



**000 UBS Bank**

**Financial statements**

*Year ended 31 December 2012*

*Together with Independent auditor's report*

Ernst & Young

 **ERNST & YOUNG**

## Contents

### Independent auditor's report

Statement of financial position .....	1
Statement of comprehensive income .....	2
Statement of changes in net assets attributable to the shareholder .....	3
Statement of cash flows .....	4

### Notes to financial statements

1. Principal activities .....	5
2. Basis of preparation .....	5
3. Summary of accounting policies .....	6
4. Significant accounting judgments and estimates .....	13
5. Cash and cash equivalents .....	14
6. Obligatory reserves with the Central Bank of the Russian Federation .....	14
7. Trading securities .....	15
8. Amounts due from other banks .....	15
9. Derivative financial instruments .....	15
10. Property and equipment and intangible assets .....	16
11. Taxation .....	16
12. Other assets and liabilities .....	18
13. Amounts due to credit institutions .....	18
14. Amounts due to customers .....	18
15. Net assets attributable to the shareholder .....	19
16. Commitments and contingencies .....	19
17. Net fee and commission expense .....	20
18. Income from consulting services and other income .....	20
19. Personnel and other operating expenses .....	20
20. Risk management .....	21
21. Fair values of financial instruments .....	29
22. Related party transactions .....	30
23. Capital adequacy .....	32
24. Events after the reporting period .....	32

## Independent auditor's report

To the Shareholder and Board of Directors of OOO UBS Bank

We have audited the accompanying financial statements of OOO UBS Bank, which comprise the statement of financial position as of 31 December 2012, and the statement of comprehensive income, of changes in net assets attributable to the shareholder and of cash flows for 2012, and a summary of significant accounting policies and other explanatory notes.

### ***Audited entity's responsibility for the financial statements***

Management of the audited entity is responsible for the preparation and fairness of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

We conducted our audit in accordance with the Russian federal standards on auditing and International Standards on Auditing. These standards require that we comply with applicable ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fairness of the financial statements in order to select appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of OOO UBS Bank as of 31 December 2012, its financial performance and cash flows for the year 2012 in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink, appearing to be 'E.V. Zaichikova'.

E.V. Zaichikova  
Partner  
Ernst & Young LLC

26 April 2013

### **Details of the audited entity**

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

### **Details of the auditor**

Name: Ernst & Young LLC  
Main State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 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.

**Statement of financial position**

**As of 31 December 2012**

(Thousands of Russian Rubles)

	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Assets</b>			
Cash and cash equivalents	5	8,488,945	2,994,738
Obligatory reserves with the Central Bank of the Russian Federation	6	69,421	91,839
Trading securities	7	280,155	2,571,311
Amounts due from other banks	8	—	41,808
Derivative financial assets	9	151,258	760
Property and equipment and intangible assets	10	6,886	13,816
Current income tax assets	11	92,028	92,028
Deferred income tax assets	11	43,005	56,044
Other assets	12	66,510	92,086
<b>Total assets</b>		<b>9,198,208</b>	<b>5,954,430</b>
<b>Liabilities</b>			
Amounts due to credit institutions	13	3,848,419	1,111,618
Derivative financial liabilities	9	199,796	15,223
Amounts due to customers	14	1,121,019	204,849
Current income tax liabilities	11	—	307
Other liabilities	12	198,000	311,862
<b>Total liabilities, excluding net assets attributable to the shareholder</b>		<b>5,367,234</b>	<b>1,643,859</b>
<b>Net assets attributable to the shareholder</b>			
Share capital	15	3,450,000	3,450,000
Additional paid-in capital		925,851	925,851
Accumulated loss		(544,877)	(65,280)
<b>Total net assets attributable to the shareholder</b>		<b>3,830,974</b>	<b>4,310,571</b>
<b>Total liabilities</b>		<b>9,198,208</b>	<b>5,954,430</b>

Signed and authorized for release on behalf of the Management Board of the Bank

Chairman of the Management Board

K.R. Schmid

Chief Accountant

O.N. Rubashko

26 April 2013





**Statement of comprehensive income**  
**For the year ended 31 December 2012**  
*(Thousands of Russian Rubles)*

	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Interest income</b>			
Cash and cash equivalents		195,910	95,452
Amounts due from other banks		295	17,884
Trading securities		208,262	235,126
		<u>404,467</u>	<u>348,462</u>
<b>Interest expense</b>			
Amounts due to credit institutions		(98,239)	(69,721)
Amounts due to customers		(687)	(7,407)
		<u>(98,926)</u>	<u>(77,128)</u>
<b>Net interest income</b>		<u>305,541</u>	<u>271,334</u>
Net fee and commission expense	17	(27,863)	(21,953)
Net losses from trading securities		(38,320)	(40,815)
Net (losses)/gains from foreign currencies:			
- dealing		(73,582)	(305,386)
- translation differences		186,647	310,073
Income from consulting services and other income	18	247,379	713,755
<b>Non-interest income</b>		<u>294,261</u>	<u>655,674</u>
Personnel expenses	19	(772,808)	(764,408)
Depreciation and amortization	10	(9,697)	(14,326)
Other operating expenses	19	(278,002)	(275,085)
<b>Non-interest expense</b>		<u>(1,060,507)</u>	<u>(1,053,819)</u>
<b>Loss before income tax and transactions with the shareholder</b>		<u>(460,705)</u>	<u>(126,811)</u>
Income tax (expense)/benefit	11	(18,892)	10,083
<b>Loss for the year before transactions with the shareholder</b>		<u>(479,597)</u>	<u>(116,728)</u>
<b>Other comprehensive income before transactions with the shareholder</b>		-	-
<b>Total comprehensive loss for the year before transactions with the shareholder</b>		<u>(479,597)</u>	<u>(116,728)</u>

**Statement of changes in net assets attributable to the shareholder****For the year ended 31 December 2012***(Thousands of Russian Rubles)*

	<i>Note</i>	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings/ (accumulated loss)</i>	<i>Net assets attributable to the shareholder</i>
<b>31 December 2010</b>		<b>1,250,000</b>	<b>736,471</b>	<b>51,448</b>	<b>2,037,919</b>
Loss for the year before transactions with the shareholder		–	–	(116,728)	(116,728)
Other comprehensive income before transactions with the shareholder		–	–	–	–
<b>Total comprehensive loss for the year before transactions with the shareholder</b>		<b>–</b>	<b>–</b>	<b>(116,728)</b>	<b>(116,728)</b>
Increase in share capital	15	2,200,000	–	–	2,200,000
Pecuniary aid	15	–	189,380	–	189,380
<b>31 December 2011</b>		<b>3,450,000</b>	<b>925,851</b>	<b>(65,280)</b>	<b>4,310,571</b>
Loss for the year before transactions with the shareholder		–	–	(479,597)	(479,597)
Other comprehensive income before transactions with the shareholder		–	–	–	–
<b>Total comprehensive loss for the year before transactions with the shareholder</b>		<b>–</b>	<b>–</b>	<b>(479,597)</b>	<b>(479,597)</b>
Increase in share capital		–	–	–	–
<b>31 December 2012</b>		<b>3,450,000</b>	<b>925,851</b>	<b>(544,877)</b>	<b>3,830,974</b>

**Statement of cash flows****For the year ended 31 December 2012***(Thousands of Russian Rubles)*

	<i>Note</i>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>			
Interest received		422,261	355,564
Interest paid		(96,716)	(76,985)
Fees and commissions received		6,598	7,969
Fees and commissions paid		(34,461)	(29,922)
Gains less losses from trading securities		(45,566)	(51,204)
Realized gains less losses from dealing in foreign currencies		(39,507)	(276,297)
Other income received		247,379	713,755
Personnel expenses paid		(860,088)	(641,389)
Other operating expenses paid		(100,100)	(280,697)
<b>Cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>(500,200)</b>	<b>(279,206)</b>
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		2,277,948	835,167
Amounts due from credit institutions and obligatory reserves with the Central Bank of the Russian Federation		56,565	752
Other assets		24,371	(28,704)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		2,972,950	(2,665,611)
Amounts due to customers		935,809	(1,330,369)
Other liabilities		(204,504)	(17,771)
<b>Net cash flows from/(used in) operating activities before income tax</b>		<b>5,562,939</b>	<b>(3,485,742)</b>
Income tax paid		(6,160)	(7,188)
<b>Net cash from/(used in) operating activities</b>		<b>5,556,779</b>	<b>(3,492,930)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	10	(2,767)	(7,766)
Proceeds from sale of property and equipment		–	1,055
<b>Net cash used in investing activities</b>		<b>(2,767)</b>	<b>(6,711)</b>
<b>Cash flows from financing activities</b>			
Increase in share capital		–	2,200,000
Pecuniary aid	15	–	189,380
<b>Net cash from financing activities</b>		<b>–</b>	<b>2,389,380</b>
Effect of exchange rates changes on cash and cash equivalents		(62,465)	16,451
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,491,547</b>	<b>(1,093,810)</b>
<b>Cash and cash equivalents, beginning</b>		<b>2,994,124</b>	<b>4,087,934</b>
<b>Cash and cash equivalents, ending</b>	5	<b>8,485,671</b>	<b>2,994,124</b>



*(in thousands of Russian Rubles, unless otherwise indicated)*

## 1. Principal activities

OOO UBS Bank (hereinafter, the "Bank") was established on 22 July 2005 as a Limited Liability Company under the laws of the Russian Federation.

The Bank operates under banking license No. 3463 issued by the Central Bank of Russia ("CBR") on 6 June 2006.

The Bank holds license No. 3463 issued by the Bank of Russia on 4 August 2010 for accepting public deposits denominated in Russian Rubles and foreign currency.

The Bank also possesses licenses of a professional shareholder of the securities market issued by the Federal Service for the Securities Market:

- ▶ for custody services No. 177-12414-000100 dated 30 July 2009 – unlimited;
- ▶ for brokerage services No. 177-12405-100000 dated 30 July 2009 – unlimited;
- ▶ for dealing services No. 177-12408-010000 dated 30 July 2009 – unlimited.

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

In 2012, the Bank continued providing brokerage services to its individual and corporate customers and entering into transactions in its own name and for its own account. Such transactions included foreign exchange and lending and deposit transactions in the interbank market and with the CBR as well as purchase/sale of corporate and government bonds.

In 2012, the Bank continued developing its investment banking business having provided significant additional staff resources to its Consulting Services Department and Private Capital Management Department. Within this business line the Bank provides M&A, debt restructuring and other consulting services across the capital market.

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

As of 31 December 2012 and 2011, the Bank did not have its own credit ratings.

The Bank is located in Moscow and has no branches and affiliates. As of 31 December 2012, the actual headcount of the Bank was 111 employees (2011: 105 employees).

The Bank's registered address and principal place of business is 2/2 Paveletskaya Square, Moscow, 115054, Russia.

As of 31 December 2012 and 2011, UBS AG, the sole shareholder of the Bank, owned 100% of the Bank's share capital.

UBS AG is the ultimate parent of the Bank, incorporated and operating under the Swiss laws. The Bank conducts its activities and determines range of transactions, pricing policy and risk assessment techniques in compliance with the parent's requirements.

## 2. Basis of preparation

### General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on RAL, as adjusted and reclassified in order to comply with IFRS.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities and derivative financial instruments have been measured at fair value.

These financial statements are presented in thousands of Russian Rubles ("RUB"), unless otherwise indicated.

(in thousands of Russian Rubles, unless otherwise indicated)

## 2. Basis of preparation (continued)

### Reconciliation of RAL and IFRS equity (net assets attributable to the shareholder) and profit (loss) for the year

Equity (net assets attributable to the shareholder) and profit/(loss) for the year are reconciled between RAL and IFRS as follows:

	2012		2011	
	<i>Equity (net assets attributable to the shareholder)</i>	<i>Profit (loss) for the year</i>	<i>Equity (net assets attributable to the shareholder)</i>	<i>Profit (loss) for the year</i>
<b>Russian Accounting Legislation</b>	<b>4,005,027</b>	<b>(528,858)</b>	<b>4,533,885</b>	<b>207,428</b>
Bonuses accrued	(164,947)	89,196	(254,143)	(121,263)
Pecuniary aid	–	–	–	(189,380)
Audit fees accrued	(3,224)	61	(3,285)	(568)
Recognition of and accounting for property and equipment	(1,190)	(3,573)	2,383	(7,891)
Fair value re-measurement of securities	(579)	3,658	(4,237)	872
Fair value re-measurement of derivative assets and liabilities	(46,560)	(32,097)	(14,463)	(29,470)
Deferred tax	43,005	(13,039)	56,044	28,621
Income tax	–	212	(212)	(212)
Other	(558)	4,843	(5,401)	(4,865)
<b>International Financial Reporting Standards</b>	<b>3,830,974</b>	<b>(479,597)</b>	<b>4,310,571</b>	<b>(116,728)</b>

## 3. Summary of accounting policies

### Changes in accounting policies

The Bank has adopted the following amended IFRS during the year:

#### *Amendment to IFRS 7 Financial Instruments: Disclosures*

The amendment was issued in October 2010 and is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

Other amendments resulting from Improvements to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- ▶ Amendment to IAS 12 *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*;
- ▶ Amendment to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*.

### Financial assets

#### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition.

*(in thousands of Russian Rubles, unless otherwise indicated)*

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *'Day 1' profit*

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable, or when the instrument is derecognized.

##### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the statement of comprehensive income.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

##### *Determination of fair value*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value is the current bid price for financial assets and current ask price for financial liabilities which are quoted in an active market. "Quoted in an active market" means that quoted prices are readily and regularly available from an exchange or another organization, and that those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

##### *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts, and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash on hand, amounts due from the CBR (net of obligatory reserves), interbank deposits, accounts in trade systems and repurchase agreements with original maturity up to 30 days. Amounts relating to funds that are of restricted nature are excluded from cash and cash equivalents.

*(in thousands of Russian Rubles, unless otherwise indicated)*

### 3. Summary of accounting policies (continued)

#### Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("reverse repos") are treated as secured financing transactions. Securities purchased under agreements to resell ("reverse repos") are recorded as cash and cash equivalents, amounts due from other banks or loans and advances to customers, depending on counterparty and agreement term.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

#### Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards and swaps in the foreign exchange markets. Such financial instruments are held for trading and are initially recognized at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of comprehensive income as net gains/(losses) from foreign currencies dealing.

#### Borrowings

Financial instruments are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and amounts due to customers. After initial recognition, borrowings are measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the borrowings are derecognized as well as through the amortization process.

#### Leases

##### *Operating – Bank as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

#### Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

##### *Amounts due from credit institutions*

For amounts due from credit institutions carried at amortized cost, the Bank assesses individually whether objective evidence of impairment exists.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If amounts due from credit institutions have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

(in thousands of Russian Rubles, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ the rights to receive cash flows from the asset have expired;
- ▶ the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- ▶ the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

##### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

#### Taxation

The current income tax expense is calculated in accordance with the regulations of the Russian Federation.

Current tax is calculated based on the amounts expected to be paid to or recovered from the taxation authorities in respect of the taxable profits or losses for the current and prior periods. Tax expenses, other than income tax, are recorded within operating expenses.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Russia also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

#### Property and equipment and intangible assets

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment recognized when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

(in thousands of Russian Rubles, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Property and equipment and intangible assets (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Office equipment	2-6
Computers and office appliances	3-4
Telecommunication equipment	3-4
Computer software	3-4
Motor vehicles	3-4

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Expenditures incurred in developing or upgrading computer software are recognized as an asset when the related software meets the identifiability criterion and it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Internally developed software that meets the above criteria, and acquired software is classified into the "Computer Software" category.

#### Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

#### Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. Apart from the above, the Bank has no significant post-retirement benefits.

#### Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

#### Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### *Interest and similar income and expense*

For all financial instruments measured at amortized cost and interest bearing securities classified as trading, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

##### *Fee and commission income and expenses*

Fees and commission income and expenses are recognized on an accrual basis in the moment the service is provided.

(in thousands of Russian Rubles, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Foreign currency translation

The financial statements are presented in Russian Rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of comprehensive income as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of transactions in a foreign currency and the Central Bank exchange rate on the date of the transactions are included in gains less losses from dealing in foreign currencies.

The official CBR exchange rates as of 31 December 2012 and 2011 were RUB 30.3727 and RUB 32.1961 to 1 USD, respectively.

#### Future changes in accounting policies

##### *Standards and interpretations issued but not yet effective*

###### *IFRS 9 Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Bank will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

###### *IFRS 10 Consolidated Financial Statements*

IFRS 10 *Consolidated Financial Statements* establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. IFRS 10 will have no impact on the Bank's financial statements as the Bank does not prepare consolidated financial statements.

###### *IFRS 11 Joint Arrangements*

IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures*, and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*, and becomes effective for annual periods starting on or after 1 January 2013. Earlier application is permitted. IFRS 11 will have no impact on the Bank's financial statements as the Bank is not a member of jointly controlled entities.

###### *IFRS 12 Disclosure of Interests in Other Entities*

The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosure requirements were introduced in relation to such entities. IFRS 12 will have no impact on the Bank's financial statements as the Bank has no investments to subsidiaries, joint arrangements, associates and structured entities.



(in thousands of Russian Rubles, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted under other IFRS. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of IFRS 13 may have effect on the measurement of the Bank's assets and liabilities accounted for at fair value. Currently, the Bank evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

##### *IAS 27 Separate Financial Statements (revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment is expected to have no impact on the Bank's financial position or performance.

##### *IAS 28 Investments in Associates and Joint Ventures (revised in 2011)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*. The revised standard describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment is expected to have no impact on the Bank's financial position or performance.

##### *Amendment to IAS 19 Employee Benefits*

The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces significant changes to the method of accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, the amendment limits changes in net pension assets (liabilities) recognized in profit and loss to net interest income (expense) and cost of services. The amendment will have no impact on the Bank's financial position or performance.

##### *Amendment to IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income*

The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

##### *Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosure requirements apply to all recognized financial instruments that are subject to netting arrangement in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments will have no impact on the Bank's financial position or performance. The amendments are effective for annual periods beginning on or after 1 January 2013.

##### *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact on the Bank by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

(in thousands of Russian Rubles, unless otherwise indicated)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Bank's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

The amendments become effective for annual periods beginning on or after 1 January 2014.

#### *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Government Loans*

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Bank's financial statements.

#### *Improvements to IFRS*

The amendments are effective for annual periods beginning on or after 1 January 2013. The following amendments will have no impact on the Bank:

*IFRS 1 First-time Adoption of International Financial Reporting Standards.* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

*IAS 1 Presentation of Financial Statements.* This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the information for the previous reporting period.

*IAS 16 Property, Plant and Equipment.* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments: Presentation.* This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

*IAS 34 Interim Financial Reporting.* This amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

### 4. Significant accounting judgments and estimates

#### Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

#### Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank's companies may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may take a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

(in thousands of Russian Rubles, unless otherwise indicated)

#### 4. Significant accounting judgments and estimates (continued)

##### Taxation (continued)

Transfer pricing legislation in Russia allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price differs upwards or downwards from the market price by more than 20 percent. Under current transfer pricing legislation "controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties characterized by significant price fluctuations (i.e. if the price applied under these transactions differs from the price applied under similar transactions by more than 20 percent within a short period of time). Special transfer pricing rules apply to transactions with securities and derivatives. Transfer pricing rules as currently in effect are vaguely drafted, generally leaving wide scope for their interpretation by the tax authorities and courts in practice.

As of 31 December 2012, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

#### 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2012</u>	<u>2011</u>
Cash on hand	361	154
Current accounts with the CBR (other than obligatory reserves)	17,870	331
Current accounts with other banks		
- Russian Federation	4,207	7,433
- other countries	1,087,223	11,700
Settlement accounts with trading systems	986,010	837,452
Time deposits with credit institutions up to 30 days in other countries	6,390,000	1,461,703
Reverse repo agreements up to 30 days		
- with credit institutions	-	675,351
	<u>8,485,671</u>	<u>2,994,124</u>
Interest receivable on time deposits with credit institutions up to 30 days in other countries	3,274	4
Interest receivable on reverse repo agreements up to 30 days	-	610
<b>Total cash and cash equivalents</b>	<u><b>8,488,945</b></u>	<u><b>2,994,738</b></u>

Current accounts with the CBR include deposits with the CBR placed to effectuate current settlements and other operations.

As of 31 December 2012, balances on current accounts with banks in other countries comprise balances on current accounts with the parent bank in the amount of RUB 933,181 (2011: RUB 11,366) (Note 22).

As of 31 December 2012, RUB 6,390,000 were placed as short-term deposits with the parent bank (2011: RUB 1,461,703). As of 31 December 2012, interest receivable on time deposits with the parent bank amounted to RUB 3,274 (2011: RUB 4) (Note 22).

As of 31 December 2012, the Bank did not have any open reverse repo agreements. As of 31 December 2012, the Bank entered into reverse repurchase agreements with several credit institutions. The subject of these agreements is bonds issued by Russian companies with a fair value of RUB 801,921.

#### 6. Obligatory reserves with the Central Bank of the Russian Federation

Obligatory reserves with the Central Bank of the Russian Federation are the deposits with the CBR which may not be withdrawn by the Bank to finance its day-to-day operations. Credit institutions are required to maintain a non-interest earning deposit (as contributions to the obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. Those contributions are not included in cash and cash equivalents as such deposit withdrawal is significantly restricted by the statutory legislation.

As of 31 December 2012, obligatory reserves with the Central Bank of the Russian Federation amounted to RUB 69,421 (2011: RUB 91,839).

(in thousands of Russian Rubles, unless otherwise indicated)

## 7. Trading securities

Trading securities owned by the Bank comprise:

	<u>2012</u>	<u>2011</u>
Bonds of credit institutions	280,155	1,008,199
Corporate bonds	–	1,153,660
Russian state bonds (OFZ)	–	206,350
Bonds of the Finance Department of Krasnoyarsk Region Administration	–	203,102
<b>Trading securities</b>	<b><u>280,155</u></b>	<b><u>2,571,311</u></b>

All trading securities owned by the Bank are denominated in Russian Rubles.

Bonds of credit institutions comprise debt securities issued by major Russian banks.

Corporate bonds are debt securities issued by major Russian ferrous and non-ferrous, oil and gas, mining and machine building companies.

OFZs are state securities issued by the Russian Ministry of Finance.

Nominal interest rates and maturities of these securities are as follows:

	<u>2012</u>		<u>2011</u>	
	%	Maturity	%	Maturity
Bonds of credit institutions	9.75%	2015	8.25%-11%	2014-2021
Corporate bonds	–	–	8.25%-10.4%	2014-2021
Russian state bonds (OFZ)	–	–	6.85%	2012
Bonds of Krasnoyarsk Region Administration	–	–	9.5%	2016

## 8. Amounts due from other banks

As of 31 December 2012, the Bank had no balances on Amounts due from other banks. As of 31 December 2011, the balance of RUB 41,808 representing a time deposit placed with the parent bank in euro is recognized in Amounts due from other banks. The above amount includes interest receivable totaling RUB 137 as of 31 December 2011.

## 9. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	<u>2012</u>			<u>2011</u>		
	<u>Notional amount</u>	<u>Fair value</u>		<u>Notional amount</u>	<u>Fair value</u>	
		<u>Asset</u>	<u>Liability</u>		<u>Asset</u>	<u>Liability</u>
<b>Foreign exchange contracts</b>						
Swaps – foreign	14,864,986	141,931	23,396	1,325,000	–	8,017
Swaps – domestic	16,537,247	–	176,377	1,670,539	760	6,997
Forwards – foreign	3,409,047	8,862	–	116,247	–	209
Forwards – domestic	197,440	465	23	–	–	–
<b>Total derivative assets/liabilities</b>		<b><u>151,258</u></b>	<b><u>199,796</u></b>		<b><u>760</u></b>	<b><u>15,223</u></b>

Foreign and domestic in the table above stand for counterparties where foreign means non-Russian entities and domestic means Russian entities.

Foreign exchange derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions. Derivative financial instruments are either assets or liabilities depending on the foreign exchange fluctuations which can have either favorable or unfavorable effect on the underlying asset. The aggregate fair value of derivative financial instruments can change significantly over time.

(in thousands of Russian Rubles, unless otherwise indicated)

## 9. Derivative financial instruments (continued)

As of 31 December 2012, the Bank had positions in the following types of derivatives:

### Swaps

Swaps are contractual agreements to simultaneously buy and sell (or vice versa) a specified financial instrument. Swaps are settled on various dates. Swaps can be either spot/forward swaps or forward/forward swaps combining forward contracts entered for different maturities.

### Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

### Derivative financial instruments held or issued for trading purposes

Most of the Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Bank may also take positions with the expectation of profiting from favorable movements in prices, rates on indices. Included under this heading are derivatives which do not meet IAS 39 hedging requirements.

## 10. Property and equipment and intangible assets

Movements in property and equipment and intangible assets were as follows:

	Office equipment	Computers and office appliances	Telecommuni- cation equipment	Computer software	Vehicles	Total
<b>Cost</b>						
31 December 2010	16,510	8,992	710	21,669	7,816	55,697
Additions	359	3,119	–	–	4,288	7,766
Disposals	–	–	–	–	(2,949)	(2,949)
31 December 2011	16,869	12,111	710	21,669	9,155	60,514
Additions	1,125	1,642	–	–	–	2,767
Disposals	–	(36)	–	–	–	(36)
31 December 2012	17,994	13,717	710	21,669	9,155	63,245
<b>Accumulated depreciation</b>						
31 December 2010	(10,078)	(6,206)	(595)	(14,023)	(4,419)	(35,321)
Depreciation charge	(3,264)	(1,379)	(115)	(7,168)	(2,400)	(14,326)
Disposals	–	–	–	–	2,949	2,949
31 December 2011	(13,342)	(7,585)	(710)	(21,191)	(3,870)	(46,698)
Depreciation charge	(2,431)	(1,503)	–	(478)	(5,285)	(9,697)
Disposals	–	36	–	–	–	36
31 December 2012	(15,773)	(9,052)	(710)	(21,669)	(9,155)	(56,359)
<b>Net book value:</b>						
31 December 2010	6,432	2,786	115	7,646	3,397	20,376
31 December 2011	3,527	4,526	–	478	5,285	13,816
31 December 2012	2,221	4,665	–	–	–	6,886

## 11. Taxation

The income tax expense comprises:

	2012	2011
Current tax expense	(5,853)	(18,538)
Deferred tax (expense)/benefit – origination and reversal of temporary differences	(13,039)	28,621
<b>Income tax (expense)/benefit</b>	<b>(18,892)</b>	<b>10,083</b>

(in thousands of Russian Rubles, unless otherwise indicated)

## 11. Taxation (continued)

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state/municipal securities was 20% for 2012 and 2011. The tax rate for interest (coupon) income on state/municipal securities was 15% for federal taxes in 2012 and 2011.

As of 31 December 2012, income tax overpayment amounted to RUB 92,028 (2011: RUB 92,028). There was no current income tax on interest (coupon) income on state securities as of 31 December 2012 (2011: RUB 307).

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<b>2012</b>	<b>2011</b>
<b>Loss before tax</b>	<b>(460,705)</b>	<b>(126,811)</b>
Statutory tax rate	20%	20%
<b>Theoretical income tax benefit at the statutory rate</b>	<b>92,141</b>	<b>25,362</b>
Adjustments to financial results from securities	(3,337)	(2,629)
Interest (coupon) income on state securities taxed at different rates	1,951	2,272
Non-deductible expenditures	(7,118)	(18,842)
Change in unrecognized deferred tax assets	(101,725)	7,567
Other permanent differences	(804)	(3,647)
<b>Income tax (expense)/benefit</b>	<b>(18,892)</b>	<b>10,083</b>

Differences between IFRS and Russian tax legislation give rise to temporary and permanent differences between accounting and tax values of certain assets and liabilities.

Deferred tax assets and liabilities as of 31 December and their movements for the respective year comprise:

	<b>2010</b>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<b>2011</b>	<i>Origination and reversal of temporary differences in the statement of comprehensive income</i>	<b>2012</b>
<b>Tax effect of deductible temporary differences:</b>					
Tax loss carry forward	10,182	(7,567)	2,615	101,725	104,340
Accrued employee bonuses	26,576	24,253	50,829	(17,840)	32,989
Fair value measurement of securities	3,854	(2,089)	1,765	(1,473)	292
Fair value measurement of derivative financial assets	-	2,893	2,893	6,419	9,312
Property and equipment	-	-	-	238	238
Other temporary differences	774	260	1,034	(860)	174
<b>Deferred tax assets</b>	<b>41,386</b>	<b>17,750</b>	<b>59,136</b>	<b>88,209</b>	<b>147,345</b>
Unrecognized deferred tax assets	(10,182)	7,567	(2,615)	(101,725)	(104,340)
<b>Deferred tax asset, net</b>	<b>31,204</b>	<b>25,317</b>	<b>56,521</b>	<b>(13,516)</b>	<b>43,005</b>
<b>Tax effect of taxable temporary differences:</b>					
Fair value measurement of securities	-	-	-	-	-
Property and equipment	(780)	303	(477)	477	-
Fair value measurement of derivative financial assets	(3,001)	3,001	-	-	-
<b>Deferred tax liability</b>	<b>(3,781)</b>	<b>3,304</b>	<b>(477)</b>	<b>477</b>	<b>-</b>
<b>Deferred tax asset</b>	<b>27,423</b>	<b>28,621</b>	<b>56,044</b>	<b>(13,039)</b>	<b>43,005</b>

As of 31 December 2012, the Bank's tax losses to be carried forward to future tax periods amount to RUB 521,698 (2011: RUB 13,073). Such tax losses are allowed to be carried forward within a 10-year period from the end of the tax period in which such losses were incurred.

(in thousands of Russian Rubles, unless otherwise indicated)

## 12. Other assets and liabilities

Other assets comprise:

	<u>2012</u>	<u>2011</u>
Settlements on operations with securities	43,516	73,149
Spot deals	7,147	2,937
Prepayments	8,617	6,857
Settlements with suppliers	3,821	2,632
Prepaid taxes other than income tax	2,257	189
Advances issued	797	691
Settlements on custody services	355	97
Settlements on customer attraction services	–	5,534
<b>Total other assets</b>	<b><u>66,510</u></b>	<b><u>92,086</u></b>

Other liabilities comprise:

	<u>2012</u>	<u>2011</u>
Settlements with employees on year-end bonuses, unused vacation and accountable amounts	166,437	253,050
Taxes payable other than income tax	28,236	47,623
Audit fees	1,577	1,672
Settlements on other operations	1,269	6,961
Spot deals	481	2,556
<b>Total other liabilities</b>	<b><u>198,000</u></b>	<b><u>311,862</u></b>

## 13. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2012</u>	<u>2011</u>
Current accounts	–	177
Settlements on corporate cards	1,074	–
Time deposits and loans	3,847,345	1,111,441
<b>Amounts due to credit institutions</b>	<b><u>3,848,419</u></b>	<b><u>1,111,618</u></b>

As of 31 December 2011, included in current accounts is a balance of RUB 177 representing a RUB-denominated current account of the parent bank.

As of 31 December 2012, time deposits and loans include placements from four Russian banks in the amount of RUB 3,847,345 (2011: RUB 300,036 from one Russian bank). As of 31 December 2012, the Bank had no placements from the parent bank. As of 31 December 2011, the Bank received an equivalent of RUB 51,434 in Swiss francs, RUB 1,498 in British pounds, and RUB 758,473 in EUR from the parent bank.

## 14. Amounts due to customers

Amounts due to customers comprise:

	<u>2012</u>	<u>2011</u>
Corporate customers		
- current/settlement accounts	1,108,195	197,285
Individuals		
- current/settlement accounts	642	724
- time deposits	12,182	6,840
<b>Amounts due to customers</b>	<b><u>1,121,019</u></b>	<b><u>204,849</u></b>

As of 31 December 2012, included in current accounts of corporate customers are amounts due to companies related to the Bank in the amount of RUB 1,108,195 (100% of total amounts due to customers) (2011: RUB 197,285 (96.3% of total amounts due to customers)) (see Note 22). Time deposits within amounts due to individuals comprise deposits placed by a member of key management personnel.

As of 31 December 2012, the estimated fair value of amounts due to customers was RUB 1,121,019 (2011: RUB 204,849).



(in thousands of Russian Rubles, unless otherwise indicated)

## 15. Net assets attributable to the shareholder

The Bank was founded as a limited liability company with a sole shareholder. As of 31 December 2012, the share capital of the Bank amounted to RUB 3,450,000 (2011: RUB 3,450,000) comprising one share contributed by UBS AG. The latest increase in the share capital in the amount of RUB 2,200,000 was made in November 2011. The funds were contributed by the Bank's sole shareholder UBS AG that owns 100% of the share capital. All changes to the charter documents were duly registered.

In 2012, the Bank did not receive and pecuniary aid from the parent bank (2011: RUB 189,380). The funds were not registered as an increase in the share capital.

In accordance with the Bank's charter, shareholders of limited liability companies may unilaterally withdraw from the company. In such cases the Bank shall pay the withdrawing shareholder the actual amount of its interest in the Bank's share capital as reported in the statutory accounting reports of the Bank for the year of withdrawal, or, subject to the withdrawing shareholder's consent, transfer the equivalent in kind. The payment should be made within six months following the end of the financial year of the withdrawal notice.

## 16. Commitments and contingencies

### Operating environment

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Bank's future 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.

### Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

### Commitments and contingencies

As of 31 December, the Bank's commitments and contingencies comprised:

	<u>2012</u>	<u>2011</u>
<b>Credit-related commitments</b>		
Undrawn loan commitments	950,000	–
	<u>950,000</u>	<u>–</u>
<b>Operating lease commitments</b>		
Up to 1 year	85,788	90,319
	<u>85,788</u>	<u>90,319</u>
<b>Commitments and contingencies</b>	<u>1,035,788</u>	<u>90,319</u>

Undrawn loan commitments were represented by liabilities to a related party.

In 2006, the Bank entered into an office sublease agreement with a related party. The agreement had a term of one year renewable upon mutual consent of the parties. The agreement was renewed for one year in November 2007 and in the subsequent years including November 2012. Annual lease payments under the lease agreement, including maintenance fees, are disclosed in the table above.

(in thousands of Russian Rubles, unless otherwise indicated)

## 17. Net fee and commission expense

Net fee and commission expense comprises:

	<b>2012</b>	<b>2011</b>
Depository	3,684	4,066
Execution of transaction passports	2,361	3,593
Settlement operations	237	270
Securities operations	316	40
<b>Fee and commission income</b>	<b>6,598</b>	<b>7,969</b>
Foreign currency operations	(19,164)	(15,325)
Settlement operations	(13,433)	(11,188)
Depository	(1,230)	(1,566)
Other	(634)	(1,843)
<b>Fee and commission expense</b>	<b>(34,461)</b>	<b>(29,922)</b>
<b>Net fee and commission expense</b>	<b>(27,863)</b>	<b>(21,953)</b>

## 18. Income from consulting services and other income

Income from consulting services comprises:

	<b>2012</b>	<b>2011</b>
Income from consulting services	247,359	709,763
Income from sale of property and equipment	-	1,055
Other	20	2,937
	<b>247,379</b>	<b>713,755</b>

Income from consulting services in the amount of RUB 206,190 (2011: RUB 628,474) represents the consideration received for consulting services provided to the parent bank.

In 2011, other income of RUB 267 represented expenses related to consulting services reimbursed by the parent bank.

## 19. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	<b>2012</b>	<b>2011</b>
Salaries and bonuses	697,785	722,511
Social security costs	61,753	32,296
Other	13,270	9,601
<b>Salaries and other benefits</b>	<b>772,808</b>	<b>764,408</b>
Occupancy and rent	92,008	77,965
Operating taxes	38,372	34,224
Outsourcing	33,284	15,082
Information services	22,873	16,757
Business travel and related expenses	16,864	14,329
Computer software	12,840	31,041
Transportation expenses	7,812	6,932
Communications	7,321	8,290
Entertainment	7,040	3,911
Legal and consultancy	6,561	2,330
Office appliances repair and maintenance	4,649	1,448
Office supplies	3,833	4,503
Lease, repair, insurance and maintenance of vehicles	3,096	2,887
Audit services	3,040	2,823
Translation and interpreting	3,022	5,347
Charity	1,998	8,811
Periodicals	779	618
Post and courier services	403	485
Recruitment	338	24,853
Penalties	163	200
Advertising and marketing	-	-
Other	11,706	12,249
<b>Other operating expenses</b>	<b>278,002</b>	<b>275,085</b>

*(in thousands of Russian Rubles, unless otherwise indicated)*

## 20. Risk management

### *Introduction*

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology or industry. They are monitored through the Bank's strategic planning process.

### *Risk management structure*

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

### *Board of Directors*

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

### *Management Board*

The Management Board has the responsibility to monitor the overall risk process within the Bank.

### *Risk controlling*

The Risk Controlling Unit has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors the relevant risk decisions.

The Risk Controlling Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

### *Internal audit*

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

### *Risk measurement and reporting systems*

The Bank's risks are measured using models which reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Management Board, Credit Risk Department and heads of business units concerned. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. Reporting of industry risks takes place on a regular basis. Senior management regularly assesses the appropriateness of the allowance for credit losses. The Management Board receives a risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

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

A regular briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus any other risk developments.

*(in thousands of Russian Rubles, unless otherwise indicated)*

## 20. Risk management (continued)

### *Risk mitigation*

As part of its overall risk management, the Bank uses derivatives to manage exposures resulting from changes in foreign currencies.

### **Credit risk**

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Bank continuously monitors credit risks and limits on risks set for different counterparties.

The Bank has traditionally been utterly prudent in setting its risk management policy. Credit risk accepted by the Bank in transactions arises primarily from interbank loans and placements on nostro accounts. The Bank takes a conservative position when placing temporarily available funds and chooses the CBR for placements in Russian Rubles and UBS AG for placements in foreign currencies as correspondent banks. Insignificant portion of funds is placed to secure settlements with NCO NSD.

When participating in the interbank lending market, the Bank is to strictly comply with the limits set and approved by the credit risk department of UBS AG Group and the Bank's Credit Committee. The Bank set the limits for counterparty banks, either representing subsidiaries of foreign financial organizations or having strong individual credit ratings affirmed 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.

Conversion transactions and foreign currency transactions are conducted mainly at MICEX and with UBS AG. Transactions with other counterparties are conducted only if there is a corresponding limit available and strictly within such limit. The Bank does not accept currency risk arising from foreign currencies other than US dollar – all conversion transactions involving other currencies are fully hedged via UBS AG. The Bank limits aggregate currency risk exposure by monitoring sensitivity of change in position to volatility of currency pairs in which assets and liabilities are denominated.

### *Derivative financial instruments*

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Where the financial instruments are recorded at fair value, their carrying value represents the current credit risk exposure but not the maximum credit risk exposure that could arise in the future as a result of changes in values.

### *Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank using internal credit ratings.

(in thousands of Russian Rubles, unless otherwise indicated)

**20. Risk management (continued)****Credit risk (continued)**

All financial assets that include cash and cash equivalents (Note 5), trading securities (Note 7), obligatory reserves with the Central Bank of the Russian Federation (Note 6) and derivative financial assets (Note 9) have high and standard ratings and are neither impaired nor past due.

	Notes	Neither past due nor impaired			Total 2012
		High rating 2012	Standard rating 2012	Sub-standard rating 2012	
Cash and cash equivalents	5	8,488,945	–	–	8,488,945
Obligatory reserves with the Central Bank of the Russian Federation	6	69,421	–	–	69,421
Trading securities	7	280,155	–	–	280,155
Derivative financial assets	9	151,258	–	–	151,258
<b>Total</b>		<b>8,989,779</b>	<b>–</b>	<b>–</b>	<b>8,989,779</b>

	Notes	Neither past due nor impaired			Total 2011
		High rating 2011	Standard rating 2011	Sub-standard rating 2011	
Cash and cash equivalents	5	2,779,210	215,528	–	2,994,738
Obligatory reserves with the Central Bank of the Russian Federation	6	91,839	–	–	91,839
Trading securities	7	2,571,311	–	–	2,571,311
Amounts due from credit institutions	8	41,808	–	–	41,808
Derivative financial assets	9	50	710	–	760
<b>Total</b>		<b>5,484,218</b>	<b>216,238</b>	<b>–</b>	<b>5,700,456</b>

According to the Bank's internal credit rating scale, a counterparty's financial position is evaluated as: "good" if its internal rating is "9" or less (high grade); "average or worse" if its internal rating is from "10" through "12" (standard grade); "poor" if its internal rating is above "12" (sub-standard grade).

**Geographical concentration**

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	2012			Total
	Russia	OECD	Other countries	
<b>Assets:</b>				
Cash and cash equivalents	1,008,449	7,480,496	–	8,488,945
Obligatory reserves with the CBR	69,421	–	–	69,421
Trading securities	280,155	–	–	280,155
Derivative financial assets	465	150,793	–	151,258
Current income tax assets	92,028	–	–	92,028
Other assets	16,098	50,412	–	66,510
	<b>1,466,616</b>	<b>7,681,701</b>	<b>–</b>	<b>9,148,317</b>
<b>Liabilities:</b>				
Amounts due to credit institutions	3,848,419	–	–	3,848,419
Derivative financial liabilities	176,400	23,396	–	199,796
Amounts due to customers	1,060,217	12,883	47,919	1,121,019
Current income tax liabilities	–	–	–	–
Other liabilities	197,989	11	–	198,000
	<b>5,283,025</b>	<b>36,290</b>	<b>47,919</b>	<b>5,367,234</b>
<b>Net position</b>	<b>(3,816,409)</b>	<b>7,645,411</b>	<b>(47,919)</b>	<b>3,781,083</b>

(in thousands of Russian Rubles, unless otherwise indicated)

**20. Risk management (continued)****Geographical concentration (continued)**

	2011			Total
	Russia	OECD	Other countries	
<b>Assets:</b>				
Cash and cash equivalents	1,521,331	1,473,407	–	2,994,738
Obligatory reserves with the CBR	91,839	–	–	91,839
Trading securities	2,571,311	–	–	2,571,311
Amounts due from other banks	–	41,808	–	41,808
Derivative financial assets	760	–	–	760
Current income tax assets	92,028	–	–	92,028
Other assets	7,428	84,658	–	92,086
	<b>4,284,697</b>	<b>1,599,873</b>	<b>–</b>	<b>5,884,570</b>
<b>Liabilities:</b>				
Amounts due to credit institutions	300,037	811,581	–	1,111,618
Derivative financial liabilities	6,997	8,226	–	15,223
Amounts due to customers	123,226	6,921	74,702	204,849
Current income tax liabilities	307	–	–	307
Other liabilities	311,491	115	256	311,862
	<b>742,058</b>	<b>826,843</b>	<b>74,958</b>	<b>1,643,859</b>
<b>Net position</b>	<b>3,542,639</b>	<b>773,030</b>	<b>(74,958)</b>	<b>4,240,711</b>

**Liquidity risk and funding management**

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, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

The Bank maintains a portfolio of diverse marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed an additional overdraft limit that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the CBR. As of 31 December, these ratios were as follows:

	2012, %	2011, %
N2 "Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand)	101.6	104.0
N3 "Current Liquidity Ratio" (assets receivable or realizable within 30 days/liabilities repayable within 30 days)	176.9	725.4
N4 "Long-term Liquidity Ratio" (assets receivable in more than one year/sum of capital and liabilities repayable in more than one year)	0.0	0.0

The CBR requirements set the minimum permissible value of N2 and N3 ratios at 15% and 50%, respectively, and the maximum permissible value of N4 at 120%.

**Analysis of financial liabilities by remaining contractual maturities**

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2012 and 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<b>Financial liabilities as of 31 December 2012</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>Total</b>
Amounts due to credit institutions	3,851,735	–	3,851,735
Derivative financial instruments	–	–	–
- Contractual amounts payable	31,842,697	3,163,198	35,005,895
- Contractual amounts receivable	(31,900,147)	(3,108,839)	(35,008,986)
Amounts due to customers	1,121,037	–	1,121,037
Other liabilities	198,000	–	198,000
<b>Total undiscounted financial liabilities</b>	<b>5,113,322</b>	<b>54,359</b>	<b>5,167,681</b>

(in thousands of Russian Rubles, unless otherwise indicated)

**20. Risk management (continued)****Liquidity risk and funding management (continued)**

<b>Financial liabilities as of 31 December 2011</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>Total</b>
Amounts due to credit institutions	1,111,938	–	1,111,938
Derivative financial instruments	–	–	–
- Contractual amounts payable	3,111,786	–	3,111,786
- Contractual amounts receivable	(3,121,995)	–	(3,121,995)
Amounts due to customers	204,870	–	204,870
Other liabilities	311,862	–	311,862
<b>Total undiscounted financial liabilities</b>	<b>1,618,461</b>	<b>–</b>	<b>1,618,461</b>

The table below analyzes the contractual expiry by maturity of the Bank's lease commitments (including commitments related to maintenance of the leased premises).

	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>Total</b>
2012	25,736	60,052	85,788
2011	27,096	63,223	90,319

The following tables provide an analysis of monetary assets and liabilities grouped on the basis of the remaining period from the reporting date to the expected maturity date.

	<b>2012</b>			<b>Total</b>
	<b>On demand and less than 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	
<b>Assets:</b>				
Cash and cash equivalents	8,488,945	–	–	8,488,945
Obligatory reserves with the Central Bank of the Russian Federation	69,421	–	–	69,421
Trading securities	280,155	–	–	280,155
Amounts due from other banks	–	–	–	–
Derivative financial assets	12,799	–	138,459	151,258
Current income tax assets	92,028	–	–	92,028
Other assets	66,510	–	–	66,510
<b>Total</b>	<b>9,009,858</b>	<b>–</b>	<b>138,459</b>	<b>9,148,317</b>
<b>Liabilities:</b>				
Amounts due to credit institutions	3,848,419	–	–	3,848,419
Derivative financial liabilities	64,658	–	135,138	199,796
Amounts due to customers	1,111,875	9,144	–	1,121,019
Current income tax liabilities	–	–	–	–
Other liabilities	25,446	172,554	–	198,000
<b>Total</b>	<b>5,050,398</b>	<b>181,698</b>	<b>135,138</b>	<b>5,367,234</b>
<b>Net position</b>	<b>3,959,460</b>	<b>(181,698)</b>	<b>3,321</b>	<b>3,781,083</b>
<b>Cumulative gap</b>	<b>3,959,460</b>	<b>3,777,762</b>	<b>3,781,083</b>	



(in thousands of Russian Rubles, unless otherwise indicated)

## 20. Risk management (continued)

### Liquidity risk and funding management (continued)

	2011			
	<i>On demand and less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Total</i>
<b>Assets:</b>				
Cash and cash equivalents	2,994,738	–	–	2,994,738
Obligatory reserves with the Central Bank of the Russian Federation	91,839	–	–	91,839
Trading securities	2,571,311	–	–	2,571,311
Amounts due from other banks	–	–	41,808	41,808
Derivative financial assets	760	–	–	760
Current income tax assets	92,028	–	–	92,028
Other assets	92,086	–	–	92,086
<b>Total</b>	<b>5,842,762</b>	<b>–</b>	<b>41,808</b>	<b>5,884,570</b>
<b>Liabilities:</b>				
Amounts due to credit institutions	1,111,618	–	–	1,111,618
Derivative financial liabilities	15,223	–	–	15,223
Amounts due to customers	198,009	6,840	–	204,849
Current income tax liabilities	307	–	–	307
Other liabilities	58,851	253,011	–	311,862
<b>Total</b>	<b>1,384,008</b>	<b>259,851</b>	<b>–</b>	<b>1,643,859</b>
<b>Net position</b>	<b>4,458,754</b>	<b>(259,851)</b>	<b>41,808</b>	<b>4,240,711</b>
<b>Cumulative gap</b>	<b>4,458,754</b>	<b>4,198,903</b>	<b>4,240,711</b>	

All trading securities are included in the 'on demand' category as this portfolio is highly liquid and, in management's opinion, this approach better reflects the Bank's liquidity position.

### Market risk

Market risk is the risk of financial loss which the Bank may suffer due to unfavorable changes in market parameters. The Bank distinguishes two main groups of market parameters which include general and specific factors. General factors of the market risk are the parameters which depend on macroeconomic, geopolitical and other market conditions unrelated to any individual instruments or issuers. The indicators of general market risk factors include the level of interest rates and market indices, foreign exchange rates, prices for energy, metals and commodities and overall credit spread which is the excess of the effective loan interest rate over the interest rate on risk-free securities. Interdependence among the market risk indicators is taken into the account as well. Specific components are factors which cannot be attributed to general changes in market conditions. These components comprise quotes of debt and equity instruments, derivative financial instruments (including imbedded derivatives) linked to these debt and equity instruments.

The Bank discloses details of possible financial loss calculated using the Value-at-Risk (VaR) model. For the purpose of internal control, management also uses the worst scenarios data or stress-testing, risk concentration analysis, monitoring of qualitative and quantitative parameters.

All activities related to assessment and monitoring of the market risk level and control over compliance with the set risk limits are performed by the Bank's functions independent from the Bank's front-office functions (commercial units) that enter into transactions involving acceptance of market risk. Such segregation of the risk acceptance and risk assessment powers between the Bank's functions complies with the standards of UBS AG, existing international practice and is designed to eliminate any potential conflict of interests.

In securities transactions, the Bank does not invest in equity financial instruments, confining itself to debt instruments only. The Bank cautiously chooses issuers of securities and tries to ensure a reasonable balance between the yield and risk levels attributable both to the whole portfolio and its segments.

Limits on the nominal value and limits in the form of credit delta serve as instruments of hands-on management of the portfolio structure. Credit delta shows the maximum change in the market value of the portfolio if the risk-free yield rate changes (risk-free yield curve shifts) by 1 basis point. Thus, the use of credit delta helps control the volatility of the portfolio and makes its behavior predictable. Moreover, even with low volatility, the aggregate limit of the portfolio cannot exceed the nominal value of USD 200 million. The maximum credit delta of the whole portfolio is limited to USD 75 thousand; within this limit, the Bank also sets individual limits on credit delta by issuer and issuer category (as a rule, at or below USD 25 thousand and USD 50 thousand, respectively) and this rules out excessive concentration of investment in debt instruments of one issuer (these limits, in turn, may further be narrowed by the maximum risk per borrower or a group of related borrowers set by the CBR).

(in thousands of Russian Rubles, unless otherwise indicated)

## 20. Risk management (continued)

### Market risk (continued)

UBS AG Chief Risk Officer is responsible for developing control procedures over market risk and for independent control over implementation of these procedures. The market risk assessment unit of UBS Investment Bank provides support to all business units within the UBS AG Group in assessing and reporting market risks.

#### *Risk assessment*

The Bank applies two main methods of assessing market risk – the VaR model and stress-testing. These assessment methods are supplemented by risk concentration analysis and additional controls. The Bank sets limits on the level of accepted exposure. For the purpose of regulating specific exposure when the standard limits do not meet the complex control criteria, the Bank sets additional limits for individual securities portfolios, portfolio segments, classes of assets and financial products.

#### *Value-at-Risk (VaR) methodology*

The Bank applies VaR methodology to assess the market risk positions held and to estimate a potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a statistical method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio under the influence of general and specific risk factors, at a given confidence level and over a specified time horizon.

The Bank estimates VaR with a 10-day horizon for the purpose of internal control and with a 1-day horizon for additional analysis. VaR is a hypothetical loss attributable to a portfolio, which may be incurred as a result of changes in market factors during a given time period subject to a certain confidence level (99%). Thus, there is a statistical probability of 1% that the actual loss, which the Bank may theoretically suffer, will exceed the amount derived by applying the VaR model.

VaR models are based on the historical simulation method and assume that market fluctuations in the next 10 days or 1 day will meet the scenario of market fluctuations over the previous 10 days or 1 day, respectively. For the general market risk, the Bank applies historical data for the past 5 years. This period usually corresponds to a market cycle and contains maximum and minimum levels of market indicators. Historical information for the period is applied to an existing securities portfolio. This method is known as a Historical Simulation Method.

To evaluate the adequacy of the calculation model applied, the market risk assessment unit of UBS Investment Bank performs back-testing on a regular basis by comparing simulated and actual losses.

Although VaR helps to assess the risk, it is necessary to consider disadvantages of this method, such as:

- ▶ Applying past changes in prices to assess future changes does not help to assess the full extent of possible future price fluctuations;
- ▶ Estimation of changes in financial market indicators for a 10-day period assumes that during this period all of the Bank's positions may be closed (or hedged). This estimate may inaccurately reflect the exact amount of market risk during the periods of lower market liquidity when the period of closing (hedging) the Bank's positions may increase;
- ▶ Applying the 99% confidence level does permit assessing the losses whose probability is below 1%; and
- ▶ VaR calculation is based on the Bank's positions exposed to market risk as of the end of the day and may not reflect the Bank's intraday risk.

Taking into account the disadvantages of the VaR method and for the purpose of obtaining more detailed information on market risk, the Bank uses, in addition to VaR calculation, market risk assessment based on scenario analysis and stress-testing.

Stress-testing is an imitation (scenario) modeling method designed to assess portfolio stability against irregular, sudden and highly adverse market fluctuations and obtain more detailed picture of the risk. This method is a supplement to the VaR models as it helps to obtain scenario assessment of losses which remain beyond VaR calculated based on the stated probability and historical data. By applying stress-testing, the Bank seeks to define a broad range of possible scenarios, assess portfolio sensitivity to sudden market fluctuations and determine control environment which enables total, transparent and timely control over changes in market conditions.

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and monitoring and responding to potential risks, the Bank is able to manage these risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(in thousands of Russian Rubles, unless otherwise indicated)

## 20. Risk management (continued)

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on CBR regulations. Positions are monitored on a daily basis.

The Bank's exposure to currency risk on monetary assets and liabilities is as follows:

	2012					Total
	RUB	USD	EUR	CHF	GBP	
<b>Assets:</b>						
Cash and cash equivalents	6,780,048	1,707,858	1,033	4	2	8,488,945
Obligatory reserves with the CBR	69,421	–	–	–	–	69,421
Trading securities	280,155	–	–	–	–	280,155
Current income tax assets	92,028	–	–	–	–	92,028
Other assets (without spot deals)	22,513	36,850	–	–	–	59,363
<b>Total monetary assets</b>	<b>7,244,165</b>	<b>1,744,708</b>	<b>1,033</b>	<b>4</b>	<b>2</b>	<b>8,989,912</b>
<b>Liabilities:</b>						
Amounts due to credit institutions	3,848,419	–	–	–	–	3,848,419
Amounts due to customers	54,713	1,066,306	–	–	–	1,121,019
Other liabilities (without spot deals)	197,514	5	–	–	–	197,519
<b>Total monetary liabilities</b>	<b>4,100,646</b>	<b>1,066,311</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>5,166,957</b>
<b>Net monetary assets and liabilities</b>	<b>3,143,519</b>	<b>678,397</b>	<b>1,033</b>	<b>4</b>	<b>2</b>	<b>3,822,955</b>
<b>Derivative financial instruments and spot deals</b>	<b>516,370</b>	<b>(556,294)</b>	<b>(1,948)</b>	<b>–</b>	<b>–</b>	<b>(41,872)</b>
	2011					Total
	RUB	USD	EUR	CHF	GBP	
<b>Assets:</b>						
Cash and cash equivalents	859,804	2,129,352	4,373	1,103	106	2,994,738
Obligatory reserves with the CBR	91,839	–	–	–	–	91,839
Trading securities	2,571,311	–	–	–	–	2,571,311
Amounts due from other banks	–	–	41,808	–	–	41,808
Current income tax assets	92,028	–	–	–	–	92,028
Other assets (without spot deals)	15,880	73,269	–	–	–	89,149
<b>Total monetary assets</b>	<b>3,630,862</b>	<b>2,202,621</b>	<b>46,181</b>	<b>1,103</b>	<b>106</b>	<b>5,880,873</b>
<b>Liabilities:</b>						
Amounts due to credit institutions	300,214	–	758,472	51,434	1,498	1,111,618
Amounts due to customers	74,972	129,877	–	–	–	204,849
Current income tax liabilities	307	–	–	–	–	307
Other liabilities (without spot deals)	309,225	–	81	–	–	309,306
<b>Total monetary liabilities</b>	<b>684,718</b>	<b>129,877</b>	<b>758,553</b>	<b>51,434</b>	<b>1,498</b>	<b>1,626,080</b>
<b>Net monetary assets and liabilities</b>	<b>2,946,144</b>	<b>2,072,744</b>	<b>(712,372)</b>	<b>(50,331)</b>	<b>(1,392)</b>	<b>4,254,793</b>
<b>Derivative financial instruments and spot deals</b>	<b>1,347,271</b>	<b>(2,071,105)</b>	<b>709,394</b>	<b>(1)</b>	<b>–</b>	<b>(14,441)</b>

The table shows the analysis which calculates the effect of a reasonably possible movement in a currency rate against the Russian Ruble on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

(in thousands of Russian Rubles, unless otherwise indicated)

## 20. Risk management (continued)

### Currency risk (continued)

<b>Currency</b>	<b>Change in currency rate 2012</b>	<b>Effect on pre-tax profit and equity 2012</b>	<b>Change in currency rate 2011</b>	<b>Effect on pre-tax profit and equity 2011</b>
Stronger USD	10.72%	13,089	12.5%	205
Weaker USD	10.72%	(13,089)	12.5%	(205)
Stronger CHF	13.09%	1	15.5%	(7,802)
Weaker CHF	13.09%	(1)	15.5%	7,802
Stronger GBP	10.05%	–	13.69%	(190)
Weaker GBP	10.05%	–	13.69%	190
Stronger EUR	9.49%	(87)	11.77%	(350)
Weaker EUR	9.49%	87	11.77%	350

### Interest rate risk

The Bank takes on exposure in relation to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise.

The Bank is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings secured at fixed interest rates. In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions.

The Bank sets limits on the level of mismatch of interest rate repricing that may be undertaken and controls the compliance with the set limits on a daily basis. In the absence of any available hedging instruments, the Bank seeks to match its interest rate positions.

The results of calculating interest rate risk on debt securities by applying the VaR method as of 31 December 2012 are presented in the table below (including comparative information as of 31 December 2011).

<b>Type of risk</b>	<b>Minimum for 2012</b>	<b>Maximum for 2012</b>	<b>Average for 2012</b>	<b>As of 31 December 2012</b>	<b>Minimum for 2011</b>	<b>Maximum for 2011</b>	<b>Average for 2011</b>	<b>As of 31 December 2011</b>
Interest rate risk on debt securities	16,948	391,990	195,053	21,595	89,974	362,086	211,514	241,026

According to the Bank, market risks related to non-traded assets are minimal.

## 21. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(in thousands of Russian Rubles, unless otherwise indicated)

## 21. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<b>31 December 2012</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Trading securities	280,155	–	–	<b>280,155</b>
Derivative financial instruments	–	151,258	–	<b>151,258</b>
	<b>280,155</b>	<b>151,258</b>	–	<b>431,413</b>
<b>Financial liabilities</b>				
Derivative financial instruments	–	199,796	–	<b>199,796</b>
	–	<b>199,796</b>	–	<b>199,796</b>
<b>31 December 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Trading securities	2,571,311	–	–	<b>2,571,311</b>
Derivative financial instruments	–	760	–	<b>760</b>
	<b>2,571,311</b>	<b>760</b>	–	<b>2,572,071</b>
<b>Financial liabilities</b>				
Derivative financial instruments	–	15,223	–	<b>15,223</b>
	–	<b>15,223</b>	–	<b>15,223</b>

*Financial instruments carried at fair value.* Trading securities, other assets are designated at fair value through profit or loss. All derivative financial instruments are carried at fair value as assets when their fair value is positive and as liabilities when their fair value is negative. See Note 9.

Cash and cash equivalents are carried at amortized cost, which approximates their current fair value.

*Loans and receivables carried at amortized cost.* Interest rates on loans issued shortly before the reporting date do not differ materially from interest rates applicable to new instruments with similar credit risk and maturity. If the Bank determines that interest rates on previously issued loans differ materially from those applicable to similar instruments at the reporting date, the Bank estimates the fair value of these loans. The estimate is based on the discounted cash flow method and uses interest rates applicable to new instruments with similar credit risk and maturity. The use of interest rates is subject to instrument currency and maturity and credit risk of the counterparty.

*Liabilities carried at amortized cost.* The estimated fair value of these liabilities is based on market prices, if available. The estimated fair value of fixed-rate and maturity financial instruments that do not have quoted market prices is based on expected cash flows discounted at interest rates for new instruments with similar credit risk and maturity.

As of 31 December 2012 and 2011, the Bank's financial assets and financial liabilities are liquid or have a short-term maturity (less than three months), which results in their fair value being approximately equal to their carrying amount recorded in the statement of financial position.

## 22. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form:

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(in thousands of Russian Rubles, unless otherwise indicated)

**22. Related party transactions (continued)**

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2012		2011	
	Parent bank	Entities under common control	Parent bank	Entities under common control
<b>Cash and cash equivalents</b>	<b>7,326,455</b>	<b>–</b>	<b>1,473,073</b>	<b>–</b>
Contractual interest rate on cash and cash equivalents: (2012: 0.0%-6.25%; 2011: 0.0%-1.5%)				
<b>Due from other banks, beginning of the period</b>	<b>41,808</b>	<b>–</b>	<b>–</b>	<b>–</b>
Issued for the period	91,211	–	46,971,922	–
Repaid for the period	(133,019)	–	(46,930,114)	–
<b>Due from other banks, end of the period</b>	<b>–</b>	<b>–</b>	<b>41,808</b>	<b>–</b>
Contractual interest rate on amounts due from credit institutions: (2011: 0.1%)				
<b>Derivative financial assets</b>	<b>150,792</b>	<b>465</b>	<b>–</b>	<b>–</b>
<b>Other assets</b>	<b>43,568</b>	<b>344</b>	<b>78,864</b>	<b>2,571</b>
<b>Amounts due to credit institutions, beginning of the period</b>	<b>811,582</b>	<b>–</b>	<b>4,129,784</b>	<b>–</b>
Received for the period	44,425,372	–	813,208,880	–
Repaid for the period	(45,236,954)	–	(816,527,082)	–
<b>Amounts due to credit institutions, end of the period</b>	<b>–</b>	<b>–</b>	<b>811,582</b>	<b>–</b>
Contractual interest rate on amounts due to credit institutions: (2011: 0.0%-4.5%)				
<b>Derivative financial liabilities</b>	<b>23,397</b>	<b>23</b>	<b>8,226</b>	<b>–</b>
<b>Amounts due to customers</b>	<b>687</b>	<b>1,107,508</b>	<b>1,765</b>	<b>195,520</b>
Contractual interest rate on amounts due to customers: (2012: 0.0%-6.1%; 2011: 0.0%)				
<b>Other liabilities</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>308</b>
Interest income on amounts due from credit institutions	154,632	–	4,178	–
Interest expense on amounts due to customers	–	(74)	–	(125)
Interest expense on amounts due to credit institutions	(4,625)	–	(31,713)	–
Fee and commission income	162	62	568	–
Net gains from trading securities	1,566	–	–	–
Net gains/(losses) from dealing in foreign currencies	(883,349)	83,231	(931,973)	169,047
Income from consulting services and other income	206,190	–	628,741	–
Rent and maintenance expenses	–	(87,313)	–	(73,878)
Other expenses	(264)	–	–	(2)

(in thousands of Russian Rubles, unless otherwise indicated)

## 22. Related party transactions (continued)

In 2006, the Bank entered into a sublease agreement with a related party, with an annual rate in Rubles equal to USD 600 per 1 sq. m; as of 1 November 2009, this rate was increased to USD 1,000 per 1 sq. m.

Compensation to key management personnel comprised the following:

	<u>2012</u>	<u>2011</u>
Salaries	40,816	30,724
Bonuses	41,121	18,383
Social security contributions	1,671	433
Other social charges	204	255
<b>Compensation to key management personnel</b>	<b><u>83,812</u></b>	<b><u>49,795</u></b>

This amount of compensation represents short-term compensation only.

One of the members of key management personnel has term deposits included in amounts due to customers (Note 14).

## 23. Capital adequacy

The objectives of the Bank's capital management are to ensure: (i) that the Bank complies with regulatory capital requirements established by the CBR and (ii) that the Bank is able to continue as a going concern. The compliance with the capital adequacy ratio established by the CBR is controlled through monthly reports with respective calculations submitted to the CBR.

According to effective capital requirements established by the CBR, banks should maintain a ratio of capital to risk-weighted assets ('capital adequacy ratio') at a level exceeding the mandatory minimum ratio. The CBR requires that banks should maintain an equity (capital) adequacy ratio of at least 10%. As of 31 December 2012, the Bank's regulatory capital adequacy ratio was 98.7% (2011: 132.3%). Regulatory capital is shown per the Bank's reports prepared under RAL and as of 31 December 2012 amounted to RUB 4,001,670 (2011: RUB 4,531,345).

## 24. Events after the reporting period

In March 2013, the Bank paid year-end bonuses for 2012 to its employees in the amount of RUB 158.7 million (including personal income taxes and excluding payroll taxes). Year-end bonuses for 2011 were paid in February-March 2012 in the amount of RUB 246.9 million (including personal income taxes and excluding payroll taxes).



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