasure Of Oz (Australia).

Direct supplies enabled the Bank to replenish portfolio with product innovations of coin market and increase sales up to UAH 9.1 mln.

In October 2013, the Bank started selling of investment coins of Ukraine. So, for the last three months of the year 244 investment coins have been sold.

Moreover, in 2013 wholesale of coins was started. During the year JSB “Ukrigasbank” sold 1,060 coins to the amount of UAH 750 thd. to other banks.

So, during the year Ukrigasbank sold 9,881 coins. Also in 2013 in cooperation with Polish Mint 1,000

During 2013 balances on individuals-clients card accounts increased by UAH 213.8 mln. and at the end of the year amounted to UAH 1,605.2 mln. Thus, the Bank retained leading positions among Ukrainian banks on current accounts balances.

At the end of 2013, to transfer money JSB “Ukrigasbank” offered its clients to use services of any of the ten international money transfer systems, namely: Welsend, Western Union, Unistream, CONTACT, International Money Transfer LEADER, MoneyGram, RIA Financial Services (RIA Money Transfer), Zolotaya Korona – Money Transfers, MIGOM and IntelExpress.

Moreover, Bank transfers money of individuals in foreign currency through the international system SWIFT and also transfers in local currency through EPS of NBU.

The Bank also offers individuals to make payments for goods, works and services provided by enterprises, organizations and private entrepreneurs.

exclusive silver coins with elements of tampon printing “Treasure of traditions” were developed and issued into circulation, dedicated to the 20th anniversary of JSB “Ukrigasbank”.



6.4. Collection and Transportation of Valuables

In 2013, Ukrgasbank paid special attention to development and active introduction of collection and transportation of valuables.

In February 2013, Collection Department started operation as a separate independent business unit of the Bank. At the beginning of the year, collection service was introduced in five regions of Ukraine – Kyiv, Luhansk, Lviv, Odesa oblasts and AR of Crimea and during the year collection divisions of JSB “Ukrgasbank” started working in 13 oblasts: Rivne, Poltava, Sumy, Khmelnytskyi Dnipropetrovsk, Cherkasy, Zakarpattia, Kharkiv, Donetsk, Zhytomyr, Volyn, Vinnytsa and Kherson. At the end of the year, JSB “Ukrgasbank” collection service was introduced in 18 regions of Ukraine.

JSB “Ukrgasbank” collection divisions are provided with fifty own operational armored vehicles with high level of protection, equipped with technical facilities for valuables safety. In 2014, it is planned further increase of CIT (Cash-in-transit) vehicle park. Route traffic is tracked by GPS-monitoring system that allows to promptly estimate location of CIT vehicle.

115 collection employees of JSB “Ukrgasbank” render services to the clients, having been trained and provided with personal protective equipment. To effect collection and transportation of valuables State Security Service employees at the Ministry of Internal Affairs of Ukraine are involved.

Despite the relatively short period of operation, JSB “Ukrgasbank” Collection Department provides a wide range of services:

- collection of currency valuables of the banks;
- cash collection of the clients;
- delivery of clients’ collected funds to the cash desk of the Bank;
- transportation of cash and other valuables of the client/Bank;

- prompt support of its own Bank divisions with currency valuables (including self-service software and hardware complexes);
- interregional transportation of cash and valuables of the clients;
- collection from ATMs;
- collection and transportation of cash and other valuables under one-time clients’ applications

Clients of the Bank in collection and transportation of valuables services are other banks, corporate clients, small and medium-sized business clients as well as individuals.

At the beginning of 2013, Collection Division of the Bank concluded 56 agreements on provision of collection and transportation of valuables services. For 2013, number of agreements for collection and transportation of valuables concluded with JSB “Ukrgasbank” has increased by almost 6-fold and by the end of the year Collection Division of the Bank has provided services the clients in accordance with 330 agreements.

As a result of successful implementation of Bank’s strategy in development of collection and transportation of valuables services the Bank had a possibility:

- to strengthen positions of the Bank in the market of collection services provided to the legal entities and individuals;
- to increase amount of fee and commission income;
- to improve efficiency of currency valuables transportation;
- to optimize costs associated with collection activities;
- to successfully implement projects of operational vehicles technical equipment;
- to improve image of the Bank as an active player in the market of collection services.

6.5. Investment Business. Securities

JSB “Ukrgasbank” is one of the largest and most reliable institutions of the Ukrainian stock market.

The first permit to perform professional activities on securities market has been received from the Ministry of Finance of Ukraine in 1996.

In 2013, transactions in the stock market were performed by JSB “Ukrgasbank” under license of

the Securities and Stock Market State Commission 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.

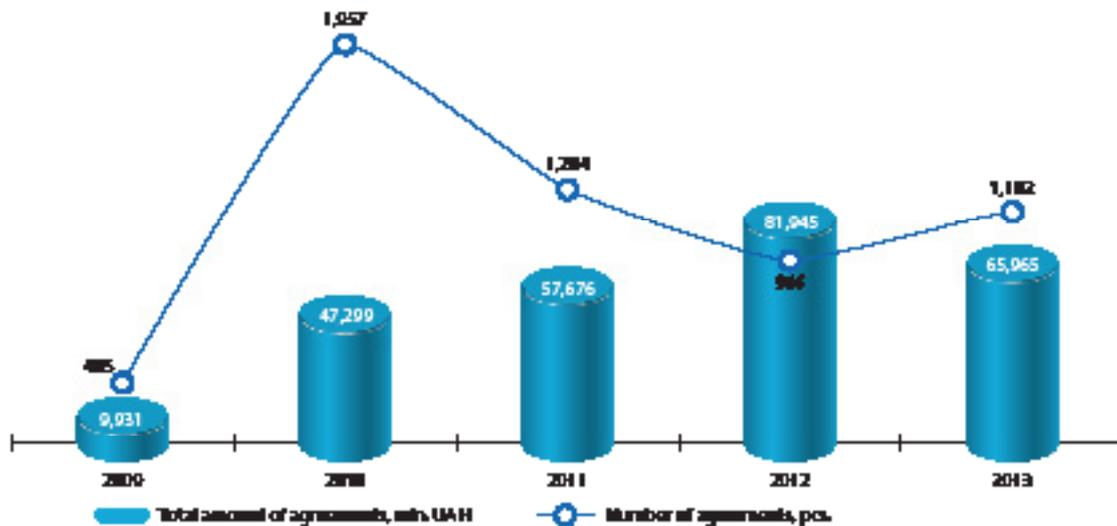
During 2013, JSB “UkrGasbank” provided services of mortgage pool management under the license issued by the National Securities and Stock Market Commission series AD No. 034432 dd. 18.06.2012. This is the first and the only license issued to the manager of the mortgage pool in Ukraine. As a manager of mortgage pool, the Bank served issuance of mortgage bonds for the nominal amount of UAH 1 bln. in 2013.

During the year and according to its results, many times JSB “UkrGasbank” took positions in ranking

of leaders among securities traders. Following the results of 2013, JSB “UkrGasbank” took the 3th position among banks in primary dealers ranking, conducted by the Ministry of Finance of Ukraine, and also took the 1st position in the ranking of PFTS members in municipal bonds trading sector.

For 2013, JSB “UkrGasbank” has concluded 1,192 agreements (brokerage, dealership, underwriting, activity on securities management) for the total amount nearly UAH 66 bln.

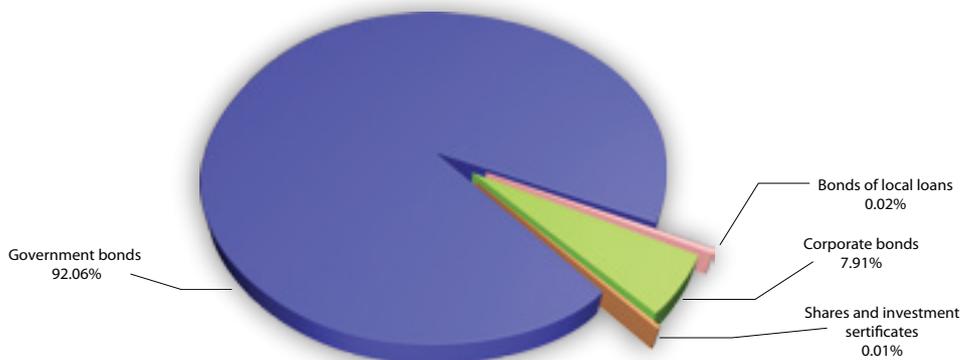
Agreements concluded on the stock market



JSB “UkrGasbank” makes brokerage and dealer operations in all segments of securities market. However, the most substantial share – 92.06% – following the results of 2013 is taken by operations

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

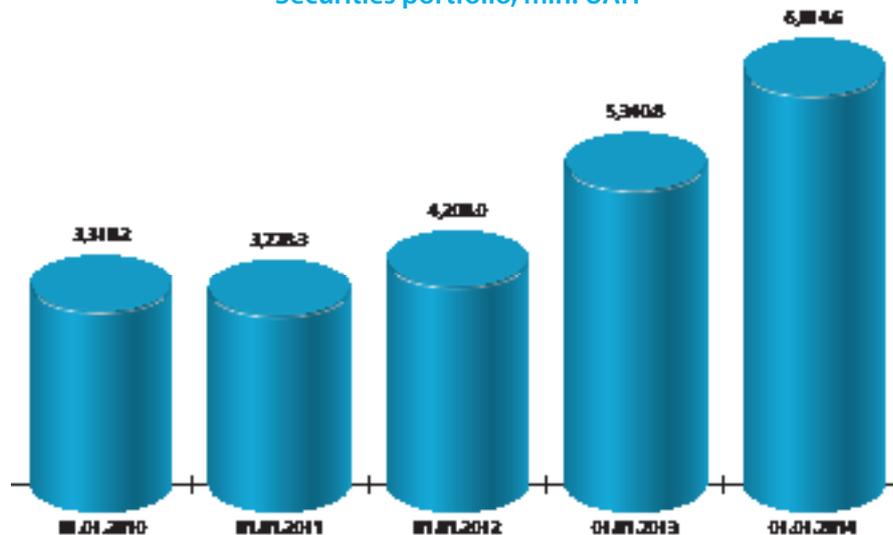
Structure of securities trading in 2013



Despite of decrease in volume of agreements concluded in 2013 comparing with the previous year by 19%, Bank's securities portfolio during this period increased by almost 30%, up to UAH 6.9 bln. as of 01.01.2014. Growth of securities portfolio

was due to investment in state and corporate debt securities. Among the companies, in which bonds the Bank invested in 2013, are leading state Ukrainian enterprises, working in different sectors of economy.

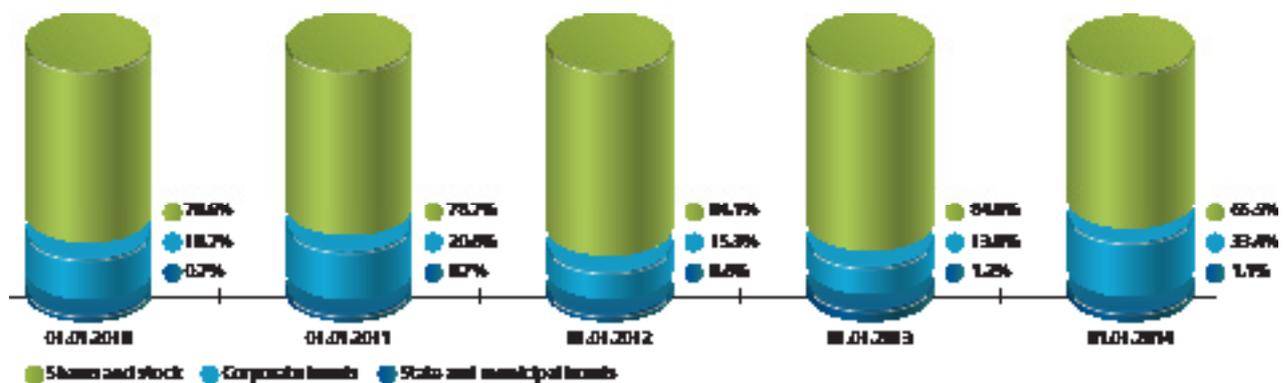
Securities portfolio, mln. UAH



Structure of the Bank's investments in securities in 2013 has mainly changed in terms of corporate securities share growth (by 19.5 percentage points).

The biggest share of securities portfolio was traditionally accounted for the government and municipal bonds (65.5% as of 01.01.2014).

Structure of investments in securities, %



In 2013, JSB "UkrGasbank" continued brokerage activities on the stock market. In particular, within the project "People's broker" Bank provided its clients with the possibility to trade securities through authorized institutions network (branches), which amounted to 111 institutions in all regions of Ukraine as of 01.01.2014. Through this institutions network

JSB "UkrGasbank" together with asset management companies arranged investment certificates distribution and repurchase of some mutual investment funds.

Bank did not receive loans in the market of debt securities during 2013.

6.6. Treasury Operations

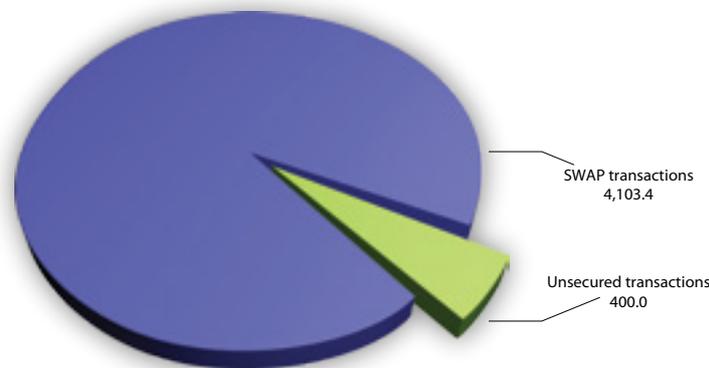
6.6.1. Transactions in the Interbank Market

JSB “UkrGasbank” actively trades both with Ukrainian banks and with the banks of CIS and non-CIS countries in the interbank market.

Cooperating with the banks-counterparties, JSB “UkrGasbank” is guided by the principles

of long-term mutually beneficial partnership, concluding general agreements on the procedure for interbank transactions. As of 01.01.2014, the Bank has signed 146 general agreements, including 14 with the banks-non-residents.

Amount of funds raised in the interbank market as of 01.01.2014, mln. UAH



Most interbank transactions undertaken by the Bank are transactions, in terms of which banks grant loans to each other (raise deposits) in different currencies to equivalent amount and with equivalent maturity. Minor risk inherent in these transactions allows maintaining required level of short-term liquidity.

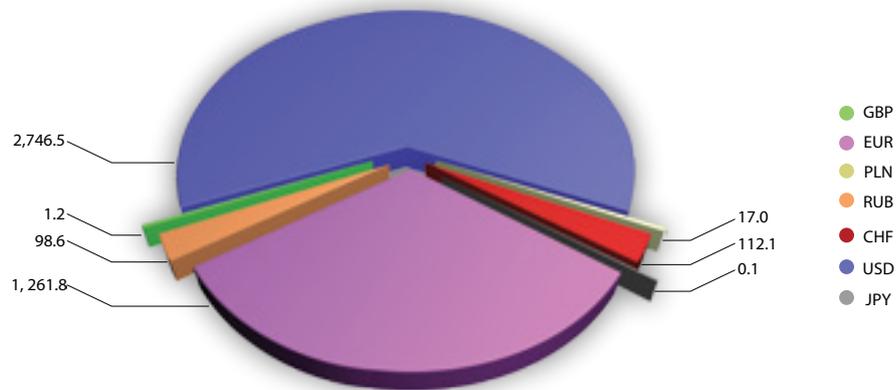
Trading in the interbank markets, the Bank conducts prudent credit policy targeted at minimizing risks applying limits setting as a mechanism for banks-counterparties on interbank transactions and individual approach to each bank.

At the same time, spotless reputation of the Bank

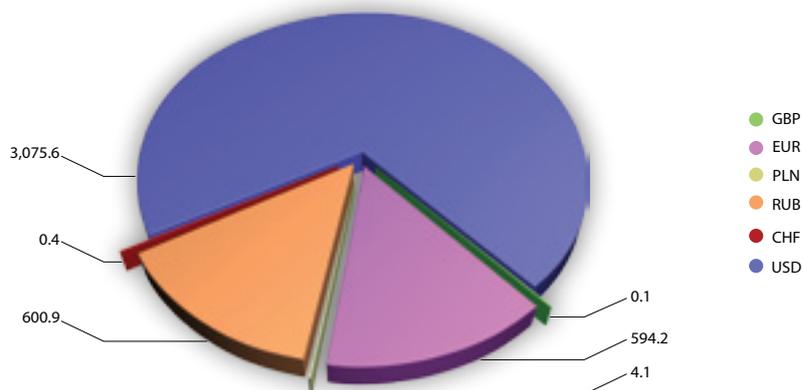
allows to actively attract interbank loans without collateral confirmed by achieved volume of interbank portfolio, which at the end of 2013 exceeded UAH 4.5 bln.

Also in 2013, the Bank actively traded in the interbank market, purchasing and selling currencies both to satisfy own needs and by and on behalf of the clients in order to service export and import transactions. The main volume of transactions traditionally falls on U.S. dollars and Euros. For 2013, the amount of purchased and sold currency in the Interbank Foreign Exchange Market of Ukraine on behalf of the clients exceeded UAH 8.5 bln. in equivalent.

Currency purchasing on behalf of the clients in 2013, mln. UAH



Currency sale on behalf of the clients in 2013, mln. UAH



Year 2013 was fruitful for JSB “UkrGasbank” also in the international stage. From the beginning of 2013, JSB “UkrGasbank” successfully cooperates with Polish state-owned bank Bank Gospodarstwa Krajowego (BGK), obtaining limit in amount of Euro 14 mln. within the Polish government program “Financial Support for Export”. According to the program clients of the Bank, which import goods produced in Poland and services rendered

by Polish companies, obtain competitive terms for their contracts finance and Polish exporters expand sales market for their products.

In 2013, agreements on cooperation in joint projects with Hungarian export-import bank were also reached and similar programs implementation with the Government of the Republic of Belarus and Czech Export Bank was initiated.

6.6.2. Transactions with Government Debt Instruments

In 2013, the Bank operated as primary dealer in government securities market and remained one of the largest operators of the market. Bank's strategy in terms of these activities stipulated support of achieved volumes and profitability of government bonds portfolio. As of 01.01.2014, Bank's government bonds portfolio amounted to UAH 4,167.1 mln. at the nominal value.

Correctness of chosen by the Bank approach in a single state policy formation and implementation for dynamic development and functioning of securities market in Ukraine was confirmed by Diploma received in 2013 from Ukrainian Stock Exchange and PFTS Stock Exchange for active work on the stock market of Ukraine.

In 2013 the total volume of government bonds purchase and sale transactions in the secondary market amounted to nearly UAH 53 bln., as a primary dealer in government securities market the Bank purchased in amount of UAH 8.4 bln. and USD 200 mln., in 2012 in amount of UAH 2.6 bln. and USD 181 mln.



6.6.3. Transactions with Banking Metals and Cash Currency

JSB "UkrGasbank" is traditionally active member of the precious banking metals market and offers full range of banking transactions in gold, including purchase and sale of banking metals and raising of deposit resources in banking metals.

In 2013, precious banking metals in the form of bullions were in great demand with Ukrainian population. Uncertainty in basic hard currencies and reduction in value of gold contributed to increase in demand for banking gold. So, for 2013 JSB "UkrGasbank" has imported 1,898 kg banking gold, which is 2.5 times more than in 2012, and sold more than 1,875 kg of gold, comparing with 2012 when it sold 800 kg.

The main counterparties of the Bank – gold bullions supplier are recognized affintage companies

Argor Heraeus S.A. (Switzerland) and Valcambi (Switzerland).

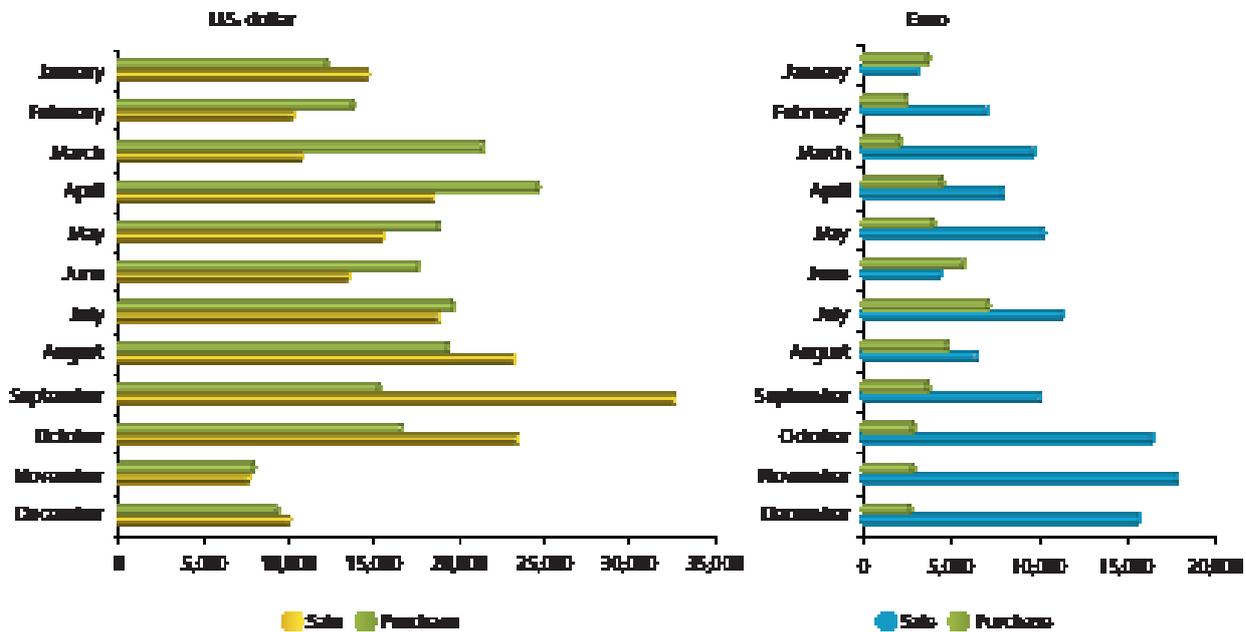
As of 01.01.2014 deposit portfolio of JSB "UkrGasbank" in gold amounted to 137.8 kg.

Operations with banking metals are performed in more than 200 branches of the Bank throughout Ukraine.

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

JSB "UkrGasbank" conducts foreign exchange transactions in U.S. dollars, Euros, Swiss francs, British pounds and Russian rubles. The greatest demand with the population is usually for U.S. dollars and Euros.

Volumes of currency purchase and sale in 2013, in thousands



6.6.4. Development of Correspondent Banking Relationships

During 2013, JSB “UkrGasbank” actively developed and optimized correspondent network in order to refine and improve quality of services offered, increase range of services to the clients with regard to their export-import activities and needs. Existing network made possible for the Bank to create optimal conditions for solving tasks related to the clients servicing, including provision of prompt settlement of payments and treasury operations of the Bank support for short-term surplus funds raising and placement, currency purchase and sale and transactions with securities.

As of 01.01.2014, 125 correspondent accounts of “nostro” type in 15 currencies in 47 financial institutions were opened in the name

of JSB “UkrGasbank”.

JSB “UkrGasbank” has open correspondent accounts in leading clearing banks in the world such as Deutsche Bank Trust Company Americas, Deutsche Bank AG, JP Morgan Chase Bank, Commerzbank, Commerzbank AG Luxembourg Branch, Standard Bank Plc, VTB Bank (Deutschland) AG, UniCredit Bank AG, which fully satisfies both client and Bank’s needs.

As of 01.01.2014, 62 loro banks are provided with services in JSB “UkrGasbank”. At the end of 2013, “nostro” account balances amounted to UAH 1,074 mln. in equivalent and loro accounts – UAH 469 mln.

6.6.5. Arbitrage Transactions on Margin Trading Conditions (Forex for Private Customers)

JSB “UkrGasbank” gives private customers an opportunity to earn income from currency fluctuations in the international foreign exchange market. Transactions are settled 24 hours over the Internet using trading platform installed on PC, smartphone or tablet PC of the client. In this case currency is not actually supplied; the client receives only financial result from currency purchase and sale onto its account.

To start transactions in the global foreign exchange market is possible by concluding relevant agreement in any of 200 branches of JSB “UkrGasbank” throughout the territory of Ukraine; it takes about 60 minutes in Kyiv and up to 5 days – in the regions.

The clients are offered to conduct transactions within the legal framework of Ukraine and favourable trading conditions, no fees for trading transactions

and for account crediting and debiting, twenty-four-hour information and technical support in the form of economic news and analytics review and many other.

In 2013, about 300 private clients chose JSB “Ukrigasbank” as their partner in Forex market. So, for five years of these transactions execution by the Bank, client database of services in margin trading has expanded to almost 2,700 users.

6.7. Custodian Operations

Till October 11, 2013 (inclusive), JSB “Ukrigasbank” performed depository activity as Custodian on the basis of the license issued by the Securities and Stock Market State Commission for the right to perform professional activities as custodian series AB No. 520292 dd. 10.02.2010. Due to changes in law, in depository activities regulation, since October 12, 2013 JSB “Ukrigasbank” performs depository activities as custodian institution on the basis of the licenses issued by the National Securities and Stock Market Commission, namely:

- license for depository activities of depository institution, series AE No.263236, issued on August 28, 2013, unlimited validity since 12.10. 2013;
- license for the right to operate as custodian of collective investment institutions assets, series AE No.263237, issued on August 28, 2013, unlimited validity since 12.10.2013;
- license for the right to operate as custodian of pension funds assets, series AE No.263238, issued on August 28, 2013, unlimited validity since 12.10.2013.

Depository institution JSB “Ukrigasbank” serves circulation of government, corporate and municipal securities and provides a full range of custody services to individuals and legal entities, residents and non-residents, pension funds and collective investment institutions.

JSB “Ukrigasbank” has securities accounts in such depositories:

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

At the end of 2013, JSB “Ukrigasbank” serves more than 24 thd. securities accounts. List of securities

In 2013 amount of funds invested by the clients in transactions in Forex market made up nearly USD 1.5 mln. In total, in 2013 clients settled over 400 thd. transactions.

Rules for arbitrage transactions subject to margin trading terms were registered by NBU on 17.01.2013 as required by the Resolution of the National Bank of Ukraine dd. 05.11.2012 No. 461.

accounted for on these accounts includes 361 issues of securities made by Ukrainian issuers. Amount of depository assets of JSB “Ukrigasbank” depository institution came up to UAH 12,187.8 mln. at the nominal value of securities as of 01.01.2014.

Securities accounts breakdown per groups of clients as of 01.01.2014

Clients	Number of accounts in securities, pcs.
Individuals	23,718
residents	23,682
non-residents	36
Legal entities	669
residents	645
non-residents	24
Totally	24,387

Within the project “People`s broker”, depository institution JSB “Ukrigasbank” actively attracts new depositors implementing up-to-date technologies for their servicing.

Within JSB “Ukrigasbank” cooperation with 29 companies on securities dematerialization, more than 20 thousand accounts were opened as of 01.01.2014, on which about 1.5 bln. securities are accounted for the total nominal value of nearly UAH 500 mln.

According to the ranking of Professional Association of Registrars and Depositories, depository institution JSB “Ukrigasbank” is in TOP 10 best depository institutions.

6.8. Individual Banking

In 2013, one of the strategic objectives of JSB “Ukrigasbank” was to expand segment of corporate and private VIP-clients in the total clients` database of the Bank. The Bank has separate divisions for corporate VIP-clients and individual VIP-clients servicing, which constantly integrate high standards of personal VIP-clients servicing using modern banking products and promptness in decision-making. Each VIP-client of the Bank works with a personal manager, who is ready to provide the client with qualified assistance in terms of any banking issues and also provide off premise servicing.

For corporate VIP-clients JSB “Ukrigasbank” generates exclusive and innovative banking products such as individual and comprehensive servicing. In addition, for these clients the Bank develops customized structured products subject to clients` sector segmentation. Special attention is paid to providing services for post-export/import-finance, project finance (including related to state programs implementation), letters of credit and factoring.

Corporate VIP-clients of the Bank include leading enterprises of Ukraine: representatives of different sectors and forms of ownership, namely telecommunications corporations, oil and gas

industry enterprises, transportation companies, state enterprises and agro-industrial holdings.

At the end of 2013, JSB “Ukrigasbank” provided services to nearly 250 corporate clients and over 400 private VIP-clients.

Private VIP-clients of the Bank mostly use deposit programs and also they are holders of premium cards.

In 2013, the list of additional services for premium class cards that are served on “Prestige” tariff plan was extended. In case of Visa Infinite card use, package of additional services includes additional cards PRIORITY PASS and IAPA and concierge-service from the Bank`s partner – “Concierge Service Smart Line”. Moreover, premium class cards are insured against risks of fraudulent transactions and cardholder has a possibility to effect comprehensive travel insurance policy according to “Travel” program.

To ensure high level of VIP-clients servicing, separate JSB “Ukrigasbank” office space for private banking was opened at 40/10A, Shota Rustaveli str., Kyiv in 2013. Exquisite interiors, functional areas for VIP-clients servicing and individual meeting rooms ensure convenience, privacy, safety and comfort for the Bank`s clients.

6.9. 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 “Ukrigasbank” offers such channels of distant servicing:

- Call Center
- ATMs network, trade POS-terminals and payment self-service terminals
- Internet banking for legal entities
- Mobile banking (M-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 a day 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 2013, Call Center has processed over 270 thousand telephone calls from the clients, in average 22.5 thousand calls per month and also 370 messages received through the web-site block “Book of comments and suggestions”. In most of cases clients consult on card servicing, deposit and lending programs of the Bank.

Since October 2013, new service for calls to the Call Center hotline was introduced, which

allows the client to leave voice message for its further processing by the Call Center staff.

In order to attract new clients for servicing to 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. So, in 2013, 786 thousand information SMS-messages were sent and over 176 thousand outgoing calls were made.

As a result of this work, clients were motivated to place new deposits for the amount of UAH 46.6 mln., to execute overdrafts on salary cards for the amount of nearly UAH 4.9 mln. and credit

products to buy residential real estate, car and credits on real estate totalling UAH 38 mln.

In addition, 15 thousand clients – holders of card accounts were attracted for M-banking, which is 50% more comparing with the previous year.

More and more clients use Call Center services in terms of remote execution of loan application and procedure for obtaining decision on the possibility to receive the loan.

Also the number of online applications for banking products and services submitted through the web-site of JSB “UkrGasbank” increased. Thus, in 2013 Call Center of the Bank processed more than 2,800 application.

ATMs, Trade POS-Terminals and Payment Self-Service Terminals Network

In order to improve conditions for payment cards servicing, Bank constantly expands terminal equipment infrastructure and list of services, which can be obtained through this network.

In general, 71 ATMs were installed and connected to the terminal network of the Bank during the year. 8.5 mln. transactions totalling UAH 6.1 bln. were conducted through the network of ATMs by the clients in 2013.

Average amount received by the clients

monthly through the ATMs network has increased up to UAH 508 mln. comparing with UAH 403 mln. in the previous year.

In 2013, JSB “UkrGasbank” significantly expanded functional of self-service terminals that positively affected the amount of payments received, which total amount has exceeded UAH 17.2 mln.

Further expansion of trade POS-terminals network contributed to turnover growth on trading transactions up to UAH 10 mln. for 2013.

Internet Banking for Legal Entities

JSB “UkrGasbank” offers 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 banking 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, client`s document refusal and message from the Bank.

As of 01.01.2014 “Client-Internet-Bank” system registered 6,767 clients and also 8 Centers of Financial Control that manage 59 reporting organizations.

Except for earlier updated USB-tokens to store electronic-digital signatures, additional mechanisms protecting against unauthorised access, such as “Multifactor authentication” and “Documents confirmation by one-time password” using OTP-token or SMS-message were implemented in 2013.

For the convenience of “Client-Internet-Bank” system use in Bank`s units, special places for self-service were created, where clients can independently make all necessary transactions on their accounts in the system.

M-Banking

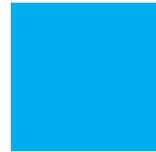
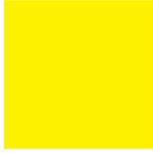
JSB “UkrGasbank” offers its clients – cardholders “Mobile Banking” (“M-banking”) service, whereby clients using their own mobile phones can have at any time access to information about their card account and can settle some transactions with their cards.

In addition, SMS-information service about funds crediting to the card account operates. This service becomes more and more popular among the clients of the Bank. As of 01.01.2014 “M-banking” service was activated on more than 145 thd. accounts.

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 2013 has increased by 18% comparing with the last year.



“It seems that God has nothing better than Dnipro and our glorious country...”

Taras Shevchenko, Ukrainian poet,
artist, “And I grew up in exile...”, 1848



07

Partnership and Cooperation

7.1. International Systems of Money Transfers

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

Welsend

International payment system, where JSB “UkrGasbank” is a payment organization. Registered by the National Bank of Ukraine on 04.02.2013 and provides services to the clients since 11.02.2013.

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.

MoneyGram

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.

“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.

7.2. Car Dealers and Car Importers

JSB “UkrGasbank” extended cooperation with car dealers and car importers and during 2013 fruitfully cooperated with 240 partners within the programs of targeted lending “Car loan”. The following leading companies of Ukrainian car market are among them:

“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”.

Group of Companies “AIS” is one of the biggest car operators, which represents 18 car brands in the Ukrainian market. Group of companies “AIS” has 58 car centers and service stations, 31 spare parts shops, 2 production plants, logistic centers for cars and spare parts storage.

“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.

“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.

“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 thd. 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.

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

7.3. Companies-Developers

Under the mortgage lending programs, JSB “UkrGasbank” cooperates with more than 100 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”.

“Vyshnevemiskrekonstruktsiya” LTD – developer of “Akvareli” Residential Complex.

7.4. Banks-Partners in Consumer Lending

In 2013, JSB “UkrGasbank” actively expanded its partnership and agent network for selling banking products, which became one of the alternative sales channels.

So, development of such innovative service as agency selling of other bank consumer loans continued. Two more banks joined the partners

of the Bank in terms of consumer lending, which are quite important players in consumer lending market of Ukraine.

In 2014, JSB “UkrGasbank” plans to further increase partner and agent network of the Bank and expand the list of services that agents and partners can offer to the clients.

7.5. Company of Concierge Services

“Concierge Service Smart Line” provides 24-hours a day 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.

7.6. Insurance Companies

Private Joint Stock Company “Insurance Company Ukrainian Insurance Group” has been operating on the Ukrainian insurance market since 2000, has licenses for 26 voluntary and compulsory insurance. Its own regional network includes 100 divisions and representatives throughout Ukraine.

Double Liability Company “Insurance Company “Avesta Insurance” is a classical insurance company, which specializes in corporate and banking insurance, being the general partner of the leading financial institutions for retail mortgage insurance programs.

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.

Public Joint Stock Company “Insurance Company “Krayina” has been operating in the insurance market of Ukraine since 1994, has licenses for 20 types of insurance and is among TOP 30 insurers of Ukraine by amount of insurance payments.

Private Joint Stock Company “Insurance Company “Kremin” was founded in 1996 and has licenses for 13 voluntary and 7 compulsory insurance types.

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

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 over 10 years of activities in the market.

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.

Public Joint Stock Company “Ukrainian Insurance Company “Garant-Auto” was founded in Kyiv in 1992 and specializes in car insurance but actively develops other types of insurance, in particular, property insurance, voluntary medical insurance, construction risks insurance, financial risks insurance etc.

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.

Double 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.

Private Joint Stock Company “Insurance Company “AXA Insurance” is a part of French group AXA and has licenses for 21 types of insurance servicing more than half a million clients. Regional network is represented in more than 200 cities of Ukraine.

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 Group “TAS” operates in Ukraine since October 1998 and is a part of powerful investment and financial group, having licenses for 29 types of insurance.

Private Joint Stock Company “PROSTO-insurance” provides car insurance, third party liability insurance, medical insurance and property insurance. It has 28 branches in the territory of Ukraine.

Private Joint Stock Company “Ukrainian Insurance Capital” founded in 1995, currently has 20 licenses for voluntary and compulsory insurance.

Private Joint Stock Company “Insurance Company “Uniqa” founded in 1994, is a member of UNIQA Insurance Group. Company has 30 licenses and provides more than 100 insurance services. Sales network includes 26 regional directorates and over 250 branches and sales outlets.

Private Joint Stock Company “Ukrainian Insurance House” founded in 2003. It has 30 licenses

for different types of compulsory and voluntary insurance. Branch network covers all oblast centers of the country and AR of Crimea.

Double Liability Company “Insurance Company “Dominanta” has been operating in insurance

market of Ukraine since 2007 and has 28 licenses for compulsory and voluntary insurance. Insurance company representatives are located in the most oblast centers and Simferopol.

7.7. Assets Management Companies

Limited Liability Company “Asset Management Company “Dragon Asset Management”

is a subsidiary of IC Dragon Capital. As of the end of 2013, AMC had three public funds: IDMIF “Platinum”, IDMIF “Aurum”, ODMIF “Argentum” with the total net assets value of almost UAH 14 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 Sberbank Group. As of the end of 2013 “Troika Dialog Ukraine” offered for selling securities of two Public Investment Funds: ODMIF “Troika Dialog Equities”, ODMIF “Troika Dialog Bonds”. Total value of assets under management of the company exceeds UAH 80 mln.

JSB “UkrGasbank” sells investment certificates of above funds.

Limited Liability Company “Asset Management Company “UNIVER Management» was founded in 2008. By the end of 2013, AMC has managed assets of collective investment institutions with the total value over UAH 6 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 “Pioglobal Asset Management” is a part of investment group “Pioglobal”. At the end of 2013, company managed assets of three public investment funds: ODIF “Concord Dostatok”, ODPIF “Concord Stabilnist” and ODPIF “Concord Perspectiva” with the total net assets value over UAH 4.5 mln.

JSB “UkrGasbank” sells investment certificates of above funds.

Limited Liability Company “Asset Management Company “Pioglobal Ukraine” at the end of 2013 managed assets of two public investment funds: ODUIF “Index Premium Fund” and ODMIF “Balanced Premium Fund” with the total net assets value about UAH 4.5 mln.

JSB “UkrGasbank” sells investment certificates of above funds.

7.8. Securities Depositories

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.

Depository of the National Bank of Ukraine conducts activities of depository accounting and servicing of government domestic and foreign loan bonds of Ukraine circulation, target domestic government loan bonds of Ukraine, treasury bonds of Ukraine and domestic loan bonds and debt securities that certify loan relations of local authorities, which were placed outside Ukraine and servicing of corporate transactions of issuer on clients` securities accounts.

7.9. Stock Exchanges

Public Joint Stock Company “Stock Exchange “Perspectiva”. Since it was established in 2006, Stock Exchange has taken leading positions in the market of Ukraine due to active implementation of trading, settlement and information technologies. Share in total trading on the stock market of Ukraine amounted to 67% in 2013.

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 “PFTS Stock Exchange” is one of the biggest organizers of trade on the securities market of Ukraine; supports interregional system of electronic securities trading in real time.

The Bank has been a member of PJSC “PFTS Stock Exchange” since 1997 and trades with securities on this Stock Exchange both from its own portfolio and on behalf of its clients. JSB “Ukrigasbank”

7.10. 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 objects and intangible assets evaluation. It has been operating in Ukrainian market since 2004 and has 18 representatives in 13 oblasts of Ukraine.

Group of Companies “Uvekon” is one of the leading companies of Ukraine, which provide services of property evaluation in terms of tangible and intangible objects evaluation as well as monetary evaluation of land plots. It has been operating 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 operating 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.

is among PJSC “PFTS Stock Exchange” shareholders with its share in amount of 0.19% at the end of 2013.

Public Joint Stock Company “Ukrainian Stock Exchange” is one of the 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.

Public Joint Stock Company “Kyiv International Stock Exchange” was founded in 1995 as a non-state market institution of national importance for operation on securities market, serving international flows of financial instruments.

The Bank has been a member of PJSC “Kyiv International Stock Exchange” since 2013 and plans to conduct its own securities transactions and on behalf of the clients on it.

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

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

Limited Liability Company “Baker Tilly Ukraine” – is an independent member of Baker Tilly International. Company has been operating in the domestic market since 1999 and provides services in the sphere of audit, consulting, independent evaluation, accounting and management accounting.

Limited Liability Company “SPETSOTSENKA-UKRAINE” provides a full range of evaluation services in terms of tangible and intangible objects evaluation and monetary evaluation of land plots. It has been operating in Ukraine since 1998. The company has

practical experience in cooperation with Ukrainian and foreign banks and companies on independent property evaluation, having an extensive representatives network in 18 oblasts of Ukraine.

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

Private Enterprise "Active Plus" provides services for property evaluation in terms of tangible and intangible objects evaluation and monetary evaluation of land plots. It has been operating 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 terms of tangible and intangible objects evaluation,

information and advisory services relating to the real estate market analysis, surveys and market forecasts and has a staff of highly qualified specialists in the sphere of evaluation and other issues relating to the provision of information and advisory services by the company, including property monitoring pledged in the bank and relevant reporting. The company has extensive representatives network in all oblasts of Ukraine.

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

Limited Liability Company "RG Satellite" provides services for tangible objects and intangible assets evaluation and monetary evaluation of land plots as well as business consulting.

7.11. Financial Institutions Refinancing Home Mortgage Loans

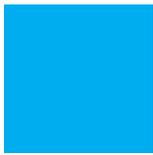
State Mortgage Institution (hereinafter – the SMI) was established by the Resolution of the Cabinet of Ministers of Ukraine No. 1330 dd. 08.10.2004 "Some Aspects of Mortgage Institution". Currently, SMI is the only state institution of the second level for mortgage loans refinancing in Ukraine. JSB "Ukrgasbank"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

"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.

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.



“There are fortunately gifted personalities as well as fortunately gifted peoples. I saw that kind of people <...> they are the Ukrainians”

Petro Chaikovsky,
Russian composer, mid-19th century



08

Review of Financial Activities

8.1. Financial Result

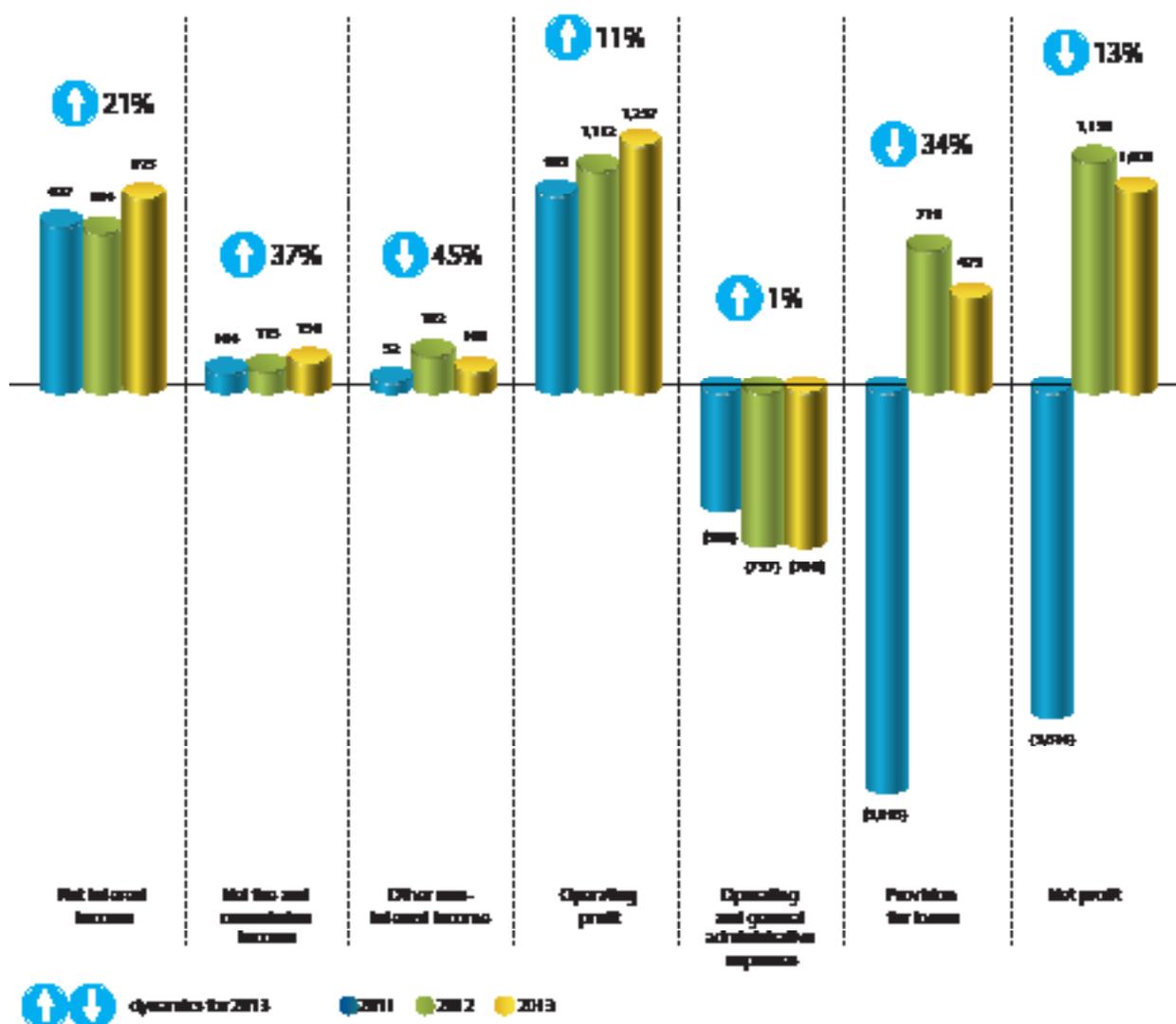
JSB “UkrGasbank” financial result for 2013 has amounted to UAH 1,002.0 mln. For the second year running net profit of the Bank has been exceeding UAH 1 bln. and is one of the highest performance results in the banking system of Ukraine.

Operating profit of the Bank for 2013 has made up UAH 1,237.3 mln, which is UAH 125.8 mln. or 11.3% more than in 2012. Increase in net interest income by UAH 168.9 mln. (21.0%) and net fee and

commission income by 42.4 mln. (36.8%) contributed to this indicator growth in 2013.

Prudent risk management policy and fruitful work with non-performing loans resulted in loan portfolio quality improvement. That is precisely why in 2013 the Bank earned UAH 475.5 mln. income from write-back of reserves and UAH 57.7 mln. from the previously written-off assets, which had positive impact on financial result of the Bank.

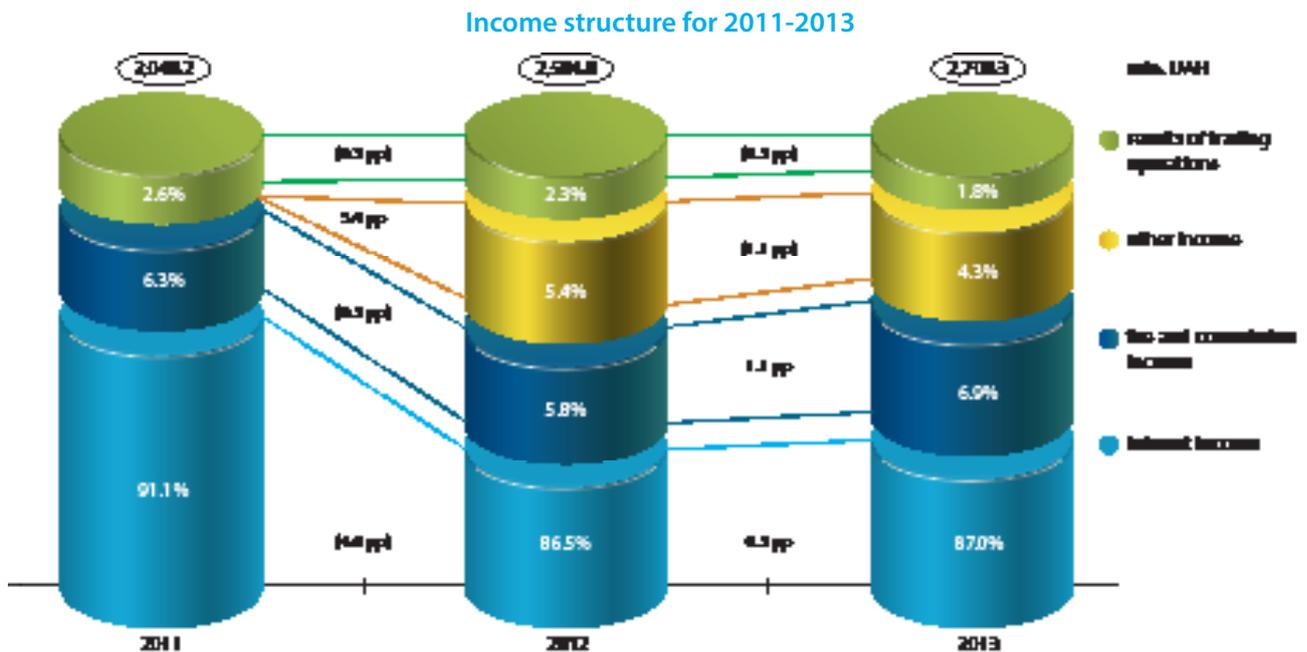
Financial indicators for 2011-2013, mln. UAH



8.2. Income

General income of the Bank in 2013 amounted to UAH 2,709.3 mln., including interest income – UAH 2,357.3 mln. (87.0%), fee and commission

income – UAH 188.1 mln. (6.9%), result of trade operations – UAH 48.3 mln. (1.8%), other income – UAH 115.6 mln. (4.3%).



The biggest share in the income structure of the Bank traditionally has interest income, which amount has increased by UAH 191.5 mln. (8.8%) for 2013 and as of 01.01.2014 amounted to UAH 2,357.3 mln. In 2013, the biggest increase in interest income was due to clients lending (by UAH

296.6 mln. or 23.4%), including lending to legal entities – by UAH 216.8 mln. and to individuals – by UAH 79.8 mln. In 2013, interest income from securities transactions increased by UAH 69.8 mln. (12.0%) and amounted to UAH 650.3 mln. at the year end.

Interest income by activities

Activities	2011		2012		2013	
	Amount of income, mln. UAH	Share of interest income, %	Amount of income, mln. UAH	Share of interest income, %	Amount of income, mln. UAH	Share of interest income, %
Operations with the banks	130.1	7.0	318.4	14.7	143.5	6.1
Loans to legal entities	1,132.5	60.7	1,033.2	47.7	1,250.0	53.0
Loans to individuals	264.1	14.1	233.7	10.8	313.5	13.3
Securities transactions	339.8	18.2	580.5	26.8	650.3	27.6
Totally	1,866.5	100.0	2,165.8	100.0	2,357.3	100.0

Review of Financial Activities

In 2013, the largest share of interest income (53%) was earned by the Bank from lending operations with legal entities. Increase of interest income from lending to the clients was stipulated by loan portfolio growth in 2013 and increase in average interest rates on loans, including loans to legal entities by 0.5 percentage points and loans to individuals by 0.9 percentage points.

Share of income from securities transactions have not significantly changed (increase of 0.8 percentage points), while total income increased by UAH 69.8 mln. Income growth was stipulated by corporate

securities portfolio growth by UAH 1,410.4 mln. while government bonds portfolio decrease by UAH 63.0 mln. and increase in average interest rates by 0.26 percentage points.

Amount of income from transactions with the banks has decreased due to changes in accounting procedure of SWAP transactions in the banks.

Following the results of 2013, the Bank earned UAH 188.1 mln. fee and commission income (6.9 % of the total income), which is UAH 42.0 mln. or 28.8% more than last year.

Fee and commission income by transactions

Transactions	2011		2012		2013	
	Amount of income, mln. UAH	Share of fee and commission income, %	Amount of income, mln. UAH	Share of fee and commission income, %	Amount of income, mln. UAH	Share of fee and commission income, %
Transactions with the banks	19.0	14.7	30.2	20.7	50.5	26.8
Cash and settlement services to the clients	98.3	76.2	103.5	70.8	120.4	64.0
Lending to the clients	4.2	3.3	2.8	1.9	6.7	3.5
Securities transactions	0.9	0.7	0.8	0.5	1.0	0.6
Transactions in foreign exchange market	4.9	3.8	7.3	5.0	7.3	3.9
Other transactions	1.7	1.3	1.5	1.1	2.2	1.2
Totally	129.0	100.0	146.1	100.0	188.1	100.0

Increase in fee and commission income in 2013 was stipulated by increase in income from transactions with the banks by UAH 20.3 mln. (67.2%), including from cooperation with the banks - partners on consumer lending – by UAH 10.7 mln. (8.7 fold) and from transactions with payment

cards – by UAH 7.7 mln. (29.8%), as well as from cash and settlement services to the clients – by UAH 16.9 mln. (16.3%), including from servicing of clients card accounts – by UAH 5.3 mln. (21.4%) and from receiving cash payments – by UAH 4.5 mln. (11.6%).

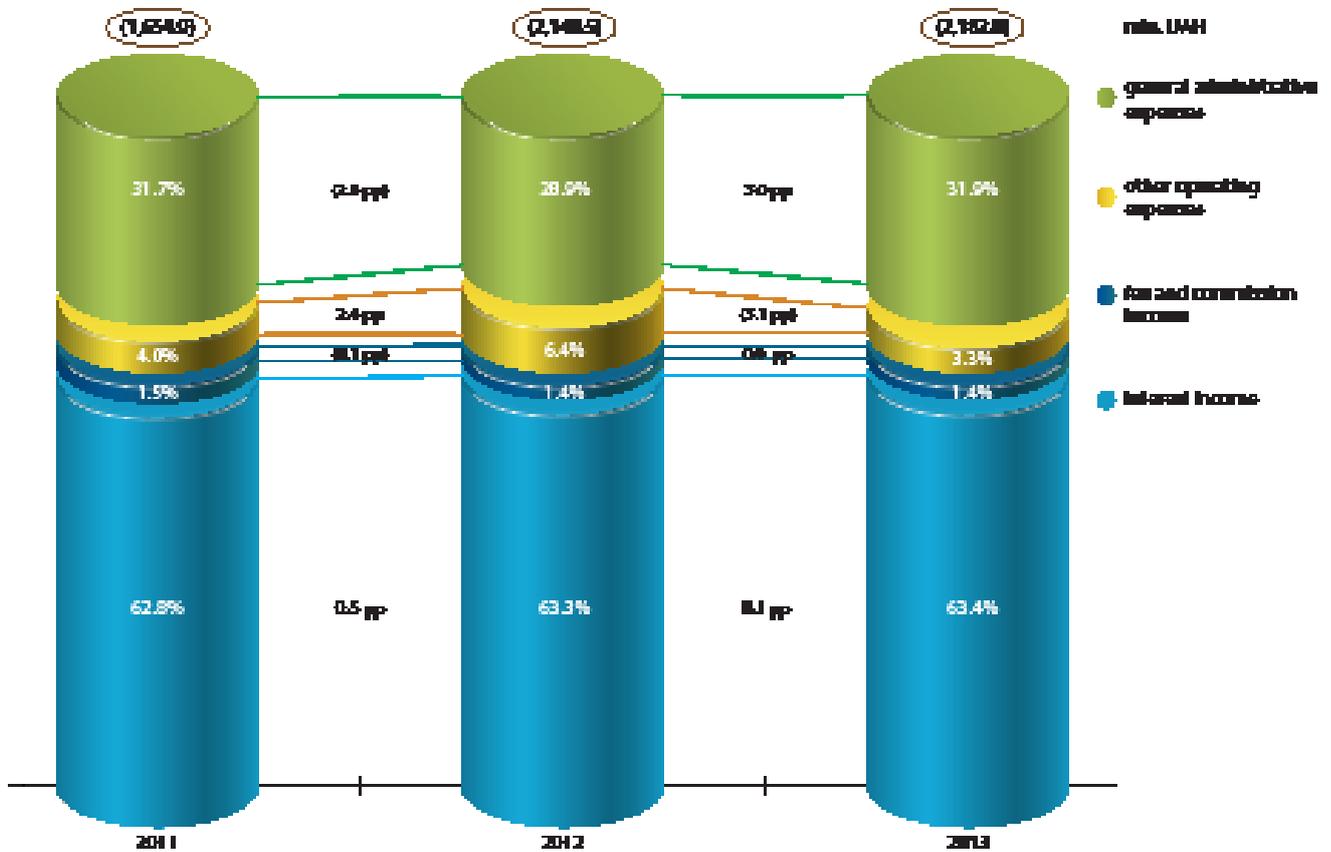
8.3. Expenses

Totally for 2013, Bank spent UAH 2,182.8 mln. excluding provision for losses. Result of allocation to reserves has reduced the total expenses of the Bank by UAH 475.5 mln., up to UAH 1,707.3 mln. for 2013.

Comparing with the last year, Bank's expenses (excluding reserves and taxes) for 2013 have

increased by UAH 32.5 mln. or 1.5%. Structure of expenses is the following: interest expenses – UAH 1,384.0 mln. (63.4%), fee and commission expenses – UAH 30.3 mln. (1.4%), general administrative expenses – UAH 695.9 mln. (31.9%), other operating expenses – UAH 71.8 mln. (3.3%).

Structure of expenses for 2011 – 2013 (excluding reserves and taxes)



The biggest share in the structure of expenses (63.4%) is taken by interest expenses, which amounted to UAH 1,384.0 mln. in 2013 and

increased comparing with the previous year by UAH 22.6 mln. or 1.7%.

Interest expenses of the Bank by transactions

Transactions	2011		2012		2013	
	Amount of expenses, mln. UAH	Share of interest expenses, %	Amount of expenses, mln. UAH	Share of interest expenses, %	Amount of expenses, mln. UAH	Share of interest expenses, %
NBU loans	343.3	33.0	390.3	28.7	359.5	26.0
Transactions with the banks	156.8	15.1	288.0	21.2	97.2	7.0
Transactions with legal entities	93.1	9.0	208.9	15.3	358.3	25.9
Transactions with individuals	432.8	41.6	463.5	34.0	565.4	40.8
Other transactions	13.7	1.3	10.7	0.8	3.6	0.3
Totally	1,039.7	100.0	1,361.4	100.0	1,384.0	100.0

Review of Financial Activities

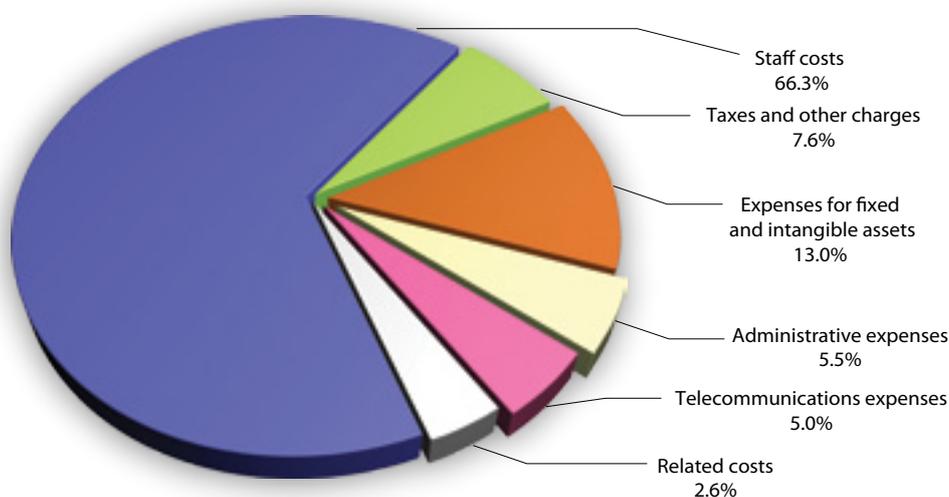
The biggest share of interest expenses is taken by expenses for clients' deposits – 66.7% (UAH 923.7 mln.). Growth of interest expenses on deposits from legal entities comparing with the previous year by UAH 149.4 mln. (71.5%) stipulated by the growth of time deposits balances.

Expenses for individuals deposits increased in 2013 comparing with 2012 by UAH 101.9 mln. (22.0%) due to increase in amount of time deposits and funds on current and card accounts of individuals.

In 2013, interest expenses on transactions with the banks decreased comparing with 2012 by UAH 190.8 mln. (66.2%) due to changes in accounting procedure of SWAP transactions in the banks.

Almost third part of all expenses (31.9%) is taken by general administrative expenses, which in 2013 increased by UAH 75.1 mln. (12.1%) up to UAH 695.9 mln.

Structure of general administrative expenses in 2013



The biggest share in amount of general administrative expenses is taken by staff costs. Comparing with 2012 stated expenses increased by UAH 61.7 mln. or 15.4% stipulated by increase in the number of staff (including recruitment in terms of cooperation with banks – partners for consumer lending, establishment of Bank's own Collection Division), attraction of highly qualified

personnel and improvement of motivation system to contribute to strategic goals of the Bank implementation.

Amount of other items of administrative expenses has increased by UAH 13.4 mln. or 6.1% comparing with 2012, including due to increase of contributions to the Depositors Insurance Fund by UAH 14.8 mln.

“It’s time for us to live for Ukraine”

Ivan Franko, Ukrainian poet,
writer, “It is not time”, 1880



09 Financial Statements

The entire annual financial statement of the JSB “UkrGasbank” for the year that ended on December 31, 2013, prepared in accordance with the requirements of international financial reporting standards can be found here:
http://www.ukrgasbank.com/ukr/about/financial_parameters/auditors_reporting/

STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

(in Ukrainian Hryvnias and in thousands)

	Notes	2013	2012
Assets			
Cash and cash equivalents	7	2,426,242	2,193,984
Precious metals		52,005	60,638
Due from credit institutions	8	587,733	3,175,621
Derivative financial assets	9	143,939	4,404
Loans to customers	10	11,023,596	9,391,132
Investment securities available for sale	11	6,529,494	2,457,682
Investment property	12	13,112	11,370
Property and equipment and intangible assets	13	640,360	607,836
Assets held for sale	14	1,072,907	383,806
Current income tax assets		187	187
Deferred income tax assets	15	93,040	89,642
Other assets	17	28,626	50,824
Total assets		22,611,241	18,427,126
Liabilities			
Due to the National Bank of Ukraine	18	6,306,666	5,508,724
Due to credit institutions	19	2,299,248	1,363,616
Derivative financial liabilities	9	45,806	6,445
Due to customers	20	8,689,539	6,997,772
Current income tax liabilities	15	3,583	-
Provisions for guarantees and commitments	16	1,241	6,072
Other liabilities	17	91,981	81,492
Total liabilities		17,438,064	13,964,121
Equity			
Share capital	21	10,012,835	10,012,835
Acquired title of ownership to shares	21	(337,242)	-
Additional paid-in capital		136,733	136,733
Other reserves	21	191,789	176,721
Accumulated deficit		(4,830,938)	(5,863,284)
Total equity		5,173,177	4,463,005
Total equity and liabilities		22,611,241	18,427,126

Authorized and signed on behalf of the Bank's management by:

Sergii Mamedov

Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

9 April 2014



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Year Ended 31 December 2013

(in Ukrainian Hryvnias and in thousands)

	<i>Notes</i>	2013	2012
Interest income			
Loans to customers		1,753,610	1,614,802
Due from credit institutions		136,108	132,074
Investment securities available for sale		686,541	663,160
		<u>2,576,259</u>	<u>2,410,036</u>
Interest expense			
Due to the National Bank of Ukraine		(359,482)	(390,363)
Due to customers		(924,180)	(672,316)
Due to credit institutions		(76,934)	(63,539)
Debt securities issued		-	(1,372)
Subordinated debt		-	(3,785)
		<u>(1,360,596)</u>	<u>(1,131,375)</u>
Net interest income, before allowance for impairment of loans		1,215,663	1,278,661
Change in allowance for impairment of loans	8, 10	242,739	275,337
Net interest income, after allowance for impairment of loans		<u>1,458,402</u>	<u>1,553,998</u>
Net fee and commission income	23	154,633	112,326
Net gains/(losses) on investment securities available for sale	24	34,363	(18,050)
Net gains/(losses) on foreign exchange operations:			
- dealings		112,072	62,138
- translation differences		(63,693)	(1,582)
Result on operations with derivative financial instruments		24,486	(14,475)
Net gains/(losses) on investment property		1,681	(681)
Other income	25	86,862	13,739
Non-interest income		<u>350,404</u>	<u>153,415</u>
Staff costs	26	(461,681)	(396,084)
Other operating expense	26	(242,174)	(302,858)
Depreciation and amortization	13	(65,108)	(62,916)
Change in allowance for impairment of assets and other provisions	16	(8,996)	52,260
Non-interest expense		<u>(777,959)</u>	<u>(709,598)</u>
Profit before income tax		<u>1,030,847</u>	<u>997,815</u>
Income tax benefit	15	1,490	92,881
Net profit		<u>1,032,337</u>	<u>1,090,696</u>

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Year Ended 31 December 2013

(in Ukrainian Hryvnias and in thousands)

	Notes	2013	(Continued) 2012
Net profit		1,032,337	1,090,696
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Revaluation of property and equipment		-	(25,373)
Income tax related to revaluation of property and equipment		-	9,602
Items that may be reclassified subsequently to profit or loss			
Unrealized losses on investment securities available for sale		(16,930)	(34,907)
Realized gains on investment securities available for sale reclassified to the statement of profit or loss		33,682	77,769
Income tax related to investment securities available for sale		(1,675)	(12,841)
Other comprehensive income, after income tax		15,077	14,250
Total comprehensive income		1,047,414	1,104,946
Weighted average number of shares (in thousands)		10,000,000	10,000,000
Basic and diluted net earnings per share (in UAH)		0.10	0.11

Authorized and signed on behalf of the Bank's management by:

Sergii Mamedov

Chairman of the Management Board

Nataliia Khrustalova

Chief Accountant

9 April 2014



STATEMENT OF CHANGES IN EQUITY

for the Year Ended 31 December 2013

(in Ukrainian Hryvnias and in thousands)

	Notes	Share capital	Acquired title of ownership to shares	Additional paid-in capital	Other reserves	Accumulate deficit	Total equity
As at 31 December 2011		10,012,835	-	136,733	183,051	(6,974,560)	3,358,059
Total comprehensive income for the year		-	-	-	14,250	1,090,696	1,104,946
Other revaluation related adjustments		-	-	-	(20,580)	20,580	-
As at 31 December 2012		<u>10,012,835</u>	<u>-</u>	<u>136,733</u>	<u>176,721</u>	<u>(5,863,284)</u>	<u>4,463,005</u>
Total comprehensive income for the year		-	-	-	15,077	1,032,337	1,047,414
Other movements in treasury shares	21	-	(337,242)	-	-	-	(337,242)
Other revaluation related adjustments		-	-	-	(9)	9	-
As at 31 December 2013		<u>10,012,835</u>	<u>(337,242)</u>	<u>136,733</u>	<u>191,789</u>	<u>(4,830,938)</u>	<u>5,173,177</u>

Authorized and signed on behalf of the Bank's management by:

Sergii Mamedov

Chairman of the Management Board

Natalia Khrustalova

Chief Accountant

9 April 2014

STATEMENT OF CASH FLOWS for the Year Ended 31 December 2013

(in Ukrainian Hryvnias and in thousands)

	Notes	2013	2012
Cash flows from operating activities			
Interest received		2,182,880	2,585,506
Interest paid		(1,357,964)	(1,107,013)
Fees and commissions received		179,652	136,050
Fees and commissions paid		(27,941)	(26,237)
Net result on foreign exchange operations (realized)		112,072	62,136
Result on operations with derivative financial instruments		(85,407)	(29,307)
Other income received		21,221	13,363
Staff costs		(453,819)	(385,467)
Other operating expense		(222,967)	(329,211)
Trading result on investments in securities		35,539	92,711
Cash flows from operating activities before changes in operating assets and liabilities		383,266	1,012,533
<i>Net decrease/(increase) in operating assets</i>			
Precious metals		(19,184)	11,725
Due from credit institutions		2,476,399	(2,862,834)
Loans to customers		(2,128,649)	(476,082)
Other assets		7,695	(15,524)
<i>Net (decrease)/increase in operating liabilities</i>			
Due to credit institutions		954,117	(212,391)
Due to customers		1,668,938	1,421,716
Other liabilities		-	3,614
Recovery of current income tax receivable		-	126
Net cash generated from/(used in) operating activities		3,342,582	(1,117,117)
Cash flows from investing activities			
Acquisition of investment securities		(33,927,118)	(33,280,803)
Proceeds on sale and repayment of investment securities		30,146,093	34,163,126
Acquisition of property and equipment		(100,319)	(12,324)
Proceeds on disposal of property and equipment		3,228	8,030
Proceeds on investment property		2,460	613
Net cash (used in)/generated from investing activities		(3,875,656)	878,642
Cash flows from financing activities			
(Repayment)/proceeds on borrowed funds from credit institutions		(30,747)	109,362
Repayment of subordinated debt		-	(50,000)
Proceeds on borrowed funds from the National Bank of Ukraine		806,854	754,047
Redemption of the bonds issued		-	(20,078)
Net cash generated from financing activities		776,107	793,331
Effect of exchange rate changes on cash and cash equivalents		(10,775)	1,582
Net increase in cash and cash equivalents		232,258	556,436
Cash and cash equivalents, at the beginning of the period	7	2,193,984	1,637,546
Cash and cash equivalents, at the end of the period	7	2,426,242	2,193,984

Authorized and signed on behalf of the Bank's management by:

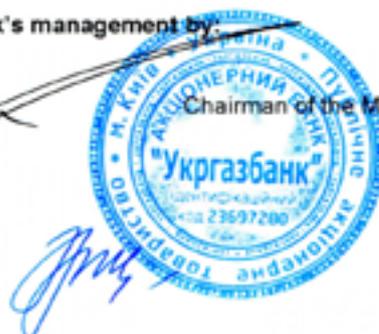
Sergii Mamedov

Chairman of the Management Board

Natalia Khrustalova

Chief Accountant

9 April 2014



“And you thought that Ukraine is so simple. Ukraine is super. Ukraine is exclusive. <...> It is tempered by the highest sort of tempering. It is priceless in the modern world”

Lina Kostenko,
Ukrainian writer, poet, 2010





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