

Audit report
on the annual report
of **OOO UBS Bank**
for 2012

April 2013

Translation of the original Russian version

Translation of the original Russian version

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Independent auditor's report

Translation of the original Russian version

To the sole participant of OOO UBS Bank,
to the Board of Directors of OOO UBS Bank

We have audited the accompanying annual report of OOO UBS Bank which comprises the balance sheet as at 1 January 2013, the statement of income for 2012, statement of cash flows for 2012, statement of capital adequacy, loan impairment and other provisions at 1 January 2013, information on prudential ratios at 1 January 2013, and the explanatory note (sections 1-3, 5.1, 5.3-5.5, 5.8, 6.1, 6.2, 6.4-6.7, 7).

Audited entity's responsibility for the annual report

The management of OOO UBS Bank is responsible for the preparation and fairness of this annual report in accordance with rules on the preparation of an annual report established in the Russian Federation and for the internal control system relevant to the preparation of an annual report that is free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of this annual report based on our audit.

We conducted our audit in accordance with the Federal Standards on Auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the annual report is free from material misstatements.

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

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

Translation of the original Russian version

Opinion

In our opinion, the annual report presents fairly, in all material respects, the financial position of OOO UBS Bank as at 1 January 2013, its financial performance and its cash flows for 2012 in accordance with rules on the preparation of an annual report established in the Russian Federation.

Other matters

As stated in Section 7 of the explanatory note, the Bank management decided not to publish the explanatory note within the annual report in the printed media pursuant to Instructive Regulation of the Central Bank of the Russian Federation No. 2172-U, Concerning the Publication and Disclosure of Information regarding the Operations of Credit Institutions dated 20 January 2009. Please note that this audit report on the accompanying annual report must be read in conjunction with all the reporting forms and the explanatory note, which constitute an integral part of the annual report. The complete annual report comprising all reporting forms together with the explanatory note will be placed on the web page (www.ooo-ubs-bank.com) which the Bank uses for disclosures, once the annual report has been approved by the Bank's Sole Participant.

The accompanying annual report is not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying annual report is not designed for those who are not informed about accounting principles, procedures and practices applied in the Russian Federation. *

E.V. ZAICHKOVA
Partner
Ernst & Young LLC

29 April 2013

Details of the audited entity

Name: OOO UBS Bank
Certificate of State Registration of a Credit Organization No. 3463 issued by the Central Bank of the Russian Federation on 9 March 2006.
Certificate of entry into the Unified State Register of Legal Entities: No. 1067711001863 issued by the Moscow Department of the Federal Tax Service on 9 March 2006.
Address: Russia 115054, Moscow, Paveletskaya square, 2, building 2. 2.

Details of the auditor

Name: Ernst & Young LLC
Main State Registration Number 1027739707203.
Address: Russia 115035, Moscow, Sadovnicheskaya nab., 77, building 1.
Ernst & Young LLC is a member of Non Profit partnership "Russian Audit Chamber" ("NP APR"). Ernst & Young LLC is registered in the register of auditors and audit organizations of NP APR, number 3028, and also included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

Territory code OKATO	Code of credit institution (branch)			
	Main state registration number	Registration number (index number)	BIC	
45286560000	OKPO 94496272	1067711001863	3463	44525733

BALANCE SHEET
(published form)
at 1 January 2013

Credit institution Limited Liability Company UBS Bank
OOO UBS Bank
(corporate full legal and abbreviated name)

Postal address: 115054, Moscow, Paveletskaya pl., 2, bld. 2, floor 11.

OCUD form code 0409806
Quarterly / Annual
RUB thousand

No.	Item	At the reporting date	At the corresponding reporting date of the prior year
1	2	3	4
	I. ASSETS		
1	Cash	361	154
2	Credit institution's balances with the Central Bank of the Russian Federation	130,612	127,164
2.1	Mandatory reserves	69,421	91,839
3	Amounts due from credit institutions	1,088,969	19,077
4	Net investments in securities at fair value through profit or loss	419,532	2,575,697
5	Net loans receivable	7,335,132	2,178,726
6	Net investments in securities and other financial assets available for sale	0	0
6.1	Investments in subsidiaries and associates	0	0
7	Net investments in securities held to maturity	0	0
8	Premises and equipment, intangible assets and inventories	8,076	11,433
9	Other assets	155,911	985,992
10	Total assets	9,138,593	5,898,243
	II. LIABILITIES		
11	Loans, deposits and other amounts due to the Central Bank of the Russian Federation	0	0
12	Amounts due to credit institutions	3,846,074	1,111,440
13	Amounts due to customers (non-credit institutions)	1,120,937	204,809
13.1	Deposits of individuals	12,742	7,524
14	Financial liabilities at fair value through profit or loss	140,748	0
15	Debt issued	0	0
16	Other liabilities	25,807	48,050
17	Provisions for losses under credit-related commitments, other losses and transactions with offshore residents -	0	59
18	Total liabilities	5,133,566	1,364,358
	III. EQUITY		
19	Shareholders' (participants') equity	3,450,000	3,450,000
20	Treasury shares	0	0
21	Share premium	0	0
22	Reserve fund	172,500	62,500
23	Fair value remeasurement of available-for-sale securities	0	0
24	Revaluation of premises and equipment	0	0
25	Retained earnings (uncovered loss) of prior years	911,385	813,957
26	Unutilized profit (loss) for the reporting period	-528,858	207,428
27	Total equity	4,005,027	4,533,885
	IV. OFF-BALANCE SHEET LIABILITIES		
28	Credit institution's irrevocable liabilities	38,938,377	6,126,278
29	Guarantees and sureties issued by credit institution	0	0
30		0	0

CEO
Chief Accountant
Seal
Done by:
Telephone:
26-Apr-13

K. R. Schmid
O. N. Rubashko

I. A. Ralnikov
648-23-48

Territory code OKATO	Code of credit institution (branch)			
	Main state registration number	Registration number (index number)	BIC	
4528560000	OKPO 94496272	1067711001853	3453	44525733

STATEMENT OF INCOME
(published form)
for 2012

Credit institution Limited Liability Company UBS Bank
OOO UBS Bank
(corporate full legal and abbreviated name)

Postal address 115054, Moscow, Paveletskaya pl., 2, bld 2, floor 11.

OCUD form code 0409807
Quarterly / Annual
RUB thousand

No	Item	For the reporting period	For the corresponding period of the prior year
1	2	3	4
1	Total interest income, including income from:	404,469	348,460
1.1	Amounts due from credit organizations	188,544	94,149
1.2	Loans issued to customers (non-credit organizations)	7,661	19,185
1.3	Financial lease services	0	0
1.4	Investments in securities	206,264	235,126
2	Total interest expenses, including expenses on:	96,928	77,129
2.1	Amounts due to credit institutions	90,240	69,722
2.2	Amounts due to customers (non-credit institutions)	608	7,407
2.3	Debt issued	0	0
3	Net interest income (negative interest margin)	305,541	271,331
4	Total change in provision for losses from loans receivable and similar debt, amounts placed on correspondent accounts, including:	37	157
4.1	Change in provision for losses from accrued interest income	0	0
5	Net interest income (negative interest margin) after provision for losses	305,578	271,488
6	Net gains from securities at fair value through profit or loss	-44,673	-43,544
7	Net gains from securities available for sale	0	0
8	Net gains from securities held to maturity	0	0
9	Net gains from dealing in foreign currency	-15,792	-273,109
10	Net gains from foreign currency translation	186,648	310,073
11	Income from equity interests in other legal entities	0	0
12	Fee and commission income	6,599	7,969
13	Fee and commission expenses	33,864	28,115
14	Change in provision for losses from securities available for sale	0	0
15	Change in provision for losses from securities held to maturity	0	0
16	Change in provision for other losses	4	200
17	Other operating income	247,379	903,135
18	Net income (expense)	621,879	1,148,097
19	Operating expenses	1,105,882	687,385
20	Profit (loss) before tax	-484,003	260,712
21	Taxes accrued (paid)	44,855	53,284
22	Profit (loss) after tax	-528,858	207,428
23	Total distributions of profit after tax, including:	0	0
23.1	Distributed among shareholders (participants) as dividends	0	0
23.2	Allocated to reserve fund	0	0
24	Unutilized profit (loss) for the reporting period	-528,858	207,428

CEO
Chief Accountant
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Telephone:
26-Apr-13

K. R. Schmid
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Territory code OKATO	Code of credit institution (branch)			
	OKPO	Main state registration number	Registration number (index number)	BIC
45286560000	94496272	1067711001863	3463	44525733

**STATEMENT OF CAPITAL ADEQUACY,
LOAN IMPAIRMENT AND OTHER PROVISIONS**
(published form)
at 1 January 2013

Credit institution Limited Liability Company UBS Bank
OOO UBS Bank
(corporate full legal and abbreviated name)

Postal address: 115054, Moscow, Paveletskaya pl., 2, bld. 2, floor 11.

OCUD form code 0409808
Quarterly / Annual

No.	Item	At the beginning of the reporting period	Increase (+)/ decrease (-) for the reporting period	At the reporting date
1	2	3	4	5
1	Total equity (capital) (RUB thousand), including:	4,531,345	- 529,675	4,001,670
1.1	Share capital of credit institution, including:	3,450,000	-	3,450,000
1.1.1	Nominal value of registered ordinary shares (units)	3,450,000	-	3,450,000
1.1.2	Nominal value of registered preferred shares	-	-	-
1.2	Treasury shares	-	-	-
1.3	Share premium	-	-	-
1.4	Reserve fund of credit institution	82,500	110,000	172,500
1.5	Financial results taken to equity:	1,018,845	639,675	379,170
1.5.1	prior years	813,957	97,428	911,385
1.5.2	reporting year	204,888	737,103	532,215
1.6	Intangible assets	-	-	-
1.7	Subordinated debt (loan, deposit, bonded loan)	-	-	-
1.8	Sources (part of sources) of equity, to form which investors used inappropriate assets	-	-	-
2	Statutory equity (capital) adequacy ratio, (percent)	10.0	X	10.0
3	Actual equity (capital) adequacy ratio, (percent)	132.3	X	98.7
4	Total actual provisions for losses (RUB thousand), including:	457	- 40	417
4.1	provision for loans receivable and similar debt	-	-	-
4.2	provision for other assets exposed to losses, and other losses	398	19	417
4.3	provision for credit-related commitments recognized on off-balance accounts and for futures transactions	59	- 59	-
4.4	provision for transactions with offshore residents	-	-	-

Section For reference:

1. Accrual (additional accrual) of loss provision for loans receivable and similar debt in the reporting period (RUB thousand), total of _____, including due to:
- 1.1. issue of new loans _____;
 - 1.2. change in loan quality _____;
 - 1.3. changes in the official CBR exchange rate of foreign currency to the ruble _____;
 - 1.4. other reasons _____.
2. Reversal (reduction) of loss provision for loans receivable and similar debt in the reporting period (RUB thousand), total of _____, including due to:
- 2.1. write-off of bad debts _____;
 - 2.2. loan repayment _____;
 - 2.3. change in loan quality _____;
 - 2.4. changes in the official CBR exchange rate of foreign currency to the ruble _____;
 - 2.5. other reasons _____.

CEO
Chief Accountant
Seal
Done by:
Telephone:
26-Apr-13

K. R. Schmid
O. N. Rubashko
I. A. Ratnikov
648-23-48

Territory code OKATO	Code of credit institution (branch)		Main state registration number	Registration number (index number)	BIC
	OKPO				
45286560000	94496272		1067711001863	3463	44525733

INFORMATION ON PRUDENTIAL RATIOS
(published form)
at 1 January 2013

Credit institution Limited Liability Company UBS Bank
OOO UBS Bank
(corporate full legal and abbreviated name)

Postal address: 115054, Moscow, Paveletskaya pl., 2, bld. 2, floor 11

OCUD form code 0409813
Annual
Percent

No	Indicator	Statutory limit	Actual value	
			At the reporting date	At the previous reporting date
1	2	3	4	5
1	Equity (capital) adequacy for bank (N1)	10.0	98.7	132.3
2	Equity (capital) adequacy for non-banking credit institution entitled to transfer funds without opening bank accounts and to perform any other related banking transactions (N1.1)			
3	Instant liquidity ratio (N2)	15.0	101.6	104.0
4	Current liquidity ratio (N3)	50.0	176.9	725.4
5	Long-term liquidity ratio (N4)	120.0	0.0	0.0
6	Maximum risk per borrower or group of related borrowers (N6)	25.0	Maximum 7.1 Minimum 0.0	Maximum 9.1 Minimum 0.2
7	Maximum large credit risk (N7)	800.0	12.0	37.6
8	Maximum amount of loans, bank guarantees and sureties issued by the bank to its participants (shareholders) (N9.1)	50.0	0.0	0.0
9	Aggregate insider risk (N10.1)	3.0	0.0	0.0
10	Share of equity (capital) used to purchase shares (interests) in other legal entities (N12)	25.0	0.0	0.0
11	Ratio of liquid assets maturing within the next 30 calendar days to total liabilities of payment-processing non-banking credit institution (N15)			
12	Equity (capital) adequacy for non-banking credit institution entitled to transfer funds without opening bank accounts and to perform any other related banking transactions (N15.1)			
13	Maximum aggregate loans to customers who are parties to settlements for completing the settlements (N16)			
14	Credits issued to borrowers by payment-processing non-banking credit institution in its name and at its expense excluding customers who are parties to settlements (N16.1)			
15	Minimum ratio of mortgage-backed loans issued to equity (capital) (N17)			
16	Minimum ratio of mortgage value to mortgage-backed bonds (N18)			
17	Maximum ratio of an issuer credit institution's total liabilities to creditors who, according to federal laws, have priority in satisfying their claims on holders of mortgage bonds, to equity (capital) (N19)			%

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Done by:
Telephone:
26-Apr-13

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648-23-48

Territory code OKATO	Code of credit institution (branch)			
	Main state registration number	Registration number (index number)	BIC	
45286560000	OKPO 94496272	1067711001863	3463	44525733

STATEMENT OF CASH FLOWS
(published form)
for 2012
(reporting year)

Credit institution Limited Liability Company UBS Bank
OOO UBS Bank
(corporate full legal and abbreviated name)

Postal address: 115054, Moscow, Paveletskaya pl., 2, bld. 2, floor 11.

OCUD form code 0409814
Quarterly / Annual
RUB thousand

No.	Item	Cash flows for the reporting period	Cash flows for the prior reporting period
1	2	3	4
1	Net cash provided by (used in) operating activities		
1.1	Total cash provided by (used in) operating activities before changes in operating assets and liabilities, including:		
1.1.1	Interest received	658,520	158,839
1.1.2	Interest paid	422,326	355,425
1.1.3	Fees and commissions received	96,719	77,025
1.1.4	Fees and commissions paid	6,589	7,969
1.1.5	Gains less losses from financial assets at fair value through profit or loss, available for sale	33,864	28,115
1.1.6	Gains less losses from securities held to maturity	48,260	53,061
1.1.7	Gains less losses from dealing in foreign currencies	-	-
1.1.8	Other operating income	45,792	273,109
1.1.9	Operating expenses	282,226	831,180
1.1.10	Income tax expense (refund)	1,100,181	882,135
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:	44,855	39,978
1.2.1	Net increase (decrease) in mandatory cash balances with the Central Bank of the Russian Federation	1,773,653	2,348,794
1.2.2	Net increase (decrease) in investments in securities at fair value through profit or loss	22,418	38,641
1.2.3	Net increase (decrease) in loans receivable	2,139,372	835,220
1.2.4	Net increase (decrease) in other assets	5,176,004	763,430
1.2.5	Net increase (decrease) in loans, deposits and other amounts due to the Central Bank of the Russian Federation	762,852	33,123
1.2.6	Net increase (decrease) in amounts due to other credit institutions	-	-
1.2.7	Net increase (decrease) in amounts due to customers (non-credit institutions)	2,972,946	2,685,812
1.2.8	Net increase (decrease) in financial liabilities at fair value through profit or loss	935,810	1,330,369
1.2.9	Net increase (decrease) in debt issued	140,748	-
1.2.10	Net increase (decrease) in other liabilities	-	-
1.3	Total for section 1 (line 1.1 + line 1.2)	24,489	19,227
2	Net cash provided by (used in) investing activities	1,115,133	2,505,633
2.1	Purchase of securities and other financial assets designated as available-for-sale	-	-
2.2	Proceeds from sale and redemption of securities and other financial assets designated as available-for-sale	-	-
2.3	Purchase of securities designated as held-to-maturity	-	-
2.4	Proceeds from redemption of securities designated as held to maturity	-	-
2.5	Purchase of premises and equipment, intangible assets and inventories	2,344	6,581
2.6	Proceeds from sale of premises and equipment, intangible assets and inventories	-	161
2.7	Dividends received	-	-
2.8	Total for section 2 (sum of lines from 2.1 through 2.7)	2,344	6,420
3	Net cash provided by (used in) financing activities		
3.1	Contributions of shareholders (participants) to share capital	-	2,200,000
3.2	Purchase of treasury shares	-	-
3.3	Sale of treasury shares	-	-
3.4	Dividends paid	-	-
3.5	Total for section 3 (sum of lines from 3.1 through 3.4)	-	2,200,000
4	Effect of changes in official CBR exchange rates of foreign currencies to ruble on cash and cash equivalents	13,138	10,737
5	Increase (decrease) in cash and cash equivalents	1,099,851	301,316
5.1	Cash and cash equivalents at the beginning of the reporting year	49,124	350,440
5.2	Cash and cash equivalents at the end of the reporting year	1,148,775	49,124

CEO
Chief Accountant
Seal
Done by:
Telephone:
28-Apr-13

K. R. Schmid
O. N. Rubeshko

I. A. Ratnikov
648-23-48

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Abbreviated corporate name of the credit organization
OOO UBS Bank, Registration No. 3463

Explanatory note to the 2012 annual report of OOO UBS Bank

1. Significant information on the credit institution

OOO UBS Bank (Limited Liability Company) (hereinafter, the "Bank") was established in March 2006 and obtained Banking License No. 3463 from the Central Bank of the Russian Federation on 6 June 2006.

The Bank holds license No. 3463 issued by the Central Bank of the Russian Federation on 4 August 2010 to raise deposits in rubles and foreign currency from individuals.

The Bank holds the following licenses of a professional securities market participant issued by the Federal Financial Markets Service (FFMS of Russia):

- for custody activity - No. 177-12414-000100 dated 30 July 2009 - unlimited;
- for broker activity - No. 177-12405-100000 dated 30 July 2009 - unlimited;
- for dealer activity - No. 177-12408-010000 dated 30 July 2009 – unlimited.

The Bank's activities are regulated by the Central Bank of the Russian Federation (hereinafter, the "CBR").

The Bank's sole founder (participant) is UBS AG, a bank established and operating under the laws of Switzerland. The Bank operates in line with the Participant's requirements, including those that determine its range of operations, fee policy and methodology for assessing risk exposure.

At 1 January 2013 and 1 January 2012, the Bank was a member of the UBS AG banking group, Switzerland.

At 1 January 2013, the Bank had no branch offices. During the reporting period the Bank employed on average 111 staff (2011: 105).

In 2012, the Bank continued providing services to its corporate customers, such as accepting deposits from corporate customers, opening and maintaining accounts, making settlements on behalf of the corporate customers, including correspondent banks.

In 2012, the Bank continued to provide brokerage services to corporate clients, and engaged in transactions on its own behalf and at its own expense. These transactions included foreign exchange, lending and deposit transactions with the CBR and in the interbank market, as well as transactions to purchase and sell corporate and government bonds.

In 2012, the Bank continued developing its investment banking business through an increase in the headcount of the Investment Banking Department and Wealth Management Department. Within this business line the Bank provides M&A, debt restructuring and other consulting services across the capital market.

At 1 January 2013, the total value of the Bank's securities portfolio at fair value through profit or loss equaled RUB 280.8 million (2012: RUB 2,575.7 million).

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Since August 2010, the Bank has been a member of the obligatory individual deposit insurance system applied to individual deposits with Russian banks and is included in the register of the banks participating in this system under registration number 982.

At 1 January 2013 and 1 January 2012, the Bank had no credit ratings of its own.

At 1 January 2013, the composition of the Bank's Board of Directors was as follows:

- - Nicholas Jordan, Chairman of the Board of Directors;
- - Kurt Robert Schmid, Member of the Board of Directors;
- - Piers Maynard, Member of the Board of Directors;
- - Gregg Robins, Member of the Board of Directors.

Members of the Board of Directors hold no interest in the share capital of the Bank.

At 1 January 2012, the composition of the Bank's Board of Directors was as follows:

- - Nicholas Jordan, Chairman of the Board of Directors;
- - Steven Meehan, Member of the Board of Directors;
- - Dutta Ritesh, Member of the Board of Directors;
- - Kurt Robert Schmid, Member of the Board of Directors;
- - Piers Maynard, Member of the Board of Directors;
- - Gregg Robins, Member of the Board of Directors.

In 2012, two members left the Board of Directors.

The sole executive body of the Bank is represented by Kurt Robert Schmid, Chairman of the Executive Board.

The Chairman of the Executive Board holds no interest in the share capital of the Bank.

At 1 January 2013, the Bank's Executive Board was composed as follows:

- - Kurt Robert Schmid, Chairman;
- - Rubashko Oleg Nikolaevich, Chief Accountant;
- - Dufour Natalia Georgievna, Deputy Chairman of the Executive Board.

In 2012, there were no changes in the composition of the Bank's Executive Board.

Translation of the original Russian version

2. Operating environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Bank's financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances.

The existing Russian tax, currency and customs legislation allows for various interpretations and is subject to frequent changes. Additional problems are posed by the imperfect regulatory framework and shortcomings of the legal and fiscal systems.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

The new Russian transfer pricing legislation came into force on 1 January 2012, which allows the tax authority to apply transfer pricing adjustments and impose additional profits tax and VAT liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. Controlled transactions include transactions between related parties and certain transactions with unrelated parties that are considered the same as controlled transactions.

Liability of proof the arm's length nature of the applied prices is imposed on taxpayers. These rules are applicable not only to transactions entered into in 2012 but also in prior fiscal periods where related income and expenses are recognized in 2012 (excluding certain types of transactions). Special transfer pricing rules apply to transactions with securities and financial instruments of futures transactions.

In 2012, the Bank determined its tax liabilities arising from these "controlled" transactions using actual transaction prices. Management believes that the Bank fully complies with transfer pricing rules.

There is currently no approach to consider new transfer pricing rules existing in the Russian Federation.

The Bank will submit to the Russian tax authorities a duly executed report on controlled transactions and prepare relevant transfer pricing documentation related to the controlled transactions within the established timeframes.

At 31 December 2012, the Bank management believes that its interpretation of the relevant tax legislation is appropriate, and that the Bank's tax, currency and customs positions will be sustained, thus allowing to avoid expenses resulting from additional taxes, interest and penalties.

Translation of the original Russian version

3. The Bank's operations having the most effect on its financial performance and information on the Bank's operations in different geographical regions

The most critical transactions for the Bank's 2012 financial result included those performed in the government and corporate securities market and the currency market.

Key expense items affected the financial result included staff costs (2012: RUB 785.9 million, 2011: RUB 605.0 million).

The Bank engaged in transactions in the interbank lending and deposit market primarily to invest in securities.

The majority of interbank market transactions were aimed at raising funds.

In 2012, the Bank's strategic development area was consolidation of efforts in order to provide integrated financial services. The Bank focused on developing new products, and increasing the volume and profitability of its operations.

In 2012, the Bank offered its clients the following bank products:

- settlement services;
- term deposits denominated in rubles and foreign currency;
- conversion transactions;
- currency control;
- advisory services on debt restructuring;
- M&A transactions support;
- trade in bonds;
- swap operations;
- interbank deposit and lending operations in international and domestic markets;
- brokerage services;
- custody services.

In 2012, the Bank's priority projects included:

- Optimizing processes and operational infrastructure. The project is aimed at optimizing and enhancing the Bank's existing automated systems;
- Developing operations with non-deliverable forwards with Russian counterparties/ customers.

4. Information on the Bank's development prospects (unaudited)

The Bank's strategic development area for 2013 will be further consolidation of efforts aimed at the provision of integrated financial services.

The sole Bank's participant (UBS AG) declared on significant acceleration of implementing its global strategy. The implementation of this strategy envisages that UBS AG business will be less intensive in part of use of capital and balance, means increase in cash flow and will be focused on the customers to enhance value for shareholders. In particular, UBS AG as a member of the Investment Bank will focus on traditional types of business such as providing advisory services on the capital markets, analytics, transactions with securities, currency and precious metals and discontinue operations with fixed income, which have become economically inexpedient as a result of change in regulatory environment (Basel III) and movements in the global financial markets.

While the Accelerated strategy is a global UBS AG strategy, the Bank is currently negotiating with its sole participant on refocusing of the Bank's strategy in compliance with the strategy of UBS group. Currently no specific decisions on the Bank's strategy modification have not been made yet. However, in any case any significant change of the Bank's strategy will be reflected in the new version of the Strategic Plan of the Bank.

*

Translation of the original Russian version

5. Significant information on the Bank's financial position

5.1 Summary of risk concentration areas related to various bank transactions

The Bank's key risks include: market risks (equity risk, currency risk, interest rate risk), credit risk, operational risk, liquidity risk, legal, reputational and strategic risks.

The Bank's principal active transactions that ensure its financial result include sales-purchases in the government and corporate securities market, transactions in the interbank lending market and Forex transactions.

Therefore, the credit, market and currency risks are the most relevant for the Bank.

In the course of active transactions the Bank is also exposed to liquidity risk.

Operational risk is the risk of direct or indirect losses as a result of weaknesses in the Bank's internal processes, actions of employees and information systems or due to external events.

The Bank's risk management is based on a comprehensive assessment of all types of risks according to the risk profile, transaction specifics and risk appetite using a uniform and consistent approach for decision-making at all levels of corporate governance.

The Bank's Strategy for Managing Banking Risks determines the principal risk management approaches and areas.

Risks are managed on the basis of internal regulations developed and approved by the Bank.

Traditionally, the Bank follows prudent risk management policies.

The Bank applies a three-tier risk management system.

The Bank's major risk management objectives are as follows: determine and analyze risks (1 level), Assess whether the risk level is acceptable and reasonable, estimate (measure) certain types of risk (2 level), ensure a swift and adequate response aimed at preventing or mitigating the risk (monitoring and control) (3 level).

In order to identify timely potential negative events, the Bank performs a complex of measures along various business lines depending on the type of risk.

To analyze the country risk, the assets and liabilities are classified according to the counterparty's country of incorporation.

The geographical concentration of the Bank's assets and liabilities at 1 January 2013 is set out below:

RUB'000	Russia	CIS	Developed countries	Including Switzerland	Other countries	Total
ASSETS						
Cash	361.0	–	–	–	–	361.0
Credit institution's balances with	130,612.0	–	–	–	–	130,612.0

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the Central Bank of the Russian Federation						
Including mandatory reserves	69,421.0	–	–	–	–	69,421.0
Amounts due from credit institutions	1,746.0	–	1,087,223.0	933,181.0	–	1,088,969.0
Financial assets at fair value through profit or loss	280,829.0	–	138,703.0	138,703.0	–	419,532.0
Net loans receivable	945,132.0	–	6,390,000.0	6,390,000.0	–	7,335,132.0
Net investments in securities and other financial assets available for sale	–	–	–	–	–	–
Net investments in securities held to maturity	–	–	–	–	–	–
Premises and equipment, intangible assets and inventories	8,076.0	–	–	–	–	8,076.0
Other assets	102,007.0	–	53,904.0	51,151.0	–	155,911.0
TOTAL ASSETS	1,468,763.0	–	7,669,830.0	7,513,035.0	–	9,138,593.0
LIABILITIES						
Amounts due to credit institutions	3,846,074.0	–	–	–	–	3,846,074.0
Amounts due to customers	1,060,217.0	–	12,800.0	12,783.0	47,920.0	1,120,937.0
Including deposits of individuals	629.0	–	12,113.0	12,113.0	–	12,742.0
Financial liabilities at fair value through profit or loss	132,906.0	–	7,842.0	7,842.0	–	140,748.0
Other liabilities	25,721.0	–	86.0	82.0	–	25,807.0
Provisions for potential losses under credit-related commitments, other potential losses and transactions with offshore residents	–	–	–	–	–	–
TOTAL LIABILITIES	5,064,918.0	–	20,728.0	20,707.0	47,920.0	5,133,566.0
Credit institution's irrevocable liabilities	20,817,632.0	–	18,120,745.0	18,120,745.0	–	38,938,377.0
Guarantees and sureties issued by credit institution	–	–	–	–	–	–

At 1 January 2013, the Bank's loan portfolio consisted only of interbank loans.

At 1 January 2013, net loans receivable amounted to RUB 7,335,132.0 thousand.

The geographical concentration of the Bank's assets and liabilities at 1 January 2012 is set out below:

RUB'000	Russia	CIS	Developed countries	Including Switzerland	Other countries	Total
ASSETS						
Cash	154.0	–	–	–	–	154.0
Credit institution's balances with the Central Bank of the Russian Federation	127,164.0	–	–	–	–	127,164.0
Including mandatory reserves	91,839.0	–	–	–	–	91,839.0
Amounts due from credit institutions	7,377.0	–	11,700.0	11,366.0	–	19,077.0
Net investments in securities at fair value through profit or loss	2,575,697.0	–	–	–	–	2,575,697.0
Net loans receivable	675,352.0	–	1,503,374.0	1,503,374.0	–	2,178,726.0
Net investments in securities and	–	–	–	–	–	–

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other financial assets available for sale						
Net investments in securities held to maturity	–	–	–	–	–	–
Premises and equipment, intangible assets and inventories	11,433.0	–	–	–	–	11,433.0
Other assets	902,315.0	–	83,677.0	78,996.0	–	985,992.0
TOTAL ASSETS	4,299,491.0	–	1,598,752.0	1,593,736.0	–	5,898,243.0
LIABILITIES						
Amounts due to credit institutions	300,000.0	–	811,440.0	811,440.0	–	1,111,440.0
Amounts due to customers	123,227.0	–	81,582.0	8,622.0	–	204,809.0
Including deposits of individuals	667.0	–	6,857.0	6,857.0	–	7,524.0
Other liabilities	47,579.0	–	471.0	181	–	48,050.0
Provisions for potential losses under credit-related commitments, other potential losses and transactions with offshore residents	59.0	–	–	–	–	59.0
TOTAL LIABILITIES	470,865.0	–	893,493.0	820,243.0	–	1,364,358.0
Credit institution's irrevocable liabilities	4,679,586.0	–	1,446,692.0	1,446,692.0	–	6,126,278.0
Guarantees and sureties issued by credit institution	–	–	–	–	–	–

At 1 January 2012, the Bank's loan portfolio consisted of interbank loans and receivables from Russian resident banks relating to cash provided under reverse transactions with securities without recognition of the acquired securities (repurchase transactions).

At 1 January 2012, net loans receivable amounted to RUB 2,178,726.0 thousand.

5.2 Description of the credit risk, liquidity risk, market risks (including currency, interest rate and equity risks), legal, strategic, operational and reputational risks (unaudited)

Credit risk

The credit risk that the Bank is exposed to primarily arises from interbank lending transactions and placing funds in nostro accounts. When placing idle cash, the Bank follows extremely conservative policies using only the CBR (for Russian rubles) and UBS AG (for foreign currency) as correspondent banks. The Bank places a small amount of cash with NKO NSD for the purpose of making settlements.

The Bank's strategy for lending in the interbank market is to assure strict compliance with limits subject to approval by the Bank's Credit Committee. The Bank has established limits for Alfa-Bank, Bank of Moscow, VTB, Globexbank, NOMOS-Bank, Nordea Bank, Promsvyazbank, Raiffaisenbank, and Transcreditbank which have a high individual credit rating attributed by international rating agencies. Besides, the Bank has set limits for many counterparties under reverse repo agreements and foreign exchange transactions for a period of up to one year. The Bank may not enter into transactions (unless fully prepaid) with counterparties (except for UBS AG) for which no limits have been set. In addition to concentration risks, the Bank limits portfolio risks by monitoring sensitivity of change in aggregate position to interest rates on assets and liabilities.

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In executing transactions involving securities, the Bank does not invest in equity securities making investments in debt securities only on the basis of a very careful issuer selection procedure and aiming at a reasonable risk-return tradeoff within the entire portfolio and its segments. Tools used for the day-to-day management of portfolio structure include limits on nominal value and those in the form of Credit Delta factor. The latter shows a maximum change in the market value of a portfolio resulting from change in the market value of the issuer's portfolio securities, by 1 basis point. Thus, application of the Credit Delta factor helps include in the portfolio only low volatility securities, and makes portfolio movement predictable. In addition, even given low volatility of the portfolio, its aggregate nominal limit should not exceed USD 150 million. The maximum Credit Delta factor for the entire portfolio is capped at USD 30 thousand; further within the portfolio cap, the Bank sets individual Credit Delta factor limits per category of issuers (sovereign, quasi-sovereign and corporate) to avoid excessive concentration of investment in debt instruments of one category of issuers (these limits, in turn, can be further capped by risk levels per borrower or a group of related borrowers set by the CBR).

The Bank enters into conversion and foreign currency transactions mostly at CJSC JSCB National Clearing Centre and with UBS AG. Transactions with other counterparties are strictly subject to the availability and scope of the appropriate limit. The Bank does not accept currency risk from foreign currencies other than the US dollar and Euro – all conversion transactions in other currencies are hedged via UBS AG. The Bank limits aggregate currency risks by monitoring sensitivity to change in the currency position from volatility of currency pairs underlying assets and liabilities.

Since at 1 January 2013 all loans receivable and similar debt was included in risk group 1, this debt was not provided for.

In 2012, the Bank made a provision for potential losses on other assets, amounting to RUB 417.0 thousand (2011: RUB 457.00 thousand, including RUB 59.0 thousand – for potential losses under forward transactions).

In 2012, the Bank made a provision for potential losses on funds placed on correspondent accounts with Citibank included in risk group 2 amounting to RUB 17.6 thousand (2011: RUB 54.9 thousand).

Since there were no claims against off-shore residents at 1 January 2013 and 1 January 2012, no corresponding provisions were created in relation thereto.

Market risk

Market risk is the risk of financial loss which the Bank may suffer due to unfavorable changes in the value of financial instruments as a result of equity, currency or interest rate risk factors.

The Bank's market risk management system allows the Bank to identify, measure and control the risk exposure on a timely basis.

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For every financial instrument exposed to market risk, the Bank calculates its sensitivity to changes in the general market risk factors, e.g., the sensitivity of debt securities to interest rate changes or sensitivity of share options to changes in the stock index. A risk factor is determined as a market variable the movement of which can result in a gain or loss on a financial instrument.

To manage and control the market risk and to estimate for internal purposes hypothetical potential losses, the Bank discloses details of possible financial loss calculated using the Value-at-Risk (VaR) model. For the purpose of internal control, the Bank additionally uses the worst scenarios data or stress-testing, risk concentration analysis, monitoring of qualitative and quantitative parameters.

VaR and stress-testing methods of assessing the market risk to which the securities portfolio is exposed are supplemented by an analysis of risk concentration and additional limits. Where standard limits do not meet the portfolio risk control criteria, the Bank sets limits on the level of risk exposure and for the purposes of regulating specific risks.

The Bank's Risk Management Committee may establish additional limits on specific securities portfolios, portfolio segments, classes of assets and financial products.

The Risk Management Committee may also limit the risk exposure with regard to sovereign states. No limit is established for Russia.

The Risk Management Committee may set and change risk exposure limits following a change in market conditions, including a deterioration of the market's liquidity.

All measures related to measuring and monitoring market risk exposures and controlling compliance with established risk limits are performed by Bank divisions structurally independent from front office units which are engaged in operations involving the acceptance of risk exposure.

Such segregation of authority to accept risk exposure and assess risks between the Bank's units is aimed at avoiding potential conflicts of interest and is in line with existing international practices.

Operational risk

Operational risk is the risk of loss resulting from inconsistency of rules and procedures of banking and other transactions to the nature and scope of the Bank's operations, breach of the same by the Bank's employees and/or other persons (through inadvertent or deliberate action or omission to act), inadequacy (insufficiency) of functionalities (specifications) of information, technology or other systems used by the Bank and/or failures (malfunctioning) thereof, including due to external events.

The source of operational risk is the Bank's operating activity (business processes, procedures (including management procedures), technologies and systems, including data processing systems, internal control systems and procedures), personnel and external processes and events which can result in the operational risk being realized.

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Key operational risk management principles are determined in the Bank's internal regulations.

To prevent increased exposure, the Bank monitors operational risks on a regular basis. Monitoring consists in reviewing the operational risk parameters determined for the Bank's business units.

For the purpose of effectively managing operational risks, the Bank

- ensures that its capital adequacy level is in compliance with the requirements of regulatory authorities with regard to operational risks;
- where possible, insures potential losses from operational risks which are either beyond the Bank's control or which can result in losses critical for the Bank.

The Bank developed and approved the following internal regulations intended to prevent operational risks and reduce potential financial losses:

- job descriptions of the Bank's employees
- internal regulations, methods, rules and procedures of banking operations and other transactions;
- regulation on confidentiality;
- organizational structure of the Bank, segregation and delegation of authority, functional duties, interaction procedure between departments;
- other documents aimed at preventing operational risks.

The Bank performs self-assessment of its operational risk management through reviews conducted by its internal control function.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Bank's Sole Participant endeavors to arrange access to diversified funding sources. The management of the Bank manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis.

With the support of the Sole Participant the Bank is currently managing the liquidity risk by complying with the liquidity ratios established by the CBR.

The Current Liquidity Ratio (N3) is calculated in real time. On a daily basis, the Bank maintains established ratios of assets to liabilities of a certain degree of liquidity (based on contractual maturities). The Risk Control Department is responsible for implementing this method.

To increase the level of its autonomy in planning liquidity, the Bank is developing and introducing a method of calculating balance sheet liquidity gaps with a breakdown by standard time intervals and currencies, determining liquidity gaps for these parameters when liabilities related to delivering liquid funds exceed assets, and calculating the replacement value of such funds based on a penalty interest rate which represents the credit spread above the risk-free rate of return curve multiplied by the respective interval size.

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Strategically the Bank plans to implement a quantitative approach to managing its liquidity risk. The approach will be also based on assessing the changes in the cost of funding liquidity gaps by estimating the liquidity gap sensitivity to changes in the interest rate in different currencies and with different maturities subject to a given confidence level and a certain time interval. To achieve the objective, the Bank plans in the future to introduce a method of calculating balance sheet liquidity gaps with a breakdown by standard time intervals and different currencies, determining liquidity gaps for these parameters when liabilities related to delivering liquid funds exceed assets, and calculating the replacement value of such funds based on a penalty interest rate which represents the credit spread above the risk-free rate of return curve multiplied by the respective interval size.

The Bank's Risk Management Committee may act and decide on managing and controlling the liquidity risk.

As a result of its balanced approach to managing liquidity, the Bank is able to meet its obligations in full at any given moment and to comply with all liquidity ratios established by the CBR.

At 1 January 2013, the Instant Liquidity Ratio (N2) was 101.6% (1 January 2012: 104.0%), and the Current Liquidity Ratio (N3) was 176.9% (at 1 January 2012: 725.4%).

Legal risk and reputational risk

Legal risk is a risk of losses which the Bank may incur due to unfavorable changes in the legislation, incorrectly prepared documents, non-compliance with laws, regulations, and contractual provisions, misleading legal advice provided to the bank.

The main purpose of legal risk management is to ensure adoption of appropriate managerial decisions regarding a specific business line which would mitigate the Bank's legal risk exposure in general.

The Bank manages legal risk by identifying and assessing the legal risk, monitoring the effective legislation, controlling and/or mitigating the legal risk.

To determine the legal risk level, the Bank assesses:

- - significant changes to effective laws and regulations;
- - status of contractual relations with principal counterparties;
- - the number of complaints and claims lodged against the Bank;
- - the contents of the complaints and claims, contested amounts and potential sanctions;
- - the volume and value of cash settlements made by the Bank pursuant to court resolutions (rulings);
- - cases of law infringement by the Bank;
- - measures applied to the Bank by regulatory and supervisory authorities;
- - other events which according to the Legal Department can affect the level of legal risk.

The Bank's Legal Department ensures that the Bank complies with the legislation of the Russian Federation.

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The Bank applies the following methods to mitigate its reputational risk:

- - continuously monitors compliance with Russian legislation, including laws on bank secrecy and internal controls aimed at preventing money laundering and financing terrorism;
- - analyzes the impact of reputational risk factors on the Bank's activity in general;
- - ensures timely settlements upon instructions of the Bank's customers and counterparties, pays out deposits, interest on deposits and performs settlements on other transactions;
- - monitors the business reputation of the Bank's Sole Participant and affiliates;
- - controls the fairness of the financial statements and other published information provided to the Sole Participant, customers and counterparties, regulatory and supervisory authorities and other stakeholders, including information provided for advertising purposes;
- continuously monitors changes in the Russian legislation and regulations issued by Russian government bodies;
- - ensures that employees of the Bank constantly improve their skills and qualifications;
- - introduces control procedures required for international financial institutions, including those provided for by the Sarbanes-Oxley Act;
- - informs all Bank employees of compulsory legislative requirements and international business regulations and standards by means of annual obligatory performance assessment procedures in the form of online express training and testing courses;
- - analyzes third-party complaints and claims to the Bank by content and amount (number of claims, contested amounts, possibility of sanctions being applied by third parties under such claims).

The reputational risk is identified and assessed on a continuous basis.

The Bank's Compliance Department as well as engaged third parties and experts from the UBS Group continuously monitor the business reputation of the Bank, its Sole Participant, affiliates, subsidiaries and related parties.

Strategic risk

Strategic risk is a risk of losses which the Bank may incur as a result of mistakes in making decisions crucial for the Bank's activities, namely in terms of: market positioning, determining the Bank's competitive strengths and weaknesses, choosing priority areas of activity, determining development strategies for business lines and the Bank in general, selecting key performance indicators and target levels to be achieved.

To mitigate the risk, until the forth quarter of 2012 the Bank relied on its Strategic Development Plan covering the period until the end of 2012 -2015. The Bank's Strategic Development Plan is currently being revised due to the decision of the sole participant to change global development strategies, including in the emerging markets.

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Generally, the strategic plan covers a three-year period. It can be adjusted depending on the economic situation, priorities and objectives, as well as other factors. The Board of Directors reviews the report on the status of the Strategic Plan implementation at least annually.

The above documents are approved according to the adopted procedure, and the Bank relies on them in its activities.

Strategic risk can arise due to:

- mistakes in making decisions determining the Bank's operational and development strategy;
- incorrect determination of priority areas where the Bank can achieve competitive advantages;
- absence of managerial decisions that could contribute to achieving the Bank's strategic goals;
- insufficient resources, including financial, material and human, to achieve the Bank's strategic goals.

The Bank has set up a special working group in charge of developing and monitoring implementation of the Bank's strategic and current business plans.

The Bank engages highly qualified employees in the strategic planning process.

To mitigate the strategic risk, the Bank:

- segregates the decision-making authority of its management bodies;
- controls that the adopted decisions are carried out;
- standardizes its main banking operations and transactions;
- establishes internal procedures for approving changes to internal documents and decision-making processes;
- performs SWOT-analysis;
- develops and controls the implementation of strategic business plans;
- continuously monitors changes in the Russian legislation and effective regulations in order to identify and prevent strategic risks;
- monitors the banking services market in order to identify potential new areas of activity for the Bank and to set new strategic objectives;
- monitors resources, including financial, material and human, required to achieve the Bank's strategic objectives, ensures that employees of the Bank constantly improve their skills and qualifications in order to identify and prevent strategic risks.

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5.3 Information on the credit institution's related party transactions

Transactions with Bank's related parties as of 1 January 2013 are disclosed below:

RUB'000	Parent company	Key management personnel	Other related parties
Amounts due from credit institutions	933,181	–	–
Other assets	46,831	2	331
Net loans receivable	6,390,000.0	–	–
of which overdue	–	–	–
Amounts due to non-credit organizations	–	12,113.0	1,103,398.0
Other liabilities	–	82	–
Credit institution's irrevocable liabilities	18,120,745.0	–	1,147,778.0

Transactions with related parties are made at standard, arm's length, terms.

Income and expense items with related parties for 2012 are disclosed below:

RUB'000	Parent company	Key management personnel	Other related parties
Interest income	155,294.0	–	–
Interest expenses	4,626.0	614.0	74.0
including interest on loans from customers (non-credit institutions)	–	614.0	74.0
Net gains from dealing in foreign currency	- 1,010,563.0	–	72,095.0
Other operating income	206,189.9	–	–

Transactions with Bank's related parties as of 1 January 2012 are disclosed below:

RUB'000	Parent company	Key management personnel	Other related parties
Net loans receivable	1,503,374.0	–	–
of which overdue	–	–	–
Amounts due to customers (non-credit organizations)	–	6,857.1	192,077.9

Transactions with related parties are made at standard, arm's length, terms.

Income and expense items with related parties for 2011 are disclosed below:

RUB'000	Parent company	Key management personnel	Other related parties
Interest income	4,414.0	–	–
Interest expenses	31,716.0	100.0	125.0
including interest on loans from customers (non-credit institutions)	–	100.0	125.0
Net gains from dealing in foreign currency	- 948,042.4	–	171,062.8
Other operating income	817,855.0	–	–

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5.4 Summary of off-balance sheet liabilities of the credit institution

The Bank had no credit-related contingencies as of 1 January 2013.

The Bank had no term transactions that did not require delivery of the underlying asset (non-deliverable transactions) as of 1 January 2012 and 1 January 2013.

Due to entry into force of Regulation of the CBR No. 372-P Concerning the accounting treatment of derivative financial instruments since 1 January 2012, the Bank recognized in the accounting policies the criteria for transaction recognition as derivative financial instruments.

Derivative financial instruments are agreements (transactions) entered into by the Bank in its own name and at its expense in accordance with the foreign law, international treaty rules or normal business practices and recognized pursuant to this regulation related to derivative financial instruments.

Other agreements (deals) with foreign currency, precious metals, securities ("financial assets") not qualifying as derivative financial instruments, where the settlement and delivery dates differ from the date of signing the agreement (deal) for accounting purposes are recognized as term transactions.

Since 2012 the statutory accounting treatment for dealing with derivative financial instruments (Instructive Regulation of the CBR No. 2654-U dated 4 July 2011) and recording of these instruments and term transactions in Form 0409155 "Information on credit-related contingencies, term transactions and derivative financial instruments" (Instructive Regulation of the CBR No. 2742-U dated 9 December 2011) has been changed. *

Derivative financial instruments that require delivery of the underlying asset as of 1 January 2013 is disclosed below:

RUB'000	Fair value of derivative financial asset	Fair value of derivative financial liability	Asset	Liability	Unrealized foreign exchange gains	Unrealized foreign exchange losses	Provision for losses
Forward contract	4,478.8	8,279.9	3,606,447.0	3,612,766.0	3,040.0	9,355.0	–
Swap contract	134,291.1	132,467.7	19,695,750.0	19,719,728.0	190,963.0	214,941.0	–

Term transactions that require delivery of the underlying asset as of 1 January 2012 are disclosed below:

RUB'000	Asset	Liability	Unrealized foreign exchange gains	Unrealized foreign exchange losses	Provision for losses
Forward contract	116,247.0	116,233.0	651.0	637.0	–
Swap contract	2,995,539.0	3,005,762.0	40,251.0	50,474.0	59.0

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5.5 Legal proceedings

At 1 January 2013 and 2012, the Bank was not involved in any legal proceedings.

5.6 Dividend payments (distribution of net profit) expected based on the results of the reporting year (unaudited)

The proposed agenda of the meeting of the Board of Directors that will be held following approval of these financial statements includes losses coverage from retained earnings of prior years.

The Bank's charter provides for a reserve of not less than 5% of the Bank's share capital. In 2012, the Bank allocated RUB 110.0 million to the reserve fund.

At 1 January 2013, the reserve fund amounts to RUB 172.5 million (at 1 January 2012: RUB 62.5 million).

5.7 Discontinued operations (unaudited)

In 2012 and 2011, the Bank did not discontinue any of its operations.

5.8 Summary of payments to key management personnel of the credit institution

Payments to key management personnel of the Bank as of 1 January 2013 are disclosed below:

- Short-term compensation to members of the Board of Directors and Executive Board, divisional heads - RUB 288,684.7 thousand.

Payments to key management personnel of the Bank as of 1 January 2012 are disclosed below:

- Short-term compensation to members of the Board of Directors and Executive Board, divisional heads - RUB 207,771.0 thousand.

Management personnel did not receive any long-term compensation.

At 1 January 2013, the Bank employed 105 staff (1 January 2012: 110). At 1 January 2013, the Bank employed 15 key management personnel (1 January 2012: 15).

Payments to key management personnel were made pursuant to the internal Regulation of OOO UBS Bank on Payroll and Other Incentive Payments.

In 2012, no changes were made to the procedure and terms of payments to key management personnel.

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6. Significant information on valuation techniques and significant items of financial statements

6.1 Principles and methods of measuring and recognizing individual balance sheet items

The Bank measures the balance sheet items listed below using the following principles and methods:

a) Cash

The Bank performed transactions with cash and accounted for them in accordance with legislation of the Russian Federation and statutory acts of the Bank of Russia governing the general usage of cash, performance of cash transactions in rubles, foreign currency purchase and sale transactions performed by legal entities and individuals, rules of cash shipment and storage, and rules governing checking paying capacity of damaged banknotes and coins and their replacement procedure.

b) Mandatory reserves

The Bank accounted for adjustments to contributions to mandatory reserves with the Bank of Russia on a monthly basis based on calculations performed in accordance with Statute of the Bank of Russia No. 342-P dated 7 August 2009 Concerning Mandatory Reserves of Credit Institutions.

c) Amounts due from credit institutions

The Bank accounted for balances on correspondent accounts with in other banks to the extent of actually available amounts as of the close of Bank's business day.

d) Net loans receivable

Loans receivable and similar debt were accounted for pursuant to Statute of the Bank of Russia No. 54-P dated 31 August 1998 Concerning the Procedure for the Provision (Investment) of Monetary Resources by Credit Organizations and for the Repayment (Settlement) Thereof.

Loans are provided for pursuant to Statute of the Bank of Russia No. 254-P dated 26 March 2004 Concerning the Procedure of Creating Provisions for Losses on Loans Receivable and Similar Debt.

e) Net investments in securities at fair value through profit or loss

Investments in trading portfolio securities are recorded at fair value as of 1 January 2013. All securities 'at fair value through profit or loss', whose present (fair) value can be determined from their quoted market prices, are measured (remeasured) at present (fair) value on a daily basis. The Bank uses the weighted average price or market price (subject to their availability with the trade organizer) for the last 30 days as the present (fair) value (or any other market price used for remeasurement purposes).

f) Interest receivable and Interest payable

Interest on transactions for depositing and placing monetary funds was accrued pursuant to Statute of the Bank of Russia No. 39-P dated 26 June 1998 Concerning Accrual of Interest on Transactions for Depositing and Placing Monetary Funds by Banks. Interest accrued on deposited (placed) monetary funds was allocated to revenues (expenses) on the accrual basis.

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g) Provisions for losses

The Bank accrued and accounted for provisions for losses on amounts due from other banks, other assets, off-balance sheet liabilities, settlements with off-shore debtors, term transactions, etc., pursuant to Statute of the Bank of Russia No. 283-P dated 26 March 2006 Concerning the Procedure of Creating Provisions for Losses and Instructive Regulation of the Bank of Russia No. 1584-U date 22 June 2005.

h) Premises and equipment, intangible assets and inventories

Premises and equipment are recognized in the accounting records and financial statements at cost, i.e. the actual cost of acquisition, construction and production. Premises and equipment are depreciated monthly using a straight-line method based on the historical cost of the asset and the rate of depreciation determined based on this asset's useful life, pursuant to Decree of the Government of the Russian Federation No. 1 dated 1 January 2002 (for premises and equipment recorded after 1 January 2003).

Costs to repair premises and equipment are expensed as incurred.

Inventories are recognized in the accounting records and financial statements at actual cost. Actual cost of inventories is determined based on the cost of acquisition, including extra (additional) fees charged by suppliers, customs duties, transportation expenses. The cost of inventories is expensed as a lump sum.

i) Accounting for foreign currency revaluation results

Assets and liabilities denominated in foreign currencies are recognized in Russian rubles at the respective official exchange rates. In accordance with the Bank's accounting policies, foreign exchange gains and losses are recognized on a daily basis.

j) Accounting for term transactions

Assets and liabilities related to terms with mismatching maturities are recognized on separate Tier 2 accounts. Such accounts are selected subject to the period from the date of the transaction to the date of maturity of respective asset or liability.

k) Accounting for derivative financial instruments

Derivative financial instruments were accounted for in accordance with Statute of CBR No. 372-P dated 4 July 2011.

From the date of initial recognition, derivative financial instruments were measured and recorded at fair value.

The fair value of derivative financial instruments transacted by the Bank is measured according to the procedure established in a respective internal document. The Bank determines the fair value of a derivative financial instrument based on information from a market which is active for such instrument, being a market where transactions with such derivative financial instruments are performed regularly and the information about current prices is publicly available.

The Accounting Policies determine the characteristics of the market deemed to be active for the derivative financial instruments transacted by the Bank.

Where the market for the derivative financial instrument is inactive, the Bank estimates the fair value of a derivative financial instrument pursuant to p. 4.4. of the Procedure approved by Order No. 10-67/pz-n of the FFMS of Russia dated 9 November 2011.

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The fair value of a derivative financial instrument is measured and its movement is recorded as at the last calendar day of the month, at the intra-month reporting date, at the date the derivative financial instrument is derecognized, and at the contractual maturity dates of assets and (or) liabilities arising from interim payments on the derivative financial instrument performed during the term of the contract in settlement of contractual obligations.

l) Accounting for income and expenses

In 2012, income and expenses were recognized in the accounting records and financial statements using the accrual method, i.e. when earned and incurred and not when cash (cash equivalents) was received or paid. The financial result is calculated not later than the date of the annual report.

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6.2 List of significant changes made to the Bank's accounting policy that affect the comparability of individual performance indicators of the Bank

The Bank did not make any significant changes to its accounting policy in 2012 that affect the comparability of its individual performance indicators.

6.3 Summary of the inventory count of balance sheet items (unaudited)

The Bank performed inventory count of balance sheet items. No discrepancies, deficiencies or surpluses were revealed in the course of the inventory count of balance sheet and off-balance sheet cash and inventory accounts, balances of assets and liabilities arising from banking operations, including assets and liabilities arising from term transactions, and cash revision as of 1 January 2013.

At 1 December 2012, the Bank performed inventory count of premises and equipment. The inventory count revealed no differences between their actual amounts and accounting records.

At 1 January 2013, the carrying value of the Bank's premises and equipment was RUB 35.2 million (1 January 2012: RUB 32.9 million).

At 1 January 2013, the net carrying value of the Bank's premises and equipment (net of accumulated amortization) was RUB 8.1 million (1 January 2012: RUB 11.4 million).

At 1 January 2013, the Bank performed inventory count of deposits and other amounts payable, loans received, loans issued to banks and credit institutions and other placements, provisions for losses and investments in securities held by the Bank. The inventory count of all the above items revealed no differences between their actual amounts and accounting records.

At the end of the reporting year, the Bank issued to its customers, including credit institutions, statements confirming balances on settlement, current and correspondent accounts as at 1 January 2013 opened in Russian rubles or foreign currencies.

In addition, the Bank sent to its customers written requests to confirm balances of loans and deposits and balances of assets and liabilities arising from term transactions.

6.4 Accounts receivable and accounts payable

At 1 January 2013, the accounts receivable totaled RUB 11.0 million (1 January 2012: RUB 9.2 million).

At 1 January 2013, the accounts payable totaled RUB 1.3 million (1 January 2012: RUB 7.0 million).

At 1 January 2013, overdue accounts receivable amounted to RUB 340.0 thousand. Provision for possible loss created by the Bank amounts to RUB 391.0 thousand.

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Aging analysis of accounts receivable overdue as at 1 January 2013 is as follows (RUB):
over 180 days—RUB 340.0 thousand.

At 1 January 2012, overdue accounts receivable amounted to RUB 340 thousand. Provision for possible loss created by the Bank amounts to 100%.

Aging analysis of accounts receivable overdue as at 1 January 2012 is as follows (RUB):
over 180 days—RUB 330.0 thousand
from 31 to 90 days—RUB 10.0 thousand

6.5 Disclosure of adjusting subsequent events

As a part of the activities to harmonize its accounting records with CBR Statute No. 302-P Concerning the Rules for Maintaining Accounting Records in Credit Institutions of the Russian Federation dated 26 March 2007 and pursue respective CBR guidelines set out in Instructive Regulation No. 2089-U dated 8 October 2008, the Bank included in Subsequent Events in correspondence with account 707 Prior Year Financial Result amounts of income and expenses from banking operations and other transactions, operating income and expenses, and other income and expenses, which were not actually received or paid and for which the date of recognition, including the date of acceptance of work (provision of services), refers to the period before 1 January 2013 (accounts 47423, 47425, 60301, 60302, 60308, 60309, 60311 and 60313).

The Bank's financial result for 2012, exclusive of entries to record events that occurred after the balance sheet date, amounted to RUB -526,311,847.6.

Pursuant to Clause 3.2.2 of CBR Instructive Regulation No. 2089-U dated 8 October 2008, the consolidated schedule of turnovers related to subsequent events included entries to transfer balances from accounts 706 Current Year Financial Result to accounts 707 Prior Year Financial Result.

Pursuant to Clause 3.2.4 of CBR Instructive Regulation No. 2089-U dated 8 October 2008, the consolidated schedule of turnovers related to subsequent events included entries to transfer balances from accounts 707 Prior Year Financial Result to accounts 708 Prior Year Profit (Loss).

According to the consolidated schedule of subsequent events balances, the closing balance of account 70802 Loss amounted to RUB 528,857,840.7.

For comparison, the Bank's financial result for 2011, inclusive of income tax and exclusive of entries to record events that occurred after the balance sheet date, amounted to RUB 228,992,457.7.

According to the consolidated schedule of subsequent events balances, the closing balance of account 70801 Profit amounted to RUB 207,428,331.8.

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6.6 Disclosure of non-adjusting subsequent events that materially affect the amounts of assets and liabilities

In March 2013, the Bank paid year-end bonuses for 2012 to its employees in the amount of RUB 153,817,070.0 million (including personal income taxes and excluding payroll taxes). 2011 year-end bonuses of RUB 246.9 million (inclusive of personal income tax) were paid in February-March 2012.

6.7 Information about instances whereby a particular accounting rule has not been followed owing to the fact that it would not provide a reliable reflection of the credit institution's financial position and operating results

In 2012, there were no instances whereby a particular accounting rule has not been followed owing to the fact that it would not provide a reliable reflection of the Bank's financial position and operating results.

6.8 Amendments to the Accounting Policies introduced from 2013 (unaudited)

No material amendments were introduced to the Accounting Policies of the Bank for 2013.

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7. Publishing of the explanatory note

Pursuant to CBR Instructive Regulation No. 2172-U , Concerning the Publication and Provision of Information regarding the Operation of Credit Institutions and Banking (Consolidated) Groups, dated 20 January 2009, a credit institution shall use discretion in making a decision whether and how the explanatory note to the annual report should be published. As of the date of the annual report, the Bank's management decided not to publish in the printed media this explanatory note which constitutes a part of the annual report. However, the complete annual report comprising all reporting forms together with the explanatory note will be placed on the web page (www.ooo-ubs-bank.com) which the Bank uses for disclosures, once the annual report has been approved by the Bank's Sole Participant.

Chairman of the Executive Board

K. R. Schmid

Seal

Chief Accountant

O. N. Rubashko