

ООО UBS Bank

Audit report
on the Annual report for 2011

April 2012

Translation of the original Russian version

Audit report - OOO UBS Bank

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 UBS Bank

Details of the audited entity

Full name: Limited Liability Company UBS Bank

Abbreviated name: OOO UBS Bank

Address: Russia 115054, Moscow, Paveletskaya square, 2, building 2.

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 Uniform State Register of Legal Entities: No. 1067711001863 issued by the Moscow Department of the Federal Tax Service on 9 March 2006.

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 10201117420.

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We have audited the accompanying annual report of OOO UBS Bank which comprises the balance sheet as at 1 January 2012, the statement of income for 2011, statement of cash flows for 2011, statement of capital adequacy, loan impairment and other provisions at 1 January 2012, information on prudential ratios at 1 January 2012, 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 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.

Opinion

In our opinion, the annual report presents fairly, in all material respects, the financial position of OOO UBS Bank as at 1 January 2012, its financial performance and its cash flows for 2011 in accordance with rules on the preparation of an annual report established in the Russian Federation.

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Other matters

As stated in Section 7 of the explanatory note, the Bank's 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 and Banking (Consolidated) Groups", 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 methods applied in the Russian Federation.

G.A. SHININ
Partner
Ernst & Young LLC

25 April 2012

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Bank reporting forms

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

BALANCE SHEET (published form) at 1 January 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 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	154	0
2	Credit institution's balances with the Central Bank of the Russian Federation	127 164	456 206
2,1	Mandatory reserves	91 839	128 480
3	Amounts due from credit institutions	19 077	43 744
4	Net investments in securities at fair value through profit or loss	2 575 697	3 408 018
5	Net loans receivable	2 178 726	2 930 523
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	11 433	10 102
9	Other assets	985 992	909 302
10	Total assets	5 898 243	7 757 895
	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	1 111 440	4 129 779
13	Amounts due to customers (non-credit institutions)	204 809	1 437 582
13,1	Deposits of individuals	7 524	0
14	Financial liabilities at fair value through profit or loss	0	0
15	Debt issued	0	0
16	Other liabilities	48 050	63 809
17	Provisions for losses under credit-related commitments, other losses and transactions with offshore residents	59	268
18	Total liabilities	1 364 358	5 631 438
	III. EQUITY		
19	Shareholders' (participants') equity	3 450 000	1 250 000
20	Treasury shares	0	0
21	Share premium	0	0
22	Reserve fund	62 500	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	813 957	559 050
26	Unutilized profit (loss) for the reporting period	207 428	254 907
27	Total equity	4 533 885	2 126 457
	IV. OFF-BALANCE SHEET LIABILITIES		
28	Credit institution's irrevocable liabilities	6 126 278	31 581 601
29	Guarantees and sureties issued by credit institution	0	0
30		0	0

CEO
Chief Accountant
Seal
Done by:
Telephone:
25 April 2012

K. R. Schmid
O. N. Rubashko

I. A. Ratnikov
648-23-48

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Bank reporting forms

Territory code OKATO	Code of credit institution (branch)			
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45286560000	OKPO 94496272	1067711001863	3463	44525733

STATEMENT OF INCOME (published form) for 2011

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:	348 460	206 742
1,1	Amounts due from credit organizations	94 149	25 010
1,2	Loans issued to customers (non-credit organizations)	19 185	6 627
1,3	Financial lease services	0	0
1,4	Investments in securities	235 126	175 105
2	Total interest expenses, including expenses on:	77 129	30 279
2,1	Amounts due to credit institutions	69 722	26 033
2,2	Amounts due to customers (non-credit institutions)	7 407	4 246
2,3	Debt issued	0	0
3	Net interest income (negative interest margin)	271 331	176 463
4	Total change in provision for losses from loans receivable and similar debt, amounts placed on correspondent accounts, including:	157	260
4,1	Change in provision for losses from accrued interest income	0	0
5	Net interest income (negative interest margin) after provision for losses	271 488	176 723
6	Net gains from securities at fair value through profit or loss	-43 544	-23 470
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	-273 109	-62 482
10	Net gains from foreign currency translation	310 073	117 458
11	Income from equity interests in other legal entities	0	0
12	Fee and commission income	7 969	6 474
13	Fee and commission expenses	28 115	22 475
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	200	-106
17	Other operating income	903 135	808 551
18	Net income (expense)	1 148 097	1 000 673
19	Operating expenses	887 385	731 634
20	Profit (loss) before tax	260 712	269 039
21	Taxes accrued (paid)	53 284	14 132
22	Profit (loss) after tax	207 428	254 907
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	207 428	254 907

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Bank reporting forms

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STATEMENT OF CASH FLOWS (published form) for 2011 (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	158 839	156 317
1.1.2	Interest paid	355 425	183 819
1.1.3	Fees and commissions received	77 025	30 695
1.1.4	Fees and commissions paid	7 969	6 474
1.1.5	Gains less losses from financial assets at fair value through profit or loss, available for sale	28 115	22 475
1.1.6	Gains less losses from securities held to maturity	53 061	10 787
1.1.7	Gains less losses from dealing in foreign currencies	-	-
1.1.8	Other operating income	273 109	62 482
1.1.9	Operating expenses	831 190	805 296
1.1.10	Income tax expense (refund)	882 135	727 055
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:	39 978	7 352
1.2.1	Net increase (decrease) in mandatory cash balances with the Central Bank of the Russian Federation	- 2 346 794	162 424
1.2.2	Net increase (decrease) in investments in securities at fair value through profit or loss	36 641	106 621
1.2.3	Net increase (decrease) in loans receivable	835 220	1 452 215
1.2.4	Net increase (decrease) in other assets	763 430	1 685 363
1.2.5	Net increase (decrease) in loans, deposits and other amounts due to the Central Bank of the Russian Federation	33 123	49 430
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)	- 2 665 612	2 710 440
1.2.8	Net increase (decrease) in financial liabilities at fair value through profit or loss	- 1 330 369	618 043
1.2.9	Net increase (decrease) in debt issued	-	-
1.2.10	Net increase (decrease) in other liabilities	-	-
1.3	Total for section 1 (line 1.1 + line 1.2)	- 19 227	28 710
2	Net cash provided by (used in) investing activities	- 2 505 633	318 741
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	- 6 581	4 045
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)	- 6 420	4 045
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	10 737	5 379
5	Increase (decrease) in cash and cash equivalents	- 301 316	320 075
5.1	Cash and cash equivalents at the beginning of the reporting year	350 440	30 365
5.2	Cash and cash equivalents at the end of the reporting year	49 124	350 440

CEO
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Done by:
Telephone:
25 April 2012

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Bank reporting forms

Territory code OKATO	Code of credit institution (branch)			
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45286560000	94496272	1067711001863	3463	44525733

STATEMENT OF CAPITAL ADEQUACY, LOAN IMPAIRMENT AND OTHER PROVISIONS (published form) at 1 January 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 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:	2 123 876	2 407 469	4 531 345
1.1	Share capital of credit institution, including:	1 250 000	2 200 000	3 450 000
1.1.1	Nominal value of registered ordinary shares (units)	1 250 000	2 200 000	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	62 500	-	62 500
1.5	Financial results taken to equity:	811 376	207 469	1 018 845
1.5.1	prior years	559 050	254 907	813 957
1.5.2	reporting year	252 326	- 47 438	204 888
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)	42,6	X	132,3
4	Total actual provisions for losses (RUB thousand), including:	814	- 357	457
4.1	provision for loans receivable and similar debt	-	-	-
4.2	provision for other assets exposed to losses, and other losses	546	- 148	398
4.3	provision for credit-related commitments recognized on off-balance accounts and for futures transactions	268	- 209	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 _____.

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25 April 2012

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INFORMATION ON PRUDENTIAL RATIOS (published form) at 1 January 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 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	132,3	42,6
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	104,0	108,0
4	Current liquidity ratio (N3)	50,0	725,4	116,0
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 9.1 Minimum 0.2	Maximum 19.2 Minimum 2.4
7	Maximum large credit risk (N7)	800,0	37,6	237,2
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)			

CEO
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Done by:
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25 April 2012

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

Explanatory note to the 2011 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 2012, the Bank had no branch offices. During the reporting period the Bank employed on average 105 staff (2010: 80).

At 1 January 2012 and 1 January 2011, the Bank was a member of the UBS AG banking group, Switzerland.

In 2011, the Bank continued to offer services to corporate and institutional customers, namely, raised cash deposits from legal entities, opened and maintained customer accounts, performed settlements as instructed by legal entities (including correspondent banks).

In 2011, the Bank continued to provide brokerage services to individual and 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 2011, the Bank continued to develop its investment banking business through an increase in the headcount of the Investment Banking Department and Wealth Management Department. This service line offers M&A advisory, debt restructuring and other capital market advisory services.

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At 1 January 2012, the total value of the Bank's securities portfolio equaled RUB 2,575.7 million (2010: RUB 3,408.0 million).

In 2011, the Bank received non-repayable financial assistance of RUB 189.4 million (2010: Rub 296.3 million) from its Sole Participant. This amount is included in other operating expenses of the statement of income.

At the end of 2011, the Bank increased its share capital by RUB 2,200.0 million. The contribution was made by the Bank's Founder UBS AG which owns 100% of the share capital.

All changes to the charter documents were duly registered.

Since August 2010, the Bank is a participant of the mandatory deposit insurance system of the Russian Federation. It has been entered into the register of participating banks under registration number 982.

At 1 January 2012 and 1 January 2011, the Bank had no credit ratings of its own.

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
- Kurt Robert Schmid, Member of the Board of Directors
- Dutta Ritesh, 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 2011, the composition of the Bank's Board of Directors was as follows:

- Steven Meehan, Chairman 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.

In 2011, the Board of Directors was extended by two new members and changed its Chairman.

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 2011, 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 2011, there were no changes in the composition of the Bank's Executive Board.

2. Operating environment

The Russian economy displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

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. In 2011, the Government of the Russian Federation continued implementing measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery, there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects.

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.

At 31 December 2011, 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 2011 financial result included those performed in the government and corporate securities market and the currency market, as well as commission income from investment banking services. 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 2011, 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 2011, 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
- opening correspondent accounts and performing settlements using generally accepted banking practices
- brokerage services
- custody services.

In 2011, the Bank's priority projects included:

- Repurchase transactions due to the market's recovery by expanding operations performed through ZAO NKO National Settlement Depository (hereinafter, "NKO NSD");
- Developing custody services through increase in scope of activities and expansion of the client base;
- Optimizing processes and operational infrastructure. The project is aimed at optimizing and enhancing the Bank's existing automated systems;
- Developing operations with derivative instruments for Russian counterparties/customers (derivative instruments on interest rates);
- 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 2012 will be further consolidation of efforts aimed at the provision of integrated financial services. The Bank will focus on developing new products, and increasing the volume and profitability of its operations. The Bank does not plan any significant change in its activities as compared to 2011.

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-level 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.

Translation of the original Russian version

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 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.

Translation of the original Russian version

The geographical concentration of the Bank's assets and liabilities as at 1 December 2011 is set out below:

RUB '000	Russia	CIS	Developed countries	Including Switzerland	Other countries	Total
ASSETS						
Cash						
Credit institution's balances with the Central Bank of the Russian Federation	456,206.0					456,206.0
Including mandatory reserves	128,480.0					128,480.0
Amounts due from credit institutions	22,871.0		20,873.0	20,873.0		43,744.0
Net investments in securities at fair value through profit or loss	3,408,018.0					3,408,018.0
Net loans receivable	2,930,523.0					2,930,523.0
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	10,102.0					10,102.0
Other assets	894,526.0		14,776.0	9,522.0		909,302.0
TOTAL ASSETS	7,722,246.0		35,649.0	30,395.0		7,757,895.0
LIABILITIES						
Amounts due to credit institutions			4,129,779.0	4,129,779.0		4,129,779.0
Amounts due to customers	1,435,021.0		2,561.0	23.0		1,437,582.0
Including deposits of individuals						
Other liabilities	63,804.0		5.0	5.0		63,809.0
Provisions for potential losses under credit-related commitments, other potential losses and transactions with offshore residents	268.0					268.0
TOTAL LIABILITIES	1,499,093.0		4,132,345.0	4,129,807.0		5,631,438.0
Credit institution's irrevocable liabilities	24,380,263.6		7,201,337.4	7,201,337.4		31,581,601.0
Guarantees and sureties issued by credit institution						

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 repurchase agreements and Forex futures and forwards. In the absence of limits, no transactions are permitted (except for those fully prepaid, and transactions with UBS AG). In addition to concentration limits, the Bank places risk caps by portfolio and monitors sensitivity to change in the aggregate position from interest rates on assets and liabilities.

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 NKO NSD 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 2012 all loans receivable and similar debt was included in risk group 1, this debt was not provided for.

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In 2011, the Bank made a provision for potential losses on other assets, amounting to RUB 457.0 thousand, including RUB 59.0 thousand – for potential losses under forward transactions (2010: RUB 814.0, including RUB 268.0 for potential losses under forward transactions).

In 2011, the Bank made a provision for potential losses on funds placed on correspondent accounts with Citibank included in risk group 2 amounting to RUB 54.9 thousand (2010: RUB 212.4 thousand).

Since there were no claims against off-shore residents at 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.

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.

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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.

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.

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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.

Thus, 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.

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 2012, the Instant Liquidity Ratio (N2) was 104.0% (at 1 January 2011: 108.0%), and the Current Liquidity Ratio (N3) was 725.4% (at 1 January 2011: 116.0 %).

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);

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- 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.

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.

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To mitigate the risk, the Bank relies on its Strategic Development Plan covering the period until the end of 2012 (the Strategic Development Plan is currently being revised to extend until the end of 2014; the Board of Directors plans to approve the Plan by the end of the second quarter of 2012) and approves and introduces policies, regulations, action plans and other internal documents covering the whole scope of the Bank's current and prospective development objectives in the existing economic environment.

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.

Translation of the original Russian version

5.3 Information on the credit institution's related party transactions

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

RUB '000	Parent company	Subsidiaries	Major shareholders	Associates	Joint activity participants	Key management personnel	Other related parties
Loans receivable	1,503,374.0	-	-	-	-	-	-
of which overdue	-	-	-	-	-	-	-
Provisions for loans receivable	-	-	-	-	-	-	-
Investments in securities at fair value	-	-	-	-	-	-	-
Investments in securities held to maturity	-	-	-	-	-	-	-
Investments in securities available for sale	-	-	-	-	-	-	-
Provision for losses from investments in securities	-	-	-	-	-	-	-
Amounts due to customers	-	-	-	-	-	6,857.1	192,077.9
Subordinated loans received	-	-	-	-	-	-	-
Subordinated loans issued	-	-	-	-	-	-	-
Debt issued	-	-	-	-	-	-	-
Irrevocable liabilities	-	-	-	-	-	-	-
Guarantees and sureties issued	-	-	-	-	-	-	-

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

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Income and expenses for 2011 arising from transactions with related parties are disclosed below:

RUB '000	Parent company	Subsidiaries	Major shareholders	Associates	Joint activity participants	Key management personnel	Other related parties
Interest income	4,414.0						
Including interest on loans to customers (non-credit institutions)							
Interest expenses	31,716.0					100.0	125.0
Including interest on loans from customers (non-credit institutions)						100.0	125.0
Debt issued							
Net gains from dealing in foreign currency	-948,042.4						171,062.8
Income from equity interests in legal entities							
Other operating income	817,855.0						
Fee and commission expenses							

Translation of the original Russian version

Transactions with Bank's related parties as of 1 January 2011 are disclosed below:

RUB '000	Parent company	Subsidiaries	Major shareholders	Associates	Joint activity participants	Key management personnel	Other related parties
Loans receivable	-	-	-	-	-	-	-
of which overdue	-	-	-	-	-	-	-
Provisions for loans receivable	-	-	-	-	-	-	-
Investments in securities at fair value	-	-	-	-	-	-	-
Investments in securities held to maturity	-	-	-	-	-	-	-
Investments in securities available for sale	-	-	-	-	-	-	-
Provision for losses from investments in securities	-	-	-	-	-	-	-
Amounts due to customers	-	-	-	-	-	-	937,559.6
Subordinated loans received	-	-	-	-	-	-	-
Subordinated loans issued	-	-	-	-	-	-	-
Debt issued	-	-	-	-	-	-	-
Irrevocable liabilities	-	-	-	-	-	-	-
Guarantees and sureties issued	-	-	-	-	-	-	-

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

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Income and expenses for 2010 arising from transactions with related parties are disclosed below:

RUB '000	Parent company	Subsidiaries	Major shareholders	Associates	Joint activity participants	Key management personnel	Other related parties
Interest income	4,759.0						
Including interest on loans to customers (non-credit institutions)							
Interest expenses	17,506.6						
Including interest on loans from customers (non-credit institutions)							
Debt issued							
Net gains from dealing in foreign currency	-88,547.0						186,794.3
Income from equity interests in legal entities							
Other operating income	715,136.1						
Fee and commission expenses							

Translation of the original Russian version

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

The Bank had no credit-related contingencies as of 1 January 2012.

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

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	
Foreign currency	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
Foreign currency	2,995,539.0	3,005,762.0	40,251.0	50,474.0	59.0

Term transactions that require delivery of the underlying asset as of 1 January 2011 are disclosed below:

RUB '000	Asset	Liability	Unrealized foreign exchange gains	Unrealized foreign exchange losses	Provision for losses
forward contract	312,700.0	304,769.0	155,844.0	147,913.0	
Foreign currency	312,700.0	304,769.0	155,844.0	147,913.0	
swap contract	3,156,307.0	3,176,883.0	196,941.0	217,517.0	268.0
Foreign currency	3,156,307.0	3,176,883.0	196,941.0	217,517.0	268.0

5.5 Legal proceedings

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

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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 profit distribution for 2011.

In 2011, the Bank did not make any allocations to the reserve fund, so following increase in the share capital, the Bank intends to use its 2011 profit to increase the reserve fund, as required by its Charter (the Bank's charter provides for a reserve of not less than 5% of the Bank's share capital).

The current ratio of the Bank's reserve fund to its share capital is 1.8%. The required amount of the reserve fund is RUB 172,5 million.

5.7 Discontinued operations (unaudited)

In 2011 and 2010, 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 2012 are disclosed below:

RUB '000

Members of the Board of Directors and Management Board, divisional heads

Short-term compensation	207,771.0
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Payments to key management personnel of the Bank as of 1 January 2011 are disclosed below:

RUB '000

Members of the Board of Directors and Management Board, divisional heads

Short-term compensation	182,575.7
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Management personnel did not receive any long-term compensation.

As at 1 January 2012, the Bank employed 110 staff (1 January 2011: 83). As at 1 January 2011, the Bank employed 15 key management personnel (1 January 2011: 13).

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

In 2011, 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 2012. 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 income and expenses

In 2011, 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.

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 2011 that affect the comparability of its individual performance indicators.

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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 2012.

As of 1 December 2011, 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 2012, the carrying value of the Bank's premises and equipment was RUB 32.9 million (1 January 2011: RUB 28.3 million).

At 1 January 2012, the net carrying value of the Bank's premises and equipment (net of accumulated amortization) was RUB 11.4 million (1 January 2011: RUB 9.5 million).

As of 1 January 2012, 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 of 1 January 2012 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 2012, the accounts receivable totaled RUB 9.2 million (1 January 2011: RUB 9.6 million).

At 1 January 2012, the accounts payable totaled RUB 7.0 million (1 January 2011: RUB 6.1 million).

At 1 January 2012, overdue accounts receivable amounted to RUB 340.0 thousand. The Bank fully provided for these receivables.

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

At 1 January 2011, overdue accounts receivable amounted to RUB 330 thousand. The Bank fully provided for these receivables.

Aging analysis of accounts receivable overdue as of 1 January 2011 is as follows (RUB):
over 180 days—RUB 330.0 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 2012 (accounts 47423, 47425, 60301, 60302, 60308, 60309, 60311 and 60313).

The Bank recorded as a subsequent event in correspondence with account 70711 *Income Tax* a settlement transaction with the budget related to adjusting the income tax expense for 2011 in the amount of RUB 11.5 million.

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.

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 70801 *Profit* amounted to RUB 207,428,331.8.

For comparison, the Bank's financial result for 2010, inclusive of income tax and exclusive of entries to record events that occurred after the balance sheet date, amounted to RUB 268,544,601.1.

According to the consolidated schedule of subsequent events balances, the closing balance of account 70801 *Profit* amounted to RUB 254,906,904.8.

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

In 2011, following the decision of the management, the Bank voluntarily abandoned its license of a professional participant of the securities market for securities management as the Bank was not engaged in these activities.

In February–March 2012, the Bank paid its personnel 2011 year-end bonuses of RUB 246.9 million (inclusive of personal income tax and exclusive of payroll taxes). 2010 year-end bonuses of RUB 130.3 million (inclusive of personal income tax) were paid in February 2011.

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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 2011, 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 2012 (unaudited)

The Accounting Policies of the Bank for 2012 were amended as follows:

Accounting treatment of derivative financial instruments following the enactment of CBR Statute No. 372-P dated 4 July 2011.

The Accounting Policies determined the specific accounting treatment for transactions with derivative financial instruments, and contracts which are recognized as derivative financial instruments.

From the date of initial recognition, derivative financial instruments are 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.

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.

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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

Done by M.A. Uzunova
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