

Audit report
on the annual financial statements
of **OOO UBS Bank**
for the year ended 31 December 2013

April 2014

Translation of the original Russian version

Audit report - UBS Bank OOO

Translation of the original Russian version

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Independent auditor's report

Translation of the original Russian version

To the sole participant and the Board of Directors of UBS Bank OOO

We have audited the accompanying annual financial statements of UBS Bank OOO ("the Bank") which consist of the balance sheet (published form) as of 1 January 2014, statement of income (statement of financial performance) (published form) for the year ended 31 December 2013, appendices there to comprising statement of capital adequacy, allowance for doubtful loans and other assets (published form); statement of obligatory ratios (published form); statement of cash flows (published form); and explanatory information.

Audited entity's responsibility for the annual financial statements

The management of the Bank is responsible for the preparation and fair presentation of these annual financial statements in accordance with rules on the preparation of financial statements established in the Russian Federation and for the internal control system relevant to the preparation of annual financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these annual financial statements 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 financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. Audit procedures selection depends on our judgment based on the assessment of the risks of material misstatements of the annual financial statements, 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 financial statements 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 financial statements.

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

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Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of UBS Bank OOO as of 1 January 2014, its financial performance and its cash flows for 2013 in accordance with rules on the preparation of annual financial statements established in the Russian Federation.

Other information on compliance by the credit institution with obligatory ratios established by the Bank of Russia, and the quality of governance and internal control at the credit institution, which is included in this audit report in accordance with requirements of Article 42 of Federal Law 395-1, On Banks and Banking Activity, dated 2 December 1990

The audit included procedures pertaining to compliance by the Bank, as of the reporting date, with obligatory ratios established by the Bank of Russia, and procedures to assess the quality of governance at the Bank and its internal control over preparation and fair presentation of the Bank's annual financial statements. Based on the results of our audit procedures pertaining to compliance by the Bank with obligatory ratios established by the Bank of Russia, and assessment of the quality of the Bank's governance and internal control, we identified no information that would warrant disclosure in addition to disclosures made in the Bank's annual financial statements, including those in the appendices to the balance sheet and statement of income (statement of financial performance) (statement of capital adequacy, allowance for doubtful loans and other assets, statement on obligatory ratios and explanatory information).

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Other matters

The accompanying annual financial statements are 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 financial statements are not designed for those who are not informed about accounting principles, procedures and practices in the Russian Federation.

E.V. ZAICHKOVA
Partner
Ernst & Young LLC

25 April 2014

Details of the audited entity

Name: OOO UBS Bank
Registered by the Central bank of the Russian Federation on 9 March 2006 under registration number 3463 in the Book for State Registration of Credit Institutions.
Record made in the Unified State Register of Legal Entities on 9 March 2006; State Registration Number 1067711001863.
Address: Russia 115054, Moscow, Paveletskaya square, 2, building 2.

Details of the auditor

Name: Ernst & Young LLC
Record made in the Unified State Register of Legal Entities on 5 December 2002; 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.

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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	044525733

BALANCE SHEET (published form)

as of 1 January 2014

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

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

OCUD form code 0409806
Quarterly (Annual)
RUB'000

No.	Item	At the reporting date	At the corresponding reporting date of the prior year
1	2	3	4
I. ASSETS			
1	Cash	111	361
2	Credit institutions' balances with the Central Bank of the Russian Federation	197,642	130,612
2.1	Obligatory reserves	97,565	69,421
3	Amounts due from credit institutions	137,830	1,088,969
4	Financial assets at fair value through profit or loss	0	419,532
5	Net loans receivable	4,955,373	7,335,132
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	21,373	8,076
9	Other assets	312,666	155,911
10	Total assets	5,624,995	9,138,593
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	1,310,464	3,846,074
13	Amounts due to customers (non-credit institutions)	315,432	1,120,937
13.1	Deposits of individuals	7,206	12,742
14	Financial liabilities at fair value through profit or loss	0	140,748
15	Debt issued	0	0
16	Other liabilities	32,564	25,807
17	Provisions for losses under credit-related contingent liabilities, other losses and transactions with offshore residents	17,550	0
18	Total liabilities	1,676,010	5,133,566
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	172,500
23	Fair value remeasurement of securities available for sale	0	0

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24	Revaluation of premises and equipment	0	0
25	Retained earnings (uncovered loss) of prior years	382,527	911,385
26	Unutilized profit (loss) for the reporting period	-56,042	-528,858
27	Total equity	3,948,985	4,005,027
IV. OFF-BALANCE SHEET LIABILITIES			
28	Credit institution's irrevocable liabilities	500,000	38,938,377
29	Guarantees and sureties issued by credit institution	0	0
30	Non-credit related contingent liabilities	0	0

CEO

P. E. Goldfinch

Chief Accountant
Seal

O. N. Rubashko

Prepared by
Telephone: 648-23-48
25-Apr-14

I. A. Ratnikov

Translation of the original Russian version

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	044525733

STATEMENT OF INCOME (STATEMENT OF FINANCIAL PERFORMANCE) (published form)

for 2013

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

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

OCUD form code 0409807
Quarterly (Annual)
RUB'000

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:	288,382	404,469
1.1	Amounts due from credit institutions	239,915	188,544
1.2	Loans issued to customers (non-credit institutions)	249	7,661
1.3	Finance lease services	0	0
1.4	Investments in securities	48,218	208,264
2	Total interest expenses, including expenses on:	78,146	98,928
2.1	Amounts due to credit institutions	77,555	98,240
2.2	Amounts due to customers (non-credit institutions)	591	688
2.3	Debt issued	0	0
3	Net interest income (negative interest margin)	210,236	305,541
4	Total change in provision for losses from loans receivable and similar debt, amounts placed on correspondent accounts, and accrued interest income, including:	-15,783	37
4.1	Change in provision for losses from accrued interest income	-3	0
5	Net interest income (negative interest margin) after provision for losses	194,453	305,578
6	Net gains from financial assets at fair value through profit or loss	-45,193	-44,673
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	246,044	-45,792
10	Net gains from foreign currency translation	-227,032	186,648
11	Income from equity interests in other legal entities	0	0
12	Fee and commission income	4,981	6,599
13	Fee and commission expenses	18,989	33,864
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	-17,618	4
17	Other operating income	810,286	247,379
18	Net income (expense)	946,932	621,879
19	Operating expenses	957,032	1,105,882
20	Profit (loss) before tax	-10,100	-484,003
21	Taxes accrued (paid)	45,942	44,855
22	Profit (loss) after tax	-56,042	-528,858
23	Total distributions of profit after tax, including:	0	0

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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	-56,042	-528,858

CEO

P. E. Goldfinch

Chief Accountant
Seal

O. N. Rubashko

Prepared by
Telephone: 648-23-48
25-Apr-14

I. A. Ratnikov

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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
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STATEMENT OF CAPITAL ADEQUACY, ALLOWANCE FOR DOUBTFUL LOANS AND OTHER ASSETS (published form) as of 1 January 2014

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

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

OCUD form code
0409808
Quarterly (Annual)

No.	Item	At the 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'000), including:	4,001,670	-87,196	3,914,474
1.1	Share capital of credit institution, including:	3,450,000	0	3,450,000
1.1.1	Nominal value of registered ordinary shares (interests)	3,450,000	0	3,450,000
1.1.2	Nominal value of registered preferred shares	0	0	0
1.2	Treasury shares	0	0	0
1.3	Share premium	0	0	0
1.4	Reserve fund of credit institution	172,500	0	172,500
1.5	Financial results taken to equity (capital):	379,170	-87,196	291,974
1.5.1.	prior years	911,385	-528,858	382,527
1.5.2.	reporting year	-532,215	441,662	-90,553
1.6	Intangible assets	0	0	0
1.7	Subordinated debt (loan, deposit, bonded loan)	0	0	0
1.8	Sources (part of sources) of additional capital provided by investors in the form of inappropriate assets	0	0	0
2	Statutory equity (capital) adequacy ratio, (percent)	10.0	X	10.0
3	Actual equity (capital) adequacy ratio, (percent)	98.7	X	115.7
4	Total actual provisions for losses (RUB'000), including:	417	33,401	33,818
4.1	provision for loans receivable and similar debt	0	15,795	15,795
4.2	provision for other assets exposed to losses, and other losses	417	56	473
4.3	provision for credit-related contingent liabilities, securities which are recognized on off-balance sheet accounts and the rights to which are certified by depositories, and futures transactions	0	17,550	17,550
4.4	provision for transactions with offshore residents	0	0	0

For reference:

1. 1. Creation (additional creation) of provision for losses from loans receivable and similar debt in the reporting period (RUB'000), totaling 15,795, including due to:

1.1. issue of new loans: 15,795;

1.2. change in loan quality: _____;

1.3. change in the official CBR exchange rate of foreign currency to the ruble: 0;

1.4. other reasons: 0.

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2. Reversal of (decrease in) provision for losses on loans receivable and similar debt in the reporting period (RUB'000), totaling _____0_____, including due to:

2.1. write-off of bad debts: _____0_____;

2.2. loan repayment: _____0_____;

2.3. change in loan quality: _____0_____;

2.4. changes in the official CBR exchange rate of foreign currency to the ruble: _____0_____;

2.5. other reasons: _____0_____.

CEO

P. E. Goldfinch

Chief Accountant
Seal

O. N. Rubashko

Prepared by
Telephone: 648-23-48
25-Apr-14

I. A. Ratnikov

Translation of the original Russian version

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	044525733

STATEMENT OF OBLIGATORY RATIOS (published form)

as of 1 January 2014

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

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

OCUD form code 0409813
Annual
Percent

No.	Item	Statutory limit	Actual value			
			At the reporting date	At the previous reporting date		
1	2	3	4	5		
1	Equity (capital) adequacy ratio of the bank (N1)	10.0	115.7	98.7		
2	Equity (capital) adequacy ratio of 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 of the bank (N2)	15.0	440.7	101.6		
4	Current liquidity ratio of the bank (N3)	50.0	1,153.6	176.9		
5	Long-term liquidity ratio of the bank (N4)	120.0	0.0	0.0		
6	Maximum risk per borrower or group of related borrowers (N6)	25.0	Maximum	11.1	Maximum	7.1
			Minimum	8.7	Minimum	0.0
7	Maximum large credit risk (N7)	800.0	19.8	12.0		
8	Maximum amount of loans, bank guarantees and sureties provided 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 by the bank to purchase shares (interests) of other legal entities (N12)	25.0	0.0	0.0		
11	Ratio of liquid assets maturing within the next 30 calendar days to liabilities of payment-processing non-banking credit institution (N15)					
12	Liquidity ratio of 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 amount of loans to customers that are parties to settlements for completing the settlements (N16)					

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14	Provision of loans by RNKO to borrowers, other than parties to the settlements, on its own behalf and for its own account (N16.1)			
15	Minimum ratio of mortgage value to amount of mortgage-backed bonds issued (N18)			

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Seal

O. N. Rubashko

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Telephone: 648-23-48
25-Apr-14

I. A. Ratnikov

Translation of the original Russian version

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	044525733

STATEMENT OF CASH FLOWS (published form)

**for 2013
(reporting year)**

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

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

OCUD form code 0409814
Annual
RUB'000

No.	Item	Cash flows for the reporting period	Cash flows for the prior reporting period
1	2	3	4
1	Net cash from (used in) operating activities		
1.1	Total cash from (used in) operating activities before changes in operating assets and liabilities, including:	103,129	-658,520
1.1.1	Interest received	291,576	422,326
1.1.2	Interest paid	-80,573	-96,719
1.1.3	Fees and commissions received	4,981	6,599
1.1.4	Fees and commissions paid	-18,989	-33,864
1.1.5	Gains less losses from available-for-sale financial assets at fair value through profit or loss	-46,046	-48,260
1.1.6	Gains less losses from securities held to maturity	0	0
1.1.7	Gains less losses from dealing in foreign currencies	246,044	-45,792
1.1.8	Other operating income	702,208	282,226
1.1.9	Operating expenses	-950,130	-1,100,181
1.1.10	Income tax expense (refund)	-45,942	-44,855
1.2	Total increase (decrease) in net cash from operating assets and liabilities, including:	-1,032,478	1,773,653
1.2.1	Net increase (decrease) in mandatory cash balances with the Central Bank of the Russian Federation	-28,144	22,418
1.2.2	Net increase (decrease) in investments in securities at fair value through profit or loss	420,385	2,139,372
1.2.3	Net increase (decrease) in loans receivable	2,439,130	-5,176,004
1.2.4	Net increase (decrease) in other assets	-57,542	762,852
1.2.5	Net increase (decrease) in loans, deposits and other amounts due to the Central Bank of the Russian Federation	0	0
1.2.6	Net increase (decrease) in amounts due to other credit institutions	-2,764,265	2,972,946
1.2.7	Net increase (decrease) in amounts due to customers (non-credit institutions)	-910,461	935,810
1.2.8	Net increase (decrease) in financial liabilities at fair value through profit or loss	-140,748	140,748
1.2.9	Net increase (decrease) in debt issued	0	0
1.2.10	Net increase (decrease) in other liabilities	9,167	-24,489
1.3	Total for section 1 (line 1.1 + line 1.2)	-929,349	1,115,133

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2	Net cash from (used in) investing activities		
2.1	Purchase of securities and other financial assets designated as available-for-sale	0	0
2.2	Proceeds from sale and redemption of securities and other financial assets designated as available-for-sale	0	0
2.3	Purchase of securities designated as held-to-maturity	0	0
2.4	Proceeds from redemption of securities designated as held-to-maturity	0	0
2.5	Purchase of premises and equipment, intangible assets and inventories	-20,921	-2,344
2.6	Proceeds from sale of premises and equipment, intangible assets and inventories	722	0
2.7	Dividends received	0	0
2.8	Total for section 2 (sum of lines from 2.1 through 2.7)	-20,199	-2,344
3	Net cash from (used in) financing activities		
3.1	Contributions of shareholders (participants) to share capital	0	0
3.2	Purchase of treasury shares	0	0
3.3	Sale of treasury shares	0	0
3.4	Dividends paid	0	0
3.5	Total for section 3 (sum of lines from 3.1 through 3.4)	0	0
4	Effect of changes in official CBR exchange rates of foreign currencies to ruble on cash and cash equivalents	30,901	-13,138
5	Increase (decrease) in cash and cash equivalents	-918,647	1,099,651
5.1	Cash and cash equivalents at the beginning of the reporting year	1,148,775	49,124
5.2	Cash and cash equivalents at the end of the reporting year	230,128	1,148,775

CEO

P. E. Goldfinch

Chief Accountant
Seal

O. N. Rubashko

Prepared by
Telephone: 648-23-48
25-Apr-14

I. A. Ratnikov

**EXPLANATORY INFORMATION
TO THE ANNUAL FINANCIAL STATEMENTS OF
UBS BANK (LIMITED LIABILITY COMPANY)
FOR THE YEAR ENDED 31 DECEMBER 2013**

Translation of the original Russian version

**EXPLANATORY INFORMATION TO THE ANNUAL FINANCIAL STATEMENTS OF
UBS BANK (LIMITED LIABILITY COMPANY)
FOR THE YEAR ENDED 31 DECEMBER 2013**

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INTRODUCTION

This Explanatory information constitutes an integral part of the annual financial statements of UBS Bank (Limited Liability Company) ("the Bank") as of 1 January 2014 and for the year ended 31 December 2013 prepared in accordance with requirements of Regulation No. 3054-U of the Central Bank of the Russian Federation (the "Bank of Russia") dated 4 September 2013 "Concerning the Procedure for Preparation of Financial Statements by Credit Institutions" ("Regulation No. 3054-U of the CBR").

These annual financial statements are presented in thousands of Russian Rubles ("RUB") rounded to the nearest thousand.

Annual financial statements shall be reviewed at the meeting of the sole participant scheduled for 30 April 2014.

1. GENERAL INFORMATION

1.1. State registration, separate and internal subdivisions and ratings of the Bank

Full name: UBS Bank (Limited Liability Company)

Short name: OOO UBS Bank

Location (legal address): 115054, Moscow, Paveletskaya pl. 2, building 2, 11th floor.

Location (postal address): 115054, Moscow, Paveletskaya pl. 2, building 2, 11th floor.

Bank's identification code (BIC) 044525733

Taxpayer identification number (INN) 7750003982.

Contact phone number: +7(495) 648-20-00 Fax +7(495) 648-20-01.

E-mail UBS-Bank-Russia@ubs.com

Internet web-site: www.ooo-ubs-bank.com

Main State Registration Number: 1067711001863.

Record concerning the establishment of a Bank was made in the Unified State Register of Legal Entities on 9 March 2006.

As of 1 January 2014 and 1 January 2013, the Bank had no branches.

As of 1 January 2014 and 1 January 2013, the Bank had no credit ratings assigned by International or Russian rating agencies.

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

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1.2. Information about the Banking Group

As of 1 January 2014 and 1 January 2013, the Bank was a member of the UBS AG Banking Group, Switzerland.

The Bank's sole founder (participant) is UBS AG, the 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.

1.3. Types of licenses held by the Bank

OOO UBS Bank (hereinafter, the "Bank") was established in March 2006 and obtained Banking License No. 3463 from the Bank of Russia on 6 June 2006.

The Bank holds license No. 3463 issued by the Bank of Russia on 4 August 2010 to attract 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 depository operations – 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.

Since August 2010, the Bank has become a member of the obligatory insurance system of deposits to individuals and is included in the register of the banks-participants under registration number 982.

1.4. Economic environment of the Bank

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 Russian 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.

2. DESCRIPTION OF THE BANK'S OPERATIONS

In 2013, the Bank's strategic development area was to continue provision of integrated financial services.

In 4Q 2012, the sole participant of the Bank (UBS AG) reported a significant acceleration of its global strategy implementation.

Translation of the original Russian version

As a result of the Bank's strategy refocusing in compliance with the UBS Group's strategy, the emphasis was made on investment and banking services, operations on interbank currency and monetary markets, operations with instruments with fixed returns, and advisory services concerning private funds management.

In 2013, the Bank's financial results were most influenced by the following:

- forex market operations (net gains from foreign currency transactions totaled RUB 246,044 thousand);
- interbank market operations (interest income from deposits placed with credit institutions totaled RUB 239,915 thousand), and
- advisory services (RUB 331,627 thousand).

In September 2013, the Bank received USD 15,000 thousand (RUB 478,659 thousand) of financial aid from UBS AG.

Major items of expenses with the most significant impact on the financial result were payroll expenses (2013: RUB 644,392 thousand; 2012: RUB 785,963 thousand).

As of 1 January 2014, the Bank's assets decreased by RUB 3,513,598 thousand as compared to 1 January 2013.

Changes in the structure of assets resulted from decrease in "Net loans receivable" and "Financial assets at fair value through profit or loss".

Changes in the structure of liabilities resulted primarily from decrease in "Amounts due to credit institutions" and "Amounts due to customers other than credit institutions".

In 2013, losses decreased by RUB 472,816 thousand (83.4%) as compared to 2012 primarily due to financial aid from UBS AG.

In 2013, the following changes took place in the composition of the Bank's Management Board. Kurt Robert Schmid resigned from the Board.

As of 1 January 2014, the Bank's Management Board was composed as follows:

- Paul Andrew Goldfinch, the Chairman;
- Oleg Nikolaevich Rubashko, Chief Accountant;
- Natalia Georgievna Dufour, Deputy Chairman of the Board.

As of 1 January 2013, the Bank was not involved in any legal proceedings.

At the meeting of the sole participant scheduled for 30 April 2014, consideration shall be held to the repayment of losses out of prior years' retained earnings.

Translation of the original Russian version

3. BASIS OF PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS

3.1 *Principles and methods of evaluating and recognizing individual balance sheet items and significant accounting policies*

In 2013, the Bank maintained its accounting records in accordance with Regulation No. 385-P of the Bank of Russia “About the Rules for maintaining accounting records at credit organizations located in the Russian Federation”, dated 16 July 2012 (“the Rules”), and other statutory regulations of the Bank of Russia determining the accounting treatment of certain operations.

The Bank's accounting policies are based on the following fundamental accounting principles:

- separate entity assumption, which implies that assets of other legal entities are recognized separately from the assets owned by the Bank;
- going-concern assumption, which implies that the Bank will not cease operations or liquidate its assets in the foreseeable future and has neither intention nor need to do so;
- consistency of accounting policies assumption, meaning that the accounting policies selected by the Bank shall be applied consistently from one period to another. The Bank may change its accounting policy only in case of its reorganization, change in ownership, changes in the Russian accounting legislation and regulations, when the Bank develops new accounting methods or its operating environment changes substantially;
- accrual principle, which means that the financial results of operations (income and expenses) are recorded when earned and incurred and not when cash (cash equivalents) is received or paid. Income and expenses are entered in accounting records in the period to which they relate.

The Bank's accounting policy is based on the following criteria:

- continuity – i.e. balances on balance and off-balance sheet accounts as of the beginning of the reporting period should correspond to the balances as of the end of the prior period;
- complete and timely recognition of all economic events in accounting records;
- prudence – i.e. greater readiness to recognize losses (expenses) and liabilities rather than possible income and assets, without allowing the creation of hidden reserves;
- priority of substance over form – i.e. reflection of economic events in accounting records in accordance with their economic substance and operating conditions rather than merely on the basis of their legal form;
- consistency – i.e. data in analytical records correspond exactly to transactions and balances in synthetic accounting at the first calendar day of each month, and data in the financial statements correspond to synthetic and analytical accounting registers;
- rationality – i.e. rational maintenance of accounting records in accordance with operating conditions and the size of the bank;
- transparency – i.e. financial statements should fairly present all bank transactions, be understandable for an informed user and avoid ambiguities in presenting the Bank's position.

Income and expense recognition

According to the Rules (para. 1.12.2 p. 1), income and expenses are recognized using the accrual method.

Translation of the original Russian version

It means that financial results of operations (income and expenses) are recorded when earned and incurred and not when cash (cash equivalents) is received or paid.

Income and expenses are entered in accounting records in the period to which they relate.

Accounting for the non-recurrent received (paid) amounts that should be reflected on income (expenses) accounts in the subsequent reporting periods is carried considering the following:

- the reporting period for deferred income (expenses) recognition is a calendar year;
- deferred income (expenses) are recognized pro rata the elapsed time interval;
- the time interval period shall be one month;
- no later than on the last day of the time interval established in the Bank's accounting policy, deferred income and expenses attributable to the respective month (quarter, year) are reflected as income and expenses;
- periodicity of operating lease payments is established in respective agreements. Lease prepayments should be recognized as deferred income, except for respective VAT. VAT is reflected to settlements with budget when the payment arrives, notwithstanding if is entered to income or deferred income accounts;
- expenses (purchase of software, information and legal systems, connection to telephone line and etc.), where no direct reference can be found between income from the acquired asset and its service (useful) life, are written down on a straight-line basis over one year.

Accounting for transactions with securities

Revaluation periodicity of securities at fair value

All securities "at fair value through profit or loss" and "available for sale", whose current (fair) value could be reliably determined from their quoted market price, are measured (remeasured) at current (fair) value on a daily basis.

All debt obligations require opening and maintaining separate accounts:

- acquisition cost of securities;
- paid interest (coupon) income;
- accrued interest (coupon) income;
- expenses on acquisition;
- revaluation of securities.

Revaluation algorithm

Carrying values of securities are measured as the total of the following accounts:

- securities account;
- accrued interest (coupon) income account;
- interest (coupon) income paid on purchase account;
- revaluation account.

Translation of the original Russian version

Carrying value is compared to fair value and the difference is recognized on securities revaluation accounts.

Accrual of interest on debt obligations

Interest (coupon) income is calculated on the straight-line method at the rate established by the issuer.

Discount on securities acquisition is recognized as discount income.

Premium on securities acquisition is recognized as discount expense.

Cost of disposed securities

According to the Accounting policy, cost of disposed securities may be measured using the following methods: FIFO or average cost method.

In the current year, the Bank used the FIFO method.

Expenses related to acquisition and sale of securities

1. Expenses related to securities at fair value through profit or loss, securities held to maturity and securities available for sale are measured using general accounting method.
2. Criteria of expenses' materiality are not applied.
3. Expenses related to acquisition are recognized on separate accounts and are written off upon (partial disposal) disposal using the FIFO method.
4. Any expenses related to disposal (regardless materiality) are written off upon disposal of securities.
5. Symbol 23109 "Expenses of professional participants of the securities market related to purchase and sale of securities (except for expenses for advisory and information services)" is not used.

Accounting of spot and term deals with securities

The Bank accounts spot and term deals with securities in accordance with the Rules. Spot transactions and term deals with securities are recognized on off-balance sheet accounts of Chapter D and on the first date of settlements are transferred to balance sheet accounts for conversion operations and term deals (47407 "Settlements on conversion operations and term deals" – 47408 "Settlements on conversion operations and term deals").

Accounting of foreign currency transactions

Revaluation of foreign currency accounts and balance sheet items denominated in foreign currency

Current revaluation is performed due to the changes of the official exchange rate established by the Bank of Russia.

Translation of the original Russian version

Revaluation effect is recognized on balance sheet accounts "Revaluation of accounts in foreign currency": 70603 "Revaluation of accounts in foreign currency – (positive differences)" and 70608 "Revaluation of assets in foreign currency – (negative differences)". Such accounts are not paired and financial results are presented on a gross basis.

Accounting for conversion operations

Operations associated with purchases-sales of foreign currency in the non-cash form are accounted in accordance with section "Conversion operations" para. 4.62 p. 2 of the Rules.

Accounting policy for conversion operations clearly distinguishes sales and purchases of foreign currency performed at the Bank's expense (within the limits established for the currency position) and at the expense of clients. In the first case, accounting treatment is based on paired accounts 47407-47408 "Settlements on conversion operations and term deals". In the other case, accounting treatment is based on paired accounts 47405-47406 "Settlements with clients on purchase/sale of foreign currency".

- A) Purchases/sales of foreign currencies performed at the Bank's expense with the value date on the date of transaction (TOD transactions) are recorded on balance accounts 47407-47408 "Settlements on currency conversion operations and term deals".
- B) Purchases/sales of foreign currencies performed at the Bank's expense with the value date no later than on the second business day from the date of transaction (TOM and SPOT transactions) are recorded as of the date of transaction in Chapter D, section "Spot deals" and continue to be recognized until the date of execution (value date). After that such transactions are recorded on the respective separate balance sheet accounts 47407-47408.
- C) Purchases/sales of foreign currencies performed at the Bank's expense and when the value date is more than two business days (term deals) after the date of transaction are recorded as of the date of transaction on Chapter D, section "Term deals", and continue to be recognized until the date of execution (for transactions with varying settlement periods – until the first date of settlement). After that, transactions are recorded on the respective separate balance sheet accounts 47407-47408.
- D) Transactions with foreign currencies performed on behalf of the Client are intermediary and do not affect the Bank's currency position. The Bank's income under such transactions comprises fees and commissions. In accordance with the accounting policy, such transactions should not be recognized through multi-currency conversion accounts 47407 and 47408. The accounting procedure uses paired balance sheet accounts 47405-47406, with separate accounts opened for every client.
- E) Accounting policy in respect of income and expenses from forex transactions stipulates recognition of foreign exchange gains and losses arising from currency transactions, fees and commissions, etc. Various fees and commissions on foreign currency transactions are recorded on balance sheet accounts 70601 "Income", symbol 16201 "Fees and commissions income from transactions with foreign exchange valuables", and 70606 "Expenses", symbol 25201 "Fees and commissions expenses from transactions with foreign exchange valuables" on separate accounts by types of commission.

Translation differences arising from conversion operations and foreign currency transactions are recognized on balance sheet accounts 70601 "Income", symbol 12201 "Income from purchase and sale of foreign currency with settlements in cash and non-cash form" or 70606 "Expenses", symbol 22101 "Expenses related to purchase and sale of foreign currency with settlements in cash and non-cash form", on separate accounts.

Translation of the original Russian version

Translation differences arising from revaluation of foreign currency accounts are recognized on accounts 70603 "Revaluation of assets in foreign currency (positive differences)", 70608 "Revaluation of assets in foreign currency (negative differences)".

Additionally, the amounts should be reflected on the respective income or expense items in accordance with their names. Thus, foreign currency deposit transactions, lending transactions, transactions with securities denominated in foreign currency, foreign currency dividends payment and such other transactions should be recorded on accounts 70601 "Income", 70606 "Expenses" and income and expense items with respective names.

Accounting for premises and equipment

Premises and equipment for accounting purposes comprise a part of the Bank's property whose useful life exceed 12 months and which are used to provide services, manage the company and in such other cases stipulated by sanitary and hygienic, technical and operating and other special standards and requirements. In accordance with the existing legislation of the Russian Federation, CEO of the Bank is entitled to limit the cost of items recognized as premises and equipment.

The cost limit established by the Bank is RUB 40,000 (forty thousand), net of VAT.

Other assets with the cost below the limit, irrespective of their useful life, are recognized as inventory.

Pursuant to cl. 2.3.1 of the accounting policy, premises and equipment are carried at historical cost.

The initial cost of premises and equipment and income-bearing investments in inventories at which they have been initially recognized, is not subject to revision except as provided otherwise by the legislation of the Russian Federation and the Rules.

Revaluation of premises and equipment includes measurement of carrying (replacement) cost of premises and equipment.

The accounting unit for fixed assets shall be the inventory item. An inventory item of fixed assets shall be an item with all fixtures and fittings or an individual structurally autonomous object designed to perform particular independent functions, or a self-contained set of structurally interconnected objects which constitute a unified whole and are designed to perform particular work. A set of structurally interconnected objects shall be one or more objects with the same or different designated functions which have common fixtures and fittings and common controls and are mounted on the same base, as a result of which each object within the set is able to perform its functions only as part of the set, and not independently.

3.2. Assumptions and key sources of uncertainty

The Bank makes estimates and assumptions that affect the reported assets and liabilities and the carrying values of assets and liabilities in the following financial year. Estimates and professional judgment are continuously assessed on the basis of the management experience and other factors, including expectations of future events which management believes to be reasonable under the current circumstances.

Translation of the original Russian version

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the financial statements:

Taxation

A significant part of the Bank's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently and unpredictably. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and federal authorities. Recent events in the Russian Federation suggest that the tax authorities may be taking an assertive approach in their interpretation and application of various provisions of this legislation and performing tax audits. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. Thus, the relevant authorities may impose significant additional taxes, penalties and fines. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year during which the review decision was made. Under certain circumstances reviews may cover earlier periods.

Russian transfer pricing legislation, which came into force on 1 January 2012, allows Russian tax authorities to apply the adjustments of the tax base and to assess additional corporate and individual income tax and value added tax in respect of all controlled transactions if the price applied to the transaction is different from the range of market prices. The list of controlled transactions includes transactions performed with related parties and certain types of transactions with unrelated parties that are deemed "controlled" transactions pursuant. These rules are applied not only to transactions made in 2013, but also to the transactions made in previous tax periods if the corresponding gains and losses were recognized in 2013 (with the exception of certain types of transactions).

In 2013, 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 and "controlled" transaction prices in 2013 are consistent with market prices. Within terms specified by Tax Code of the Russian Federation the Bank will submit to the Russian tax authorities a correctly filled notification in respect to controlled transactions occurred and prepare corresponding documentation on transfer pricing with regard to controlled transactions.

As of 31 December 2013, management believes that its interpretation of the relevant legislation is justified and that the Bank's position regarding tax, currency and customs legislation will be sustained.

3.3. Summary of the inventory count of balance sheet items

In accordance with the financial year ending plan, the Bank performed inventory count of balance sheet items as of 1 January 2014. 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 deals, settlements with debtors and creditors, and cash revision as of 1 January 2014.

Translation of the original Russian version

As of 1 December 2013, the Bank performed inventory count of premises and equipment. The inventory count revealed no differences between their actual amounts and accounting records.

As of 1 January 2014, the carrying value of the Bank's premises and equipment was RUB 52,219 thousand (as of 1 January 2013: RUB 35,235 thousand).

As of 1 January 2014, the net carrying value of the Bank's premises and equipment (net of accumulated amortization) was RUB 21,373 thousand (as of 1 January 2013: RUB 8,076 thousand).

As of 1 January 2014, the Bank performed inventory count of deposits and other amounts payable, loans received, loans issued to banks and legal entities, and other placements, provisions for losses, and investments in securities held by the Bank. Inventory count of all of the above items showed that accounting data fully correspond to the actually available property, assets and liabilities of the Bank.

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 2014 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 deals.

3.3. 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 and 2013 that affect the comparability of its individual performance indicators.

3.4. Information on adjusting events after the reporting date

As a part of the activities to harmonize its accounting records with Regulation No. 385-P of the Bank of Russia, Concerning the Rules for Maintaining Accounting Records at Credit Organizations Located in the Russian Federation dated 16 July 2012 and pursue respective CBR guidelines set out in Instructive Regulation No. 3054-U dated 4 September 2013, the Bank included in Subsequent Events in correspondence with account 707 "Prior Year Financial Result" amounts of 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 2014 (accounts 47422, 60301, 60307, 60308, 60310, 60311 and 60312):

- Personnel expenses – RUB 331 thousand;
- Organizational and administrative expenses (business trips, communications, transportation services) – RUB 2,215 thousand;
- Other operating expenses – RUB 74 thousand;
- Property maintenance expenses – RUB 86 thousand;
- Other expenses – RUB 223 thousand;
- Provisions for loans and off-balance sheet credit-related commitments – RUB 33,349 thousand.

Translation of the original Russian version

The Bank's financial result for 2013, exclusive of entries to record events that occurred after the balance sheet date, amounted to loss of RUB 19,764 thousand.

Pursuant to Clause 3.2.2 of CBR Instructive Regulation No. 3054-U dated 4 September 2013, 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. 3054-U dated 4 September 2013, 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 (loss) gain".

According to the consolidated schedule of subsequent events balances, the closing balance of account 70802 "Prior year loss" amounted to RUB 56,042 thousand.

For comparison, the Bank's financial result for 2012, inclusive of income tax and exclusive of subsequent events entries amounted to loss of RUB 526,311.8 thousand, and according to the consolidated schedule of subsequent events balances, the closing balance of account 70802 "Prior year loss" amounted to RUB 528,857.8 thousand.

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

In February 2014, the Bank paid year-end bonuses for 2013 to its employees in the amount of RUB 238,456.1 thousand (including personal income taxes and excluding payroll taxes). 2012 year-end bonuses of RUB 153,817.1 thousand (inclusive of personal income tax) were paid in March 2013.

3.6. 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 or operating results

In 2013, 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.

3.7. Changes in accounting policies for the next reporting year

The Bank introduced the following changes into the accounting policies for 2014 resulting from amendments and improvements of effective legislation:

- concerning the accounting treatment of derivative financial instruments (hereinafter, DFI), in accordance with Regulation No. 385-P of the Bank of Russia, Concerning the Rules for Maintaining Accounting Records at Credit Organizations Located in the Russian Federation effective from 1 January 2014;
- concerning recognition of deferred tax assets and liabilities.

In 2013, the Bank continued to adhere to one of the key Accounting principles, "Going concern", i.e. the Bank will continue to operate in the future and has no intentions or needs to start liquidation.

Translation of the original Russian version

4. ACCOMPANYING INFORMATION TO PUBLISHED REPORTING FORMS

4.1 Accompanying information to the balance sheet (form 0409806)

Cash and cash equivalents comprise:

	As of 31 December 2013	As of 31 December 2012
Cash and cash equivalents	Amount, RUB'000	Amount, RUB'000
Cash on hand	111	361
Total	111	361

	As of 31 December 2013	As of 31 December 2012
Credit institutions' balances with the Central Bank of the Russian Federation	Amount, RUB'000	Amount, RUB'000
Balances on correspondent account	100,077	61,191
Mandatory reserves with the Bank of Russia	97,565	69,421
Total	197,642	130,612

	As of 31 December 2013	As of 31 December 2012
Amounts due from credit institutions	Amount, RUB'000	Amount, RUB'000
Balances on correspondent accounts with resident credit institutions	13,150	1,764
Balances on correspondent accounts with OECD banks	124,683	1,087,223
Total	137,833	1,088,987
Provisions	(3)	(18)
Total net of provisions	137,830	1,088,969

The Bank has no restricted cash excluded from this item.

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 on hand, performance of cash transactions in rubles, foreign currency purchase and sale transactions performed by legal entities and individuals, rules of cash transportation and storage, and rules for determining whether damaged banknotes and coins are fit for use and how they should be replaced.

The Bank accounted for contributions to mandatory reserves with the Bank of Russia on a monthly basis based on calculations made in accordance with Regulation No. 342-P of the CBR "On Mandatory Reserves of Credit Institutions" dated 7 August 2009.

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

Net investments in securities at fair value through profit or loss

Information on financial assets at fair value through profit or loss is presented below:

	2013, RUB'000	2012, RUB'000
Financial assets at fair value through profit or loss	0	419,532

Translation of the original Russian version

As of 1 January 2014, the Bank had no investments in financial assets at fair value through profit or loss.

As of 1 January 2013, financial assets at fair value through profit or loss were represented by investments in bonds of resident credit institutions (mature on 25 October 2015 and bear a coupon rate of 9.75%) and derivative financial instruments (foreign currency as underlying asset, swaps and forwards).

Investments in securities of the trading portfolio are recorded at fair value. All securities at fair value through profit or loss whose current (fair) value can be determined based on their quoted market prices are measured (remeasured) at current (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 current fair value (or any other market price used for remeasurement purposes).

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

Derivative financial instruments were accounted for in accordance with Regulation No. 372-P of the CBR 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 instrument 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 2010.

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.

Net loans receivable

Loans receivable and similar debt were accounted for pursuant to Regulation No. 54-P of the CBR "On the Procedure for the Provision (Placement) of Funds by Credit Organizations and for Repayment (Settlement) Thereof" dated 31 August 1998.

Provisions for losses from loans are made in accordance with Regulation No. 254-P of the CBR "On the Procedure for Creating Provisions for Potential Losses on Loans, Loans Receivable and Similar Debt" dated 26 March 2004.

Translation of the original Russian version

Net loans receivable by types of borrowers and types of loans provided comprise:

	2013	2012
Interbank lending, settlements with the stock exchange	4,521,168	7,335,132
Total corporate loans	434,205	–
Total	4,955,373	7,335,132

The amount and the structure of loans by types of business activity of borrowers are as follows:

	2013	2012
Credit organizations and stock exchanges	4,521,168	7,335,132
Legal entities, total	450,000	–
including:		
financial services	450,000	–
provision for losses	15,795	–
Net loans receivable	4,955,373	7,335,132

Geographical concentration of loans receivable:

	2013	2012
Russia, Moscow	1,743,373	945,132
OECD countries	3,212,000	6,390,000
Net loans receivable	4,955,373	7,335,132

Information on remaining maturity of loans (before provision for losses from loans).

As of 1 January 2014 and 1 January 2013, the Bank had no overdue loans.

All loans issued had maturity of up to 30 days.

Information on loans issued by quality categories.

As of 1 January 2013, all loans issued by the Bank were classified into quality category 1. As of 1 January 2014, the loan issued to CJSC UBS Securities was classified into quality category 2.

Interest on transactions for depositing and placing funds was accrued pursuant to Regulation No. 39-P of the CBR "On Accrual of Interest on Transactions for Depositing and Placing Funds by Banks" dated 26 June 1998. Interest accrued on deposited and placed funds was taken to expenses and income, respectively, on the accrual basis.

The Bank accrued and accounted for provisions for losses on amounts due from other banks, other assets, off-balance sheet liabilities, settlements with offshore debtors, term deals, etc., pursuant to Regulation No. 283-P of the Bank of Russia "On the Procedure for Creating Provisions for Losses by Credit Organizations" dated 20 March 2006 and Instructive Regulation No. 1584-U of the CBR dated 22 June 2005.

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 on a monthly basis using the 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 No. 1 of the Government of the Russian Federation dated 1 January 2002 (for premises and equipment recorded after 1 January 2003).

Translation of the original Russian version

Costs to repair premises and equipment of the Bank 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, and transportation expenses. The cost of inventories is expensed as a lump sum.

As of 1 January 2013 and 1 January 2014, the Bank had no intangible assets, real properties, inventories or investments in construction of premises and equipment.

Premises and equipment comprise computers, network and telephone equipment.

Movements in premises and equipment in 2013 are presented in the following table:

Premises and equipment	Amount, RUB'000
Cost	
At the beginning of the year	35,235
Additions	20,921
Disposals	3,937
At the end of the year	52,219
Depreciation	
Accumulated depreciation at the beginning of the year	27,159
Depreciation charge	6,327
Disposals	2,640
At the end of the year	30,846
Net book value at the end of the year	21,373
Provisions	–
Total net of provisions at the end of the year	21,373

Movements in premises and equipment in 2012 are presented below:

Premises and equipment	Amount, RUB'000
Cost	
At the beginning of the year	32,921
Additions	2,344
Disposals	30
At the end of the year	35,235
Depreciation	
Accumulated depreciation at the beginning of the year	21,488
Depreciation charge	5,701
Disposals	30
At the end of the year	27,159
Net book value at the end of the year	8,076
Provisions	–
Total net of provisions at the end of the year	8,076

In 2013, premises and equipment were not revalued.

In 2013, the Bank had no contractual commitments to purchase premises and equipment.

Translation of the original Russian version

In 2013, the Bank incurred no actual costs related to the building (construction) of premises and equipment.

In 2013, there were no restrictions on the Bank's ownership rights to premises and equipment, and real properties temporarily not used in principal activities, and the Bank had no premises and equipment pledged as collateral for liabilities.

Other assets

The amount and the structure of other assets and the movements in their value, including due to their impairment, by types of assets and maturities are presented in the table:

As of 31 December 2013					
Other assets	Up to 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total, RUB'000
Financial assets					
Interest	80	–	–	–	80
Accrued income from advisory services	152,687	–	–	–	152,687
Deferred expenses	2,047	2,089	2,903	26,681	33,720
Claims for refund of overpaid taxes	–	–	–	91,416	91,416
Settlements with employees in respect of remuneration, accountable advances	2,523	–	–	14	2,537
Settlements on claims related to the performance of work (rendering of services) and paid by the Bank under business transactions, including:	32,319	37	–	340	32,696
-with residents	24,338	–	–	340	24,715
-with non-residents	7,981	–	–	–	7,981
Total	189,656	2,126	2,903	118,451	313,136
Amount of provision	93	37	–	340	470
Total net of provision	189,563	2,089	2,903	118,111	312,666

There were no overdue accounts receivable as of 1 January 2014

As of 31 December 2012					
Other assets	Up to 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total, RUB'000
Interest	3,274	–	–	–	3,274
Accrued income from advisory services	44,336	–	–	–	44,336
Deferred expenses	3,357	–	–	–	3,357
Claims for refund of overpaid taxes	–	–	–	94,285	94,285
Settlements with employees in respect of remuneration, accountable advances	796	–	–	–	796
Settlements on claims related to the performance of work (rendering of services) and paid by the Bank under business transactions, including:	9,922	–	–	340	10,262
-with residents	4,158	–	–	340	4,498
-with non-residents	5,764	–	–	–	5,764
Total	61,685	–	–	94,625	156,310
Amount of provision	59	–	–	340	399
Total net of provision	61,626	–	–	94,285	155,911

Translation of the original Russian version

Amounts due to credit institutions

Balances on accounts of credit institutions by types of accounts are presented in the table below:

	2013	2012
Interbank loans and deposits received	1,310,464	3,846,074
Amounts due to credit institutions	1,310,464	3,846,074

Amounts due to customers (non-credit institutions)

As of 31 December 2013, amounts due to customers comprise current and settlement accounts of legal entities and individuals. There were no term deposits of legal entities and individuals. Amounts due to customers are presented in the following tables:

	As of 31 December 2013	As of 31 December 2012
Amounts due to customers	Amount, RUB'000	Amount, RUB'000
Balances on current and settlement accounts	315,432	1,108,837
Term deposits	–	12,100
Total	315,432	1,120,937

	As of 31 December 2013	As of 31 December 2012
Accounts of legal entities by types of business activity	Amount, RUB'000	Amount, RUB'000
Financing activities	278,927	1,060,890
Real property	28,365	46,398
Advertising	935	907
Accounts of individuals:		
Current accounts of individuals	7,206	642
Term accounts of individuals	–	12,100
Total	315,432	1,120,937

As of 1 January 2014 and 1 January 2013, the Bank had no debt securities issued.

Other liabilities

The amount and the structure of and the changes in other liabilities by types of liabilities are presented in the table below:

As of 31 December 2013		
Other liabilities	Up to 30 days	Total, RUB'000
Financial liabilities	0	0
Interest payable	60	60
Payable to employees	283	283
Taxes payable	120	120
Value added tax received	30,681	30,681
Current obligations to pay for work (services) as part of the Bank's financial and business activities, including	1,420	1,420
- to residents	1,420	1,420
- to non-residents	0	0
Total	32,564	32,564

Translation of the original Russian version

There were no overdue accounts payable as of 1 January 2014.

As of 31 December 2012		
Other liabilities	Up to 30 days	Total, RUB'000
Financial liabilities	88	88
Interest payable	2,345	2,345
Payable to employees	96	96
Taxes payable	173	173
Value added tax received	21,841	21,841
Current obligations to pay for work (services) as part of the Bank's financial and business activities, including	1,264	1,264
- to residents	1,259	1,259
- to non-residents	5	5
Total	25,807	25,807

4.2 Accompanying information to the statement of income (form 0409807)

Information on losses and amounts of impairment reversal for each type of assets:

	Loans receivable	Correspondent accounts and other assets	Credit related commitments	Total
1 January 2012	–	457	–	457
Charge	–	639	–	639
Reversal	–	679	–	679
1 January 2013	–	417	–	417
Charge	15,795	630	17,550	33,975
Reversal	–	574	–	574
1 January 2014	15,795	473	17,550	33,818

Information on the amount of translation differences recognized in profit or loss, except for translation differences arising from financial instruments at fair value through profit or loss:

	2013	2012
Amount of translation differences (realized, revaluation)	19,012	140,856

Information on major components of tax expense (income):

	2013	2012
Property tax	122	178
Transport tax	113	134
VAT charged on goods and services	37,584	35,184
VAT charged on non-deductible goods and services	2,985	3,031
State duty paid	1	2
Customs duty paid	–	261
Income tax (20%)	1,520	212
Income tax on state securities (15%)	3,617	5,853
Taxes accrued (paid)	45,942	44,855

Since the Bank recognized a loss in the 2013 tax period (including tax accounting), the income tax of 20% is equal to zero. In 2013, the income tax was adjusted pursuant to the results of tax inspection for the previous tax period.

Translation of the original Russian version

Information on gains and losses arising as a result of changes in tax rates and introduction of new taxes:

In 2012 and 2013, no new taxes were introduced. Tax rates remained unchanged.

Information on employee benefits:

Personnel expenses and other employee remuneration comprise	2013	2012
Salaries and bonuses	644,392	785,963
Social security costs and other employment taxes	52,490	52,851
Other personnel expenses	19,242	15,154
Personnel expenses	716,124	853,968

Disposal of premises and equipment:

	2013	2012
Financial result from the sale (disposal) of premises and equipment	722	0

In 2013, the Bank was not involved in legal proceedings.

In 2013, the Bank did not charge/reverse any other reserves.

4.3. Accompanying information to the statement of capital adequacy (form 0409808)

The Bank's objectives when managing capital are: to comply with the capital requirements set by the Bank of Russia, including requirements of the deposit insurance system; to ensure that the Bank is able to continue as a going concern.

In 2013, calculation of the amount and assessment of adequacy of the capital were made in accordance with Regulation No. 215-P of the Bank of Russia dated 10 February 2003 "On the Method of Determining the Equity (Capital) of Credit Institutions" and Instruction No. 139-I of the Bank of Russia dated 3 December 2012 "On Obligatory Bank Ratios" on a daily basis.

In 2013, the Bank continued to develop internal procedures for capital adequacy assessment with regard to certain (key) risks based on the recommendations of the Basel Committee on Banking Supervision.

As of 1 January 2014, the Bank's charter capital amounts to RUB 3,450,000 thousand and comprises one share with a nominal value of RUB 3,450,000 thousand. The sole shareholder owns 100% of the charter capital.

The charter capital was last increased on 2 November 2011 by means of an additional contribution made by the sole shareholder in the amount of RUB 2,200,000 thousand.

The reserve fund is created as required by the Russian regulations in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve fund has been created in accordance with the Bank's Charter, which provides for the creation of a reserve fund for these purposes of not less than 5% of the Bank's charter capital reported in accordance with RAP.

Translation of the original Russian version

As of 1 January 2014, the reserve fund amounted to RUB 172,500 thousand (as of 1 January 2013: RUB 172,500 thousand).

While planning the Bank's future activities, the capital adequacy is assessed by monitoring the compliance of planned ratios with H1 ratios calculated taking into account the scale of the Bank's operations and risk exposure in respect of expected active transactions in accordance with Basel III requirements.

As of 1 January 2014, the equity (capital) adequacy ratio of the Bank calculated in accordance with the current capital requirements set by the CBR was 115.7% (2012: 98.7%). The minimum ratio is set by the Bank of Russia at 10%. In the reporting period, the Bank complied with the minimum capital adequacy ratio.

4.4. Accompanying information to the statement of cash flows (form 0409814)

4.4.1. Information on significant balances of the credit institution's cash and cash equivalents unavailable for use

In 2013, there were no significant balances unavailable for immediate use, except for deposits with the Bank of Russia (obligatory reserve deposit) and stock exchange reserves.

4.4.2. Information on significant investment and financial transactions that do not require the use of cash

There were no significant investment and financial transactions that do not require the use of cash in the reporting period. Debt or equity instruments of the Bank are not publicly traded; the Bank is not in the process of filing its financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market and does not prepare consolidated financial statements.

4.4.3. Information on unused borrowing facilities with the restricted use

As a participant of the credit institution refinancing program implemented by the Bank of Russia, OOO UBS Bank possesses different tools of borrowing from the Bank of Russia and uses credit facilities opened by the Bank of Russia.

As a participant of the financial market, OOO UBS Bank has open credit limits set by other financial market participants.

In 2013, all credit resources were used to refinance the deficit of the Bank's short-term liquidity or finance active transactions. In 2013, there were no unused borrowing facilities with the restricted use.

4.4.4. Information on cash flows used to enhance operating activities separately from cash flows used to support operating activities

The cash flows are presented below:

	2013 RUB'000	2012 RUB'000
Cash flows used to enhance operating activities	20,199	2,344
Cash flows used to support operating activities	950,130	1,100,181

Translation of the original Russian version

The Bank is engaged in a limited range of activities fully concentrated in Moscow region. Therefore, the Bank believes that no segment reporting by type of activity or geographic segments is required.

5. INFORMATION ON RISKS ASSUMED BY THE BANK, RISK ASSESSMENT AND RISK AND CAPITAL MANAGEMENT PROCEDURES

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 risk management policies of the Bank aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and respective controls, and to continuously monitor risk levels and compliance with the set limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Bank has established the risk and capital management systems and internal control system that are harmonized with the nature and scale of the transactions and the level and combination of risks assumed by the Bank.

Risk management functions are allocated within the Bank as follows.

The Board of Directors is ultimately responsible for risk identification and control; however, there are separate independent bodies responsible for risk management and control.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Management Board

The Management Board is responsible for monitoring the risk management process within the Bank.

The Risk Control Subdivision has the overall responsibility for the development of the risk management strategy and implementing principles, frameworks, policies and risk limits. The Risk Control Subdivision is responsible for the fundamental risk management issues so as to ensure an independent control process over compliance with principles, risk management policies and risk limits.

The Internal Audit reviews the adequacy of risk management procedures and the Bank's compliance with the procedures on the annual basis. The Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

The Bank's key 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.

Translation of the original Russian version

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 complex 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 Risk management Strategy determines the principal risk management approaches and areas implemented by the Bank.

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-tiered 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 justified, 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).

The results of risk monitoring and control are presented and explained to the Management Board and the Credit Risk Department. Reporting of industry risks takes place on a regular basis. The Management Board receives all the necessary information to assess the risks and to make the respective decisions on a quarterly basis.

For all levels throughout the Bank, risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

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

The Bank's capital management aims to ensure that the Bank complies with regulatory capital requirements established by the CBR and that the Bank is able to continue as a going concern. The compliance with the capital adequacy ratio is controlled through monthly reports submitted to the CBR.

According to capital requirements established by the CBR, the Bank is obliged to maintain a ratio of capital to risk-weighted assets at a level exceeding the obligatory minimum ratio of 10%.

As of 1 January 2014, the Bank's equity (capital) adequacy ratio was 115.7% (as of 1 January 2013: 98.7%).

As of 1 January 2014, equity (capital) amounted to RUB 3,914,474 thousand (as of 1 January 2013: RUB 4,001,670 thousand).

Translation of the original Russian version

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

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.

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 150,000 thousand. 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 operations 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 US dollar – all conversion transactions in other currencies are fully 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.

As of 1 January 2014, loans receivable from CJSC UBS Securities were included in risk group 2, and a provision in the amount of 3.51% of the debt was made.

As of 1 January 2014, the Bank made a provision for potential losses on correspondent accounts and other assets, amounting to RUB 473 thousand (as of 1 January 2013: RUB 417 thousand).

Since there were no claims against off-shore residents as of 1 January 2014, no corresponding provisions were created in relation thereto.

Translation of the original Russian version

In 2013 and 2012, the Bank complied with obligatory ratios established by the CBR with regard to the credit risk exposure.

The geographical concentration of assets and liabilities as of 1 January 2014 is set out below:

Assets and liabilities broken down	Total	Russia	Developed countries	Other countries
Assets				
Amounts due from other banks	335,472	210,792	124,680	–
Loans receivable	4,955,373	1,743,373	3,212,000	–
Premises and equipment, intangible assets and inventories	21,373	21,373	–	–
Other assets	312,666	148,129	164,537	–
Liabilities				
Amounts due to credit institutions	1,310,464	1,296	1,309,168	–
Amounts due to legal entities-non-credit institutions	308,226	278,638	194	29,394
Deposits of individuals	7,206	678	6,528	–
Other liabilities	32,564	32,564	–	–
Credit institution's irrevocable liabilities	500,000	500,000	–	–

The geographical concentration of assets and liabilities as of 1 January 2013 is set out below:

Assets and liabilities broken down	Total	Russia	Developed countries	Other countries
Assets				
Amounts due from other banks	1,219,581	132,358	1,087,223	–
Loans receivable	7,335,132	945,132	6,390,000	–
Financial assets at fair value through profit or loss	419,532	419,532	–	–
Premises and equipment, intangible assets and inventories	8,076	8,076	–	–
Other assets	155,911	102,007	53,904	–
Liabilities				
Amounts due to credit institutions	3,846,074	3,846,074	–	–
Amounts due to legal entities-non-credit institutions	1,108,195	1,059,588	687	47,920
Deposits of individuals	12,742	629	12,113	–
Financial liabilities at fair value through profit or loss	140,748	140,748	–	–
Other liabilities	25,807	25,721	86	–
Credit institution's irrevocable liabilities	38,938,377	20,817,632	18,120,745	–

Translation of the original Russian version

Information on credit risk by types of counterparties as of 1 January 2014:

RUB'000	Corporate customers	Correspondent banks	Individual entrepreneurs	Individuals	Total
ASSETS					
Credit institutions' balances with the Central Bank of the Russian Federation	–	197,642	–	–	197,642
Including obligatory reserves	–	97,565	–	–	97,565
Amounts due from credit institutions	–	137,830	–	–	137,830
Net loans receivable	434,205	4,521,168	–	–	4,955,373
Other assets	61,765	156,917	31	2,537	221,250

Information on credit risk by types of counterparties as of 1 January 2013:

RUB'000	Corporate customers	Correspondent banks	Individual entrepreneurs	Individuals	Total
ASSETS					
Credit institutions' balances with the Central Bank of the Russian Federation	–	130,612	–	–	130,612
Including obligatory reserves	–	69,421	–	–	69,421
Amounts due from credit institutions	–	1,088,969	–	–	1,088,969
Financial assets at fair value through profit or loss	–	419,532	–	–	419,532
Net loans receivable	–	7,335,132	–	–	7,335,132
Other assets	17,258	43,543	31	796	61,626

Information on credit risk by types of business activity of borrowers (counterparties) as of 1 January 2014:

RUB'000	Financial sector	Individuals	Services	Total
ASSETS				
Credit institutions' balances with the Central Bank of the Russian Federation	197,642	–	–	197,642
Including obligatory reserves	97,565	–	–	97,565
Amounts due from credit institutions	137,830	–	–	137,830
Net loans receivable	4,955,373	–	–	4,955,373
Other assets	61,796	2,537	156,917	221,250

Translation of the original Russian version

Information on credit risk by types of business activity of borrowers (counterparties) as of 1 January 2013:

RUB'000	Financial sector	Individuals	Services	Total
ASSETS				
Credit institutions' balances with the Central Bank of the Russian Federation	130,612	–	–	130,612
Including obligatory reserves	69,421	–	–	69,421
Amounts due from credit institutions	1,088,969	–	–	1,088,969
Financial assets at fair value through profit or loss	419,532	–	–	419,532
Net loans receivable	7,335,132	–	–	7,335,132
Other assets	17,287	796	43,543	61,626

Information on credit risk by types of the Bank's activity (business lines) as of 1 January 2014:

RUB'000	Corporate banking	Investment banking	Unallocated assets	Total
ASSETS				
Cash	–	–	111	111
Credit institutions' balances with the Central Bank of the Russian Federation, other than mandatory reserves	100,077	–	–	100,077
Obligatory reserves with the Central Bank of the Russian Federation	–	–	97,565	97,565
Amounts due from credit institutions	137,830	–	–	137,830
Net loans receivable	434,205	4,521,168	–	4,955,373
Other assets	156,917	–	64,333	221,250

Information on credit risk by types of the Bank's activity (business lines) as of 1 January 2013:

RUB'000	Corporate banking	Investment banking	Unallocated assets	Total
ASSETS				
Cash	–	–	361	361
Credit institutions' balances with the Central Bank of the Russian Federation, other than mandatory reserves	61,191	–	–	61,191
Obligatory reserves with the Central Bank of the Russian Federation	–	–	69,421	69,421
Amounts due from credit institutions	1,088,969	–	–	1,088,969
Financial assets at fair value through profit or loss	–	419,532	–	419,532
Net loans receivable	–	7,335,132	–	7,335,132
Other assets	43,543	–	18,083	61,626

Translation of the original Russian version

Information on classification by risk groups (in accordance with clause 2.3 of Instruction No. 139-I of the CBR dated 3 December 2012 "On obligatory bank ratios") as of 1 January 2014:

RUB'000	I	II	III	IV	V	No group	Total
ASSETS							
Cash	111	–	–	–	–	–	111
Credit institutions' balances with the Central Bank of the Russian Federation	197,642	–	–	–	–	–	197,642
Including obligatory reserves	97,565	–	–	–	–	–	97,565
Amounts due from credit institutions	137,572	258	–	–	–	–	137,830
Net loans receivable	4,521,168	434,205	–	–	–	–	4,955,373
Premises and equipment, intangible assets and inventories	–	–	–	21,373	–	–	21,373
Other assets	–	152,633	–	126,313	–	33,720	312,666

Information on classification by risk groups (in accordance with clause 2.3 of Instruction No. 110-I of the CBR dated 3 December 2012 "On obligatory bank ratios") as of 1 January 2013:

RUB'000	I	II	III	IV	V	No group	Total
ASSETS							
Cash	361	–	–	–	–	–	361
Credit institutions' balances with the Central Bank of the Russian Federation	87,291	43,321	–	–	–	–	130,612
Including obligatory reserves	69,421	–	–	–	–	–	69,421
Amounts due from credit institutions	–	1,088,969	–	–	–	–	1,088,969
Financial assets at fair value through profit or loss	–	–	–	–	–	419,532	419,532
Net loans receivable	–	7,335,132	–	–	–	–	7,335,132
Premises and equipment, intangible assets and inventories	–	–	–	8,076	–	–	8,076
Other assets	–	46,841	–	105,713	–	3,357	155,911

Translation of the original Russian version

On 16 October 2012, the Bank opened a credit line for CJSC UBS Securities in the amount of RUB 950,000 thousand. As of 31 December 2013, the credit line was utilized in the amount of RUB 450,000 thousand (as of 31 December 2012: 0). In accordance with Regulation No. 254-P, this loan was classified into quality category 2 with the provision in the amount of RUB 15,795 thousand as of 31 December 2013 (as of 31 December 2012: 0). In accordance with Regulation No. 283-P, as of 31 December 2013, a provision of RUB 17,550 thousand was created for off-balance credit-related commitments in the amount of RUB 500,000 thousand (as of 31 December 2012: 0).

The Bank implements an extremely conservative approach in respect of lending.

In managing the Bank's instant position and maintaining its liquidity in general, OOO UBS Bank, as a participant of the program for refinancing credit institutions implemented by the CBR, possesses different tools of immediate borrowing secured by market and non-market assets. Assets to be pledged as collateral for loans issued by the CBR are formed taking into account the Bank's resource requirements.

As of 1 January 2014, the accounts receivable totaled RUB 221,250 thousand (as of 1 January 2013: RUB 61,626 thousand).

As of 1 January 2014, the accounts payable totaled RUB 32,564 thousand (as of 1 January 2013: RUB 25,807 thousand).

As of 1 January 2014, overdue accounts receivable amounted to RUB 377 thousand. Provision for possible loss created by the Bank amounted to 100%.

Aging analysis of accounts receivable overdue as of 1 January 2014 is as follows (RUB):

- from 31 to 90 days – RUB 37 thousand;
- over 180 days – RUB 340 thousand.

As of 1 January 2013, overdue accounts receivable amounted to RUB 340 thousand. Provision for possible loss created by the Bank amounted to 100%.

Aging analysis of accounts receivable overdue as of 1 January 2013 is as follows (RUB):

- over 180 days – RUB 340 thousand.

In 2013, the Bank did not write off overdue accounts receivable.

As of 1 January 2014, the Bank had no overdue accounts on other balance sheet lines.

Information on classification of assets by quality categories and information on the amounts of estimated and actual provisions for possible losses as of 1 January 2014:

Translation of the original Russian version

RUB'000/ Quality category	I	II	III	IV	V	Total	Estimated provision	I	II	III	IV	V	Actual provision, total
ASSETS													
Cash	111	–	–	–	–	111	–	–	–	–	–	–	–
Credit institutions' balances with the Central Bank of the Russian Federation	197,642	–	–	–	–	197,642	–	–	–	–	–	–	–
Including obligatory reserves	97,565	–	–	–	–	97,565	–	–	–	–	–	–	–
Amounts due from credit institutions	137,572	261	–	–	–	137,833	3	–	3	–	–	–	3
Net loans receivable	4,521,165	450,000	–	–	–	4,971,168	15,795	–	15,795	–	–	–	15,795
Premises and equipment, intangible assets and inventories	21,373	–	–	–	–	21,373	–	–	–	–	–	–	–
Other assets	309,674	3,085	–	–	377	313,136	470	–	93	–	–	377	470

Translation of the original Russian version

Information on classification of assets by quality categories and information on the amounts of estimated and actual provisions for possible losses as of 1 January 2013:

RUB'000/ Quality category	I	II	III	IV	V	Total	Estimated provision	I	II	III	IV	V	Actual provision, total
ASSETS													
Cash	361	–	–	–	–	361	–	–	–	–	–	–	–
Credit institutions' balances with the Central Bank of the Russian Federation	130,612	–	–	–	–	130,612	–	–	–	–	–	–	–
Including obligatory reserves	69,421	–	–	–	–	69,421	–	–	–	–	–	–	–
Amounts due from credit institutions	1,087,223	1,764	–	–	–	1,088,987	18	–	18	–	–	–	18
Financial assets at fair value through profit or loss	419,532	–	–	–	–	419,532	–	–	–	–	–	–	–
Net loans receivable	7,335,132	–	–	–	–	7,335,132	–	–	–	–	–	–	–
Premises and equipment, intangible assets and inventories	8,076	–	–	–	–	8,076	–	–	–	–	–	–	–
Other assets	154,014	1,956	–	–	340	156,310	399	–	59	–	–	340	399

Translation of the original Russian version

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 use hypothetical potential losses for internal purposes, the Bank calculates values 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 comply with the market risk assessment methods, 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.

Market risk is assessed in accordance with CBR Regulation No. 387-P "On Estimation of Market Risk Exposure by Credit Institutions".

Translation of the original Russian version

The market risk exposure broken down by components as of 1 January 2014 and 1 January 2013 is as follows:

	1 January 2014, RUB'000	1 January 2013, RUB'000
Market risk, total, including:	0	142,981
Interest rate risk, including:	0	27,374
- special interest rate risk	0	22,461
- general interest rate risk	0	4,913
Equity risk, including:	0	0
- special equity risk	0	0
- general equity risk	0	0
Currency risk	5,727	115,607

Currency risk – is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Bank has assets and liabilities denominated in several foreign currencies. The Bank exercises daily control over the currency risk exposure by complying with open currency position limits.

The currency risk is minimized through a balanced open currency position which enables to maintain the required liquidity broken down by foreign currency.

As of 1 January 2014, the currency risk amounted to RUB 5,727 thousand, which accounts for 0.15% of equity (capital). In accordance with CBR Regulation No. 387-P, the amount of the currency risk is not used in calculation of market risk.

As of 1 January 2014, the foreign currency structure of assets and liabilities was as follows:

Assets and liabilities broken down by foreign currencies	810	840	978	Other	Total
I. ASSETS					
1. Cash	111	–	–	–	111
2. Credit institutions' balances with the Central Bank of the Russian Federation	197,642	–	–	–	197,642
2.1. Obligatory reserves	97,565	–	–	–	97,565
3. Amounts due from credit institutions	10,523	126,206	446	655	137,830
5. Net loans receivable	3,646,205	1,309,168	–	–	4,955,373
8. Premises and equipment, intangible assets and inventories	21,373	–	–	–	21,373
9. Other assets	160,025	152,641	–	–	312,666
10. Total assets	4,035,879	1,588,015	446	655	5,624,995
12. Amounts due to credit institutions	-1,296	-1,309,168	–	–	-1,310,464
13. Amounts due to customers (non- credit institutions)	-30,866	-284,566	–	–	-315,432
13.1. Deposits of individuals	0	-7,206	–	–	-7,206
16. Other liabilities	-32,564	–	–	–	-32,564
17. Provisions for potential losses under credit-related commitments, other potential losses and transactions with offshore residents	17,550	–	–	–	17,550
18. Total liabilities	-82,276	-1,593,734	–	–	-1,676,010

Translation of the original Russian version

As of 1 January 2013, the foreign currency structure of assets and liabilities was as follows:

Assets and liabilities broken down by foreign currencies	810	840	978	Other	Total
I. ASSETS					
1. Cash	361	–	–	–	361
2. Credit institutions' balances with the Central Bank of the Russian Federation	130,612	–	–	–	130,612
2.1. Obligatory reserves	69,421	–	–	–	69,421
3. Amounts due from credit institutions	1,760	1,086,176	1,033	–	1,088,969
4. Financial assets at fair value through profit or loss	419,532	–	–	–	419,532
5. Net loans receivable	7,332,690	2,442	–	–	7,335,132
8. Premises and equipment, intangible assets and inventories	8,076	–	–	–	8,076
9. Other assets	119,062	36,849	–	–	155,911
10. Total assets	8,012,093	1,125,467	1,033	–	9,138,593
II. LIABILITIES					
12. Amounts due to credit institutions	-3,846,074	–	–	–	-3,846,074
13. Amounts due to customers (non-credit institutions)	-54,631	-1,066,306	–	–	-1,120,937
13.1. Deposits of individuals	-12,113	-629	–	–	-12,742
14. Financial liabilities at fair value through profit or loss	-140,748	–	–	–	-140,748
16. Other liabilities	-25,807	–	–	–	-25,807
18. Total liabilities	-4,067,260	-1,066,935	–	–	-5,133,566

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, their breach 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.

Translation of the original Russian version

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.

In addition, operational risk in the Bank is mitigated through:

- personal and property insurance contracts concluded by the Bank;
- an action plan developed by the Bank in order to ensure business continuity and business recovery in case of emergency.

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

The amount of income used for calculating capital requirements to cover operational risk is presented below:

	2013 (RUB'000)	2012 (RUB'000)
Net interest income	210,236	305,541
Net gains from securities at fair value through profit or loss	–	–
Net gains from foreign currency transactions	246,044	–
Net gains from foreign currency revaluation	–	186,648
Income from interests in other legal entities	–	–
Fee and commission income	4,981	6,599
Other operating income	810,286	247,379
Less:		
Fee and commission expenses	18,989	33,864
	1,252,558	712,303
Operational risk exposure	171,417	163,113

In 2013 and 2012, the Bank complied with prudential ratios established by the CBR.

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.

Translation of the original Russian version

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.

The Bank's Risk Management Committee acts and decides on managing and controlling the liquidity risk.

As of 1 January 2014, the Instant Liquidity Ratio (N2) was 440.7% (as of 1 January 2013: 101.6%), and the Current Liquidity Ratio (N3) was 1153.6% (as of 1 January 2013: 176.9%).

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 or 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 may affect the level of legal risk.

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

Translation of the original Russian version

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;
- 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, the Bank relies on its Strategic Development Plan covering the period until the end of 2015 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.

Translation of the original Russian version

Strategic risk may 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.

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.

6. INFORMATION ON THE CREDIT INSTITUTION'S RELATED PARTY TRANSACTIONS

As of 1 January 2014, all claims to the Bank's related parties are not past due (As of 1 January 2013: claims are not past due).

Transactions with the Bank's related parties as of 1 January 2014 are disclosed below:

RUB'000	Parent credit institution	Subsidiaries	Associates	Joint venture participants	Key management personnel	Entities under common control	Total transactions with related parties
Amounts due from credit institutions	124,683	–	–	–	–	–	124,683
Net loans receivable	3,212,000	–	–	–	–	434,205	3,646,205
Other assets	153,349	–	–	–	–	120	153,469
Amounts due to credit institutions	1,309,168	–	–	–	–	–	1,309,168
Customer accounts	–	–	–	–	6,528	308,226	314,754
Irrevocable liabilities	–	–	–	–	–	500,000	500,000

Translation of the original Russian version

In 2013 and 2012, transactions with related parties were made at standard arm's length terms.

Income and expense items with related parties for 2013 are disclosed below:

RUB'000	Parent credit institution	Subsidiaries	Associates	Joint venture participants	Key management personnel	Entities under common control	Total transactions with related parties
Interest income	239,142	–	–	–	–	249	239,391
Including interest on deposits to credit institutions	239,142	–	–	–	–	–	239,142
Including interest on loans to customers (non-credit institutions)	–	–	–	–	–	249	249
Interest expense	696	–	–	–	591	–	1,287
Including interest on deposits from credit institutions	696	–	–	–	–	–	696
Including interest on loans from customers (non-credit institutions)	–	–	–	–	591	–	591
Net gains from foreign currency transactions	517,939	–	–	–	0	-10,745	507,194
Other operating income	810,286	–	–	–	–	–	810,286
Operating expenses	–	–	–	–	189,971	90,498	280,469

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

RUB'000	Parent credit institution	Subsidiaries	Associates	Joint venture participants	Key management personnel	Entities under common control	Total transactions with related parties
Amounts due from credit institutions	933,181	–	–	–	–	–	933,181
Other assets	46,831	–	–	–	2	331	47,164
Net loans receivable	6,390,000	–	–	–	–	–	6,390,000
Customer accounts	–	–	–	–	12,113	1,103,398	1,115,511
Irrevocable liabilities	18,120,745	–	–	–	–	1,147,778	19,268,533

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

RUB'000	Parent credit institution	Subsidiaries	Associates	Joint venture participants	Key management personnel	Entities under common control	Total transactions with related parties
Interest income	155,294	–	–	–	–	–	155,294
Interest expense	4,626	–	–	–	614	74	5,314
Including interest on loans from customers (non-credit institutions)	–	–	–	–	614	74	688
Net gains from foreign currency transactions	-1,010,563	–	–	–	–	72,095	-938,468
Other operating income	206,190	–	–	–	–	–	206,190

Translation of the original Russian version

7. INFORMATION ON COMPENSATION (BENEFITS) TO THE KEY MANAGEMENT PERSONNEL

The Bank's key management personnel includes:

- Chairman of the Bank's Management Board;
- Members of the Management Board;
- Deputies of the Chairman of the Management Board;
- Chief Accountant.

As of 31 December 2013, the average headcount of the Bank was 95 employees, including:

- key management personnel – 3 employees.

Short-term compensation to the key management personnel is paid in accordance with employment agreements and comprises:

- salary for the previous month;
- monthly/quarterly bonuses depending on the Bank's operating results;
- annual bonuses depending on the Bank's operating results for the previous year.

No long-term compensation was paid to the key management personnel.

Amounts and types of compensation paid by the credit institution in 2013:

Types of compensation (salaries, bonuses, fees, benefits and (or) reimbursements, other)	Compensation amount, 2013, RUB	Compensation amount, 2012, RUB
	Management Board	
Salaries	22,491,352.64	21,833,975.15
Bonuses	–	97,653.90
Vacation payments	3,224,196.62	2,815,757.87
Financial aid	–	–
Other benefits	–	–
Annual bonus for 2012	–	13,085,540.36
Annual bonus for 2013	15,200,075.31	–
Insurance contributions	1,697,154.51	1,616,375.82
Total	42,612,779.08	39,449,303.10
	Other key management personnel	
Salaries	72,941,869.16	48,546,515.97
Bonuses		292,961.71
Vacation payments	9,456,214.82	5,502,226.17
Financial aid		47,287.80
Other benefits	18,792,732.96	10,193,660.68
Annual bonus	38,708,572.55	12,994,067.70
Insurance contributions	7,458,529.60	4,546,250.71
Total	147,357,919.09	82,122,970.74

Translation of the original Russian version

The procedure and terms of payments to the key management personnel are described in the Regulation "On Payroll and Other Incentive Payments of OOO UBS Bank"; bonus funds are made and allocated by business units in accordance with the methods approved by the Chairman of the Bank's Management Board. No amendments were made to the Regulation during the reporting period.

The Bank complied with all rules and procedures stipulated in the Regulation "On Payroll and Other Incentive Payments of OOO UBS Bank".

8. METHOD OF DISCLOSURE OF THE ANNUAL FINANCIAL STATEMENTS

In accordance with Instructive Regulation No. 3081-U of the Bank of Russia dated 25 October 2013 "On Disclosure by Credit Institutions of Information Concerning Their Activities" (together with Explanatory information to the annual financial statements), the method of disclosure of the annual financial statements is determined by the credit institution independently. The annual financial statements are deemed to be disclosed when they are posted on the official website of a credit institution in the public telecommunication network "Internet" and (or) published in the mass media.

At the date of the annual financial statements preparation, management decided to disclose the annual financial statements by posting them on the official website of OOO UBS Bank in the public telecommunication network "Internet" – www.ooo-ubs-bank.com.

Chairman of the Management Board

P.E. Goldfinch

Stamp

Chief Accountant

O.N. Rubashko

Prepared by
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April 25, 2014
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