# VW Bank RUS (LLC)

## International Financial Reporting Standards Financial Statements and Independent Auditor’s Report

## 31 December 2011

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# INDEPENDENT AUDITOR'S REPORT

To the Participants and Board of Directors of LLC "VW Bank RUS":

1 We have audited the accompanying financial statements of LLC VW Bank RUS (the "Bank") which comprise the statement of financial position as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

6 In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO "PricewaterhouseCoopers Audit"

29 March 2012
Moscow, Russian Federation

| *In thousands of Russian Roubles* | Note | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 1 651 027 | 275 961 |
| Mandatory cash balances with the Bank of Russia | 7 | 12 477 | 106 |
| Due from other banks | 8 | - | 1 200 977 |
| Loans and advances to customers | 9 | 3 323 660 | 177 458 |
| Deferred income tax asset | 19 | - | 2 407 |
| Equipment | 10 | 22 206 | 14 759 |
| Intangible assets | 10 | 80 459 | 48 361 |
| Other assets | 11 | 8 196 | 3 425 |
| **TOTAL ASSETS** | | **5 098 025** | **1 723 454** |
| **LIABILITIES** | | | |
| Due to other banks | 12 | 404 000 | - |
| Customer accounts | 13 | 1 048 070 | 492 |
| Deferred income tax liability | 19 | 6 128 | - |
| Other liabilities | 14 | 47 514 | 29 333 |
| **TOTAL LIABILITIES** | | **1 505 712** | **29 825** |
| **EQUITY** | | | |
| Share capital | 15 | 3 810 000 | 1 760 000 |
| Accumulated deficit | | (217 687) | (66 371) |
| **TOTAL EQUITY** | | **3 592 313** | **1 693 629** |
| **TOTAL LIABILITIES AND EQUITY** | | **5 098 025** | **1 723 454** |

Approved for issue and signed on behalf of the Bank's Management Board on 29 March 2012.

"Фольксваген Банк РУС"
Volkswagen Bank RUS
ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ
LIMITED LIABILITY COMPANY
MOSCOW

Zharkova T. A.
Chairman of the Board

Lebedeva O.E.
Deputy Chief Accountant

| *In thousands of Russian Roubles* | **Note** | **2011** | **2010** |
|---|---|---|---|
| Interest income | 16 | 108 717 | 3 741 |
| Interest expense | 16 | (8 722) | - |
| **Net interest income** | | **99 995** | **3 741** |
| Provision for loan impairment | 9 | (8 300) | (4 213) |
| **Net interest income/(loss) after provision for loan impairment** | | **91 695** | **(472)** |
| Fee and commission income | 17 | 2 626 | (44) |
| Fee and commission expense | 17 | (2 768) | (161) |
| Losses less gains from trading in foreign currencies | | (74) | - |
| Foreign exchange translation losses less gains | | (3) | - |
| Other operating income | | 21 | 8 |
| Administrative and other operating expenses | 18 | (234 278) | (68 197) |
| **Loss before tax** | | **(142 781)** | **(68 778)** |
| Income tax (expense)/credit | 19 | (8 535) | 2 407 |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(151 316)** | **(66 371)** |

| *In thousands of Russian Roubles* | Note | Share capital | Share premium | Accumulated deficit | Total |
|---|---|---|---|---|---|
| **Balance at 13 August 2010** | | - | - | - | - |
| Loss for the year | | - | - | (66 371) | (66 371) |
| Total comprehensive loss for 2010 | | - | - | (66 371) | (66 371) |
| Contribution from the Bank's participants | 15 | 880 000 | 880 000 | - | 1 760 000 |
| **Balance at 31 December 2010** | | **880 000** | **880 000** | **(66 371)** | **1 693 629** |
| Loss for the year | | - | - | (151 316) | (151 316) |
| Total comprehensive loss for 2011 | | - | - | (151 316) | (151 316) |
| Contribution from the participants to the Bank's property | 15 | - | 2 050 000 | - | 2 050 000 |
| **Balance at 31 December 2011** | | **880 000** | **2 930 000** | **(217 687)** | **3 592 313** |

| *In thousands of Russian Roubles* | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 86 116 | 2 315 |
| Interest paid | | (4 722) | - |
| Fees and commissions received | | 1 935 | 8 |
| Fees and commissions paid | | (4 180) | (144) |
| Expenses paid on trading in foreign currencies | | (74) | - |
| Other operating income received | | 21 | 1 |
| Administrative and other operating expenses paid | | (180 614) | (49 770) |
| **Cash flows used in operating activities before changes in operating assets and liabilities** | | **(101 518)** | **(47 590)** |
| Net increase in mandatory cash balances with the Bank of Russia | | (12 371) | (106) |
| Net decrease/(increase) in due from other banks | | 1 200 000 | (1 200 000) |
| Net increase in loans and advances to customers | | (3 130 924) | (181 221) |
| Net increase in other assets | | (971) | (29) |
| Net increase in due to other banks | | 400 000 | - |
| Net increase in customer accounts | | 1 047 577 | 492 |
| Net (decrease)/increase in other liabilities | | (18 823) | 2 016 |
| **Net cash used in operating activities** | | **(617 030)** | **(1 426 438)** |
| **Cash flows from investing activities** | | | |
| Acquisition of equipment | 10 | (13 059) | (15 541) |
| Acquisition of intangible assets | 10 | (44 842) | (42 060) |
| **Net cash used in investing activities** | | **(57 901)** | **(57 601)** |
| **Cash flows from financing activities** | | | |
| Increase in share capital and contribution from the participants to the Bank's property | 15 | 2 050 000 | 1 760 000 |
| **Net cash from financing activities** | | **2 050 000** | **1 760 000** |
| **Effect of exchange rate changes on cash and cash equivalents** | | (3) | - |
| **Net increase in cash and cash equivalents** | | **1 375 066** | **275 961** |
| Cash and cash equivalents at the beginning of the year | | 275 961 | **-** |
| **Cash and cash equivalents at the end of the year** | 7 | **1 651 027** | **275 961** |

## 1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2011 for LLC VW Bank RUS (the "Bank").

The Bank was incorporated on 2 July 2010 and is domiciled in the Russian Federation. The Bank was set up in accordance with Russian regulations and is a limited liability company. This legal status means that the Bank is limited by shares of its participants.

As at 31 December 2011 and 31 December 2010 the Bank's participants were:

| *(%)* | **2011** | **2010** |
|---|---|---|
| VOLKSWAGEN FINANCIAL SERVICES AG (Germany) | 99% | 99% |
| VOLKSWAGEN BANK GMBH (Germany) | 1% | 1% |

***Principal activity.*** The Bank's principal business activity is commercial loans to individuals and legal entities and provision of other banking services within the Russian Federation. The Bank has operated under banking license No. 3500 for carrying out banking transactions in Russian Roubles and foreign currency (without the right for attraction of individual deposits) issued by the Central Bank of the Russian Federation ("CBRF") on 13 August 2010.

The Bank has no branches or representative offices. The Bank had 55 employees at 31 December 2011 (2010: 28 employees).

***Registered address and place of business.*** The Bank's registered address is: Obrucheva st., 30/1, bld.1, 117485, Moscow, Russian Federation.

***Presentation currency.*** These financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

## 2 Operating Environment of the Bank

***Russian Federation.*** The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by banks operating in the Russian Federation. (Note22).

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business in the current business and economic environment.

## 3 Summary of Significant Accounting Policies

***Basis of preparation.***

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

These financial statements were prepared based on the assumption that the Bank will continue its operations in the foreseeable future. The Bank's development strategy is aimed at active development of its business in the corporate segment and subsequent entry into the retail lending market.

These financial statements have been prepared under the historical cost convention, as modified by revaluation of certain financial instruments carried at fair value.

The principal accounting policies applied in the preparation of these financial statements are set out below.

The Bank maintains its accounting records in the currency of the Russian Federation and in accordance with Russian legislation. These financial statements have been prepared from those accounting records and adjusted as necessary in order to be in accordance with all material aspects of IFRS. The main adjustments include reclassification of certain types of assets and liabilities, income and expenses in line items of the statement of financial position and the statement of comprehensive income to bring them in line with the substance of transactions.

These policies have been consistently applied to all the periods presented, unless otherwise stated.

***Recognition and measurement of financial assets and liabilities***

Financial assets and liabilities are recorded in the statement of financial position when the Bank becomes a party to a contract on a corresponding financial instrument. The Bank recognises regular acquisitions and disposal of financial assets and liabilities by settlement dates.

Financial assets and liabilities are initially recognised at their fair value. Amount at initial recognition of financial assets and liabilities which are not financial assets and liabilities at fair value through profit and loss is adjusted by the amount of transaction costs directly related to acquisition or recognition of a financial asset or issuance of financial liability.

After initial recognition of financial instruments the Bank uses the following measurement methods depending on their classification:

- at fair value
- at amortised cost.

***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.

***Amortised cost*** is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

**3 Summary of Significant Accounting Policies (Continued)**

***The effective interest method*** is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

***Derecognition of financial assets and liabilities exception.*** Bank derecognises financial assets when:

- the rights to cash flows from the assets have expired;
- the Bank has transferred the rights to the cash flows from the assets or retained the right to the cash flows from the assets, but assumed obligations to repay them to a third party without significant delay under a qualifying pass-through arrangement; while
- (a) either transferring substantially all the risks and rewards of ownership of the assets, or (b) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

The Bank derecognises the financial asset when the asset is transferred and derecognition requirements are met.

The Bank derecognises financial liabilities when they are extinguished, cancelled or terminated.

***Cash and cash equivalents.*** Cash and cash equivalents are cash on hand and on the Bank's current accounts and also cash equivalents which represent short-term, highly liquid items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Funds of restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

***Mandatory cash balances with the Bank of Russia.*** Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the cash flow statement and are presented separately in the statement of financial position.

***Due from other banks.*** In the normal course of business the Bank places funds and deposits with other banks for different periods. Due from banks are initially recorded at fair value and subsequently measured at amortised cost using the effective interest method. Due from banks are carried net of impairment provisions (if any indication of impairment exists).

## 3 Summary of Significant Accounting Policies (Continued)

***Loans and advances to customers.*** Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

***Impairment of financial assets carried at amortised cost.*** Impairment of financial assets is the difference between the carrying amount of the assets and the present value of expected cash flows, including amounts recoverable from guarantees and collateral discounted at the original effective interest rate for this financial instrument, which is carried at amortised cost.

Impairment losses on financial assets carried at amortised cost are recognised in statement of comprehensive income when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount of the estimated future cash flows of the financial asset that can be reliably estimated.

If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses with them for impairment.

Principal criteria (loss events) used to determine whether there is any evidence that an impairment loss has occurred are as follows:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement system;
- the borrower experiences a significant financial difficulty;
- the borrower considers bankruptcy or a financial reorganisation;
- the value of collateral significantly decreases as a result of deteriorating market conditions.

***Writing off loans to customers against impairment provisions.*** Loans that cannot be collected, including through enforcement of collateral, are written off against impairment provisions. Uncollectible loans are written off after all necessary and reasonable actions to recover the asset have been completed and the Bank repossessed and realised the available collateral. Any surplus from such realisation is returned to the borrower.

***Credit related commitments.*** The Bank enters into credit related commitments, including undrawn credit lines. The Bank does not disclose these instruments with various inherent credit risks in its statement of financial position.

The Bank uses the same credit policies for credit related commitments as it does for balance sheet financial instruments.

The Bank creates provisions for credit related commitments if there is any probability of incurring losses on such instruments.

## 3 Summary of Significant Accounting Policies (Continued)

***Equipment.*** Equipment is stated at cost less accumulated depreciation and provision for impairment, where required.

At each end of each reporting period the Bank assesses whether there is any indication of impairment of equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell or its value in use.

The carrying amount is reduced to the recoverable amount and the difference is recognised in comprehensive income as impairment loss to the extent it exceeds the recoverable amount.

Repairs and maintenance are charged to the statement of comprehensive income when the expenditure is incurred. Costs of replacing major parts or components of equipment items are capitalised, and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised within other operating income or expenses in the statement of comprehensive income for the year.

***Depreciation.*** Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

| | Depreciation rate, % |
|---|---|
| **Office and computer equipment** | |
| - head-end equipment and servers | 20 |
| - computer equipment | 33,33 |
| - furniture | 20 |

***Intangible assets.*** The Bank's intangible assets have definite useful life and are initially stated at cost. Upon initial recognition, intangible assets are stated at cost, less accumulated depreciation and impairment provision, where required.

Intangible assets are amortised on a straight line basis over expected useful lives of 5 years. The Bank reviews amortisation periods and procedures on an annual basis at the end of each reporting period.

Amortisation of intangible assets is recognised in the statement of comprehensive income within administrative and other operating expenses.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives using a 20% amortisation rate.

***Operating leases.*** The Bank is a lessee under operating lease contracts. Total lease payments under operating lease contracts are recorded in the statement of comprehensive income on a straight-line basis over the period of the lease.

***Due to other banks.*** Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

## 3 Summary of Significant Accounting Policies (Continued)

***Customer accounts.*** Customer accounts are non-derivative liabilities to corporate customers and are carried at amortised cost.

***Income tax.*** Income taxes have been provided for in the financial statements in accordance with legislation enacted in the Russian Federation. Income tax expense/(credit) in the statement of comprehensive income for the year includes current income tax and changes in deferred tax assets and liabilities.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods using tax rates enacted by the end of the reporting period.

Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted at the end of the reporting period which are expected to apply to the period when the assets are realised and the liabilities redeemed.

Deferred tax liabilities are recorded for all taxable temporary differences, except for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax assets are recorded for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised, except for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit;

Deferred tax assets and liabilities are offset only if there is a legal right to offset current tax assets and liabilities and deferred taxes relate to the same taxpaying organisation of the Bank and tax body.

***Uncertain tax positions.*** The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

## 3 Summary of Significant Accounting Policies (Continued)

***Contingencies and commitments.*** Contingencies and commitments are recognised 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 amount of the obligation can be made.

Related provisions are provided for to the extent that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, except for when a reliable estimate of the amount of the obligation cannot be made. The Bank reviews the probability of outflow of resources and the level of provisions for contingencies and commitments at each reporting date.

***Trade and other payables.*** Trade and other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

***Net assets attributable to participants.*** The Bank classified net assets attributable to participants in the Bank, which was created as a limited liability company, as equity instruments (equity components).

***Share capital***. Share capital is a total of contributions of the Bank's participants carried at cost.

***Income and expense recognition.*** Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

***Foreign currency translation.*** The functional and presentation currency of the Bank is Russian Rouble ("RR").

Monetary assets and liabilities denominated in foreign currency are translated into the currency of the Russian Federation at the official exchange rate of the CBRF at the end of the reporting period. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into the Bank's functional currency at official exchange rates of the Bank of Russia are included in the statement of comprehensive income within foreign exchange gains less losses.

At 31 December 2011 the principal rate of exchange used for translating foreign currency balances was Euro 1 = RR 41.6714 and USD 1 = RR 32.1961 (2010: Euro 1 = RR 40.3331 and USD 1 = RR 30.4769).

## 3 Summary of Significant Accounting Policies (Continued)

***Offsetting.*** Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

***Staff costs and related contributions.*** Wages, salaries, bonuses, paid annual leave, contributions to the Russian Federation state pension and social insurance funds are accrued in the year in which the associated services are rendered by the employees of the Bank.

Sick leave benefits, child care allowances and non-monetary benefits are accrued upon their occurrence.

The Bank undertakes liabilities for unused annual leave payments to its employees. Such liabilities are recognised in the statement of financial position within other liabilities with their simultaneous recording in the statement of comprehensive income for the part of annual leaves falling to the reporting period.

***Amendments of the financial statements after issue.*** The Bank's participants and management have the power to amend the financial statements after issue.

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Impairment losses on loans and advances.*** The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on average historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at the reporting date the impairment loss on loans and advances was calculated based on the average of borrower's probability of default which was received from the parent company based on its statistical data. If the actual probability of default is 5% higher/lower than the average used for impairment loss calculation, the provision would be approximately RR 63 028 thousand higher (2010: RR 7 041 thousand higher) or RR 12 513 thousand lower (2010: RR 4 006 thousand lower).

***Tax legislation.*** Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

## 4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

***Deferred income tax asset recognition.*** The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The business plan is based on the assumption concerning stable growth of the loan portfolio at the expense of existing products and launch of new products under stable macroeconomic circumstances.

***Initial recognition of related party transactions.*** In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 25.

## 5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2011:

***Amendment to IAS 24, Related Party Disclosures*** **(issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).** IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. As a result of the revised standard, the Bank now also discloses contractual commitments to purchase and sell goods or services to its related parties.

***Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).*** The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date, and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The above amendments resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these financial statements.

## 5 Adoption of New or Revised Standards and Interpretations (Continued)

The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, carrying value of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

***Other revised standards and interpretations effective for the current period.*** IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these financial statements.

## 6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later and which the Bank has not early adopted.

***IFRS 9, Financial Instruments Part 1: Classification and Measurement.*** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank is considering the implications of the standard, the impact on the Bank and the timing of its adoption by the Bank.

***IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces all of the guidance on control and consolidation in IAS 27, Consolidated and separate financial statements, and SIC-12, Consolidation - special purpose entities. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

## 6 New Accounting Pronouncements (Continued)

***IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** replaces IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-Monetary Contributions by Ventures. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

***IFRS 12, Disclosure of Interests in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, Investments in associates. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

***IFRS 13, Fair Value Measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is currently assessing the impact of the standard on its financial statements.

***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** was changed and its objective is now to prescribe the accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

***IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).*** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

***Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012),*** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

## 6 New Accounting Pronouncements (Continued)

***Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013),*** makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

***Other revised standards and interpretations:*** The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, considers when and how to account for the benefits arising from the stripping activity in mining industry. Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

## 7 Cash and Cash Equivalents

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| Cash balances with the CBRF (other than mandatory reserve deposits) | 1 649 654 | 273 243 |
| Correspondent accounts with other banks | 1 373 | 2 718 |
| **Total cash and cash equivalents** | **1 651 027** | **275 961** |

The credit quality of cash and cash equivalents may be summarised based on Fitch Ratings where available or other international ratings converted to the nearest equivalent on the Fitch rating scale as at 31 December 2011:

| *In thousands of Russian Roubles* | **Cash balances with the CBRF (other than mandatory reserve deposits)** | **Correspondent accounts with other banks** | **Total** |
|---|---|---|---|
| *Neither past due nor impaired* | | | |
| - Central Bank of the Russian Federation | 1 649 654 | - | 1 649 654 |
| - Lower than BBB+ rated | - | 1 373 | 1 373 |
| **Total cash and cash equivalents, excluding cash on hand** | **1 649 654** | **1 373** | **1 651 027** |

## 7 Cash and Cash Equivalents (Continued)

The credit quality of cash and cash equivalents balances may be summarised as follows as at 31 December 2010:

| *In thousands of Russian Roubles* | Cash balances with the CBRF (other than mandatory reserve deposits) | Correspondent accounts with other banks | Total |
|---|---|---|---|
| *Neither past due nor impaired* | | | |
| - Central Bank of the Russian Federation | 273 243 | - | 273 243 |
| - Lower than BBB+ rated | - | 2 718 | 2 718 |
| **Total cash and cash equivalents, excluding cash on hand** | **273 243** | **2 718** | **275 961** |

Mandatory cash balances with the Bank of Rusia as at 31 December 2011 total RR 12 477 thousand (2010: RR 106 thousand). The Bank should deposit mandatory cash balances with the CBRF on a permanent basis.

Interest rate analysis of cash and cash equivalents is disclosed in Note 20. Information on related party balances is disclosed in Note 25.

## 8 Due from Other Banks

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| Placements with other banks | - | 1 200 977 |
| **Total due from other banks** | **-** | **1 200 977** |

Amounts due from other banks are not collateralised. Under the contractual terms, the Bank may not require the funds to be returned prior to the expiry of the deposit without preliminary approval of the counterparty bank. In case of early deposit claim, interest on deposit is calculated at a lower rate.

## 8 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks is as follows:

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| *Neither past due nor impaired* | | |
| - Russian banks with foreign participation, out of them | - | 1 200 977 |
| - Lower than BBB+ rated | - | 1 200 977 |
| **Total neither past due nor impaired** | - | **1 200 977** |
| **Less: Provision for impairment** | - | - |
| **Total due from other banks** | - | **1 200 977** |

The credit rating is based on Fitch Ratings where available or other international ratings converted to the nearest equivalent on the Fitch Ratings scale.

The primary factor that the Bank considers in determining whether a deposit is impaired is its overdue status. As at 31 December 2010, amounts due from other banks had no impairment indicators.

At 31 December 2010 the Bank had balances with two counterparty banks with aggregated amounts above RR 400 000 thousand. The total aggregate amount of these deposits was RR 1 200 977 thousand or 100% of the total amount due from other banks.

Refer to Note 23 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 20. Information on related party balances is disclosed in Note 25.

## 9 Loans and Advances to Customers

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| Corporate loans | 3 336 173 | 181 671 |
| Less: Provision for loan impairment | (12 513) | (4 213) |
| **Total loans and advances to customers** | **3 323 660** | **177 458** |

Movements in the provision for loan impairment during 2011 are as follows:

| *In thousands of Russian Roubles* | Corporate loans |
|---|---|
| **Provision for loan impairment at 1 January 2011** | **4 213** |
| Provision for impairment during the year | 8 300 |
| **Provision for loan impairment at 31 December 2011** | **12 513** |

## 9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2010 are as follows:

| *In thousands of Russian Roubles* | **Corporate loans** |
|---|---|
| **Provision for loan impairment at 13 August 2010** | - |
| Provision for impairment during the year | 4 213 |
| **Provision for loan impairment at 31 December 2010** | **4 213** |

Economic sector risk concentrations within the customer loan portfolio are as follows:

| | **2011** | | **2010** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Amount** | **%** | **Amount** | **%** |
| Leasing | 350 608 | 11% | 122 065 | 67% |
| Motor vehicle trading | 2 985 565 | 89% | 59 606 | 33% |
| **Total loans and advances to customers (before impairment)** | **3 336 173** | **100%** | **181 671** | **100%** |

As at 31 December 2011 the Bank had 5 borrowers/groups of related borrowers (2010: 1 borrower) with aggregated loan amounts above RR 144 276 thousand (2010: RR 82 432 thousand). The total aggregate amount of these loans was RR 1 492 320 thousand (2010: RR 122 065 thousand), or 45% of the gross loan portfolio (2010: 67%).

Information about collateral against corporate loans is as follows:

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| Unsecured loans | 1 239 979 | 136 616 |
| Loans collateralised by: | | |
| - motor vehicles | 2 083 681 | 40 842 |
| **Total loans and advances to customers** | **3 323 660** | **177 458** |

The disclosure above represents the lower of the loan amount less provision for impairment or the fair value of collateral taken; the remaining part is disclosed within the unsecured exposures.

## 9 Loans and Advances to Customers (Continued)

Analysis by credit quality of corporate loans is as follows:

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| *Neither past due nor impaired* | | |
| - standard loan portfolio | 3 336 173 | 181 671 |
| **Total neither past due nor impaired** | **3 336 173** | **181 671** |
| Less: Provision for impairment | (12 513) | (4 213) |
| **Total loans and advances to customers** | **3 323 660** | **177 458** |

In accordance with the Bank's internal policy the loan portfolio is divided into several risk categories depending on the borrower's rating class.

- Standard loan portfolio (above the average rating class);
- Satisfactory loans (average rating class);
- Loans requiring special attention (below the average rating class);
- Default loans (the lowest rating class).

The rating class is assigned to all borrowers based on the comprehensive analysis of their performance.

In order to book loan impairment provisions, the Bank makes provisions on collective and individual basis following the methodology of Volkswagen Financial Services AG parent company that was designed in compliance with IAS 39, Financial Instruments: Recognition and Measurement. Loan provisions on collective basis are booked based on the borrowers' default statistics for each rating class. Since the Bank has no statistical information, provisions are booked based on the average of the borrower's probability of default for each rating class determined using the default statistics of the parent company.

The Bank's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any.

As a result of this policy and the above impairment methodology, the impairment provisions were booked for neither past due nor impaired loans on the basis of collective model using default statistics of the parent company.

As at 31 December 2011 and 31 December 2010 the Bank did not have any past due or impaired loans.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

## 9 Loans and Advances to Customers (Continued)

As at 31 December 2011 and 31 December 2010 the Bank did not have any over-collateralised loans. The effect of collateral for under-collateralised assets as at 31 December 2011 and 31 December 2010 is as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Carrying value of the assets** | **Fair value of collateral** | **Carrying value of the assets** | **Fair value of collateral** |
| Corporate loans | 3 323 660 | 2 083 681 | 177 458 | 40 842 |

Refer to Note 23 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 20. Information on related party balances is disclosed in Note 25.

## 10 Equipment and Intangible Assets

| *In thousands of Russian Roubles* | **Note** | **Office and computer equipment** | **Total equipment** | **Computer software licenses** | **Total** |
|---|---|---|---|---|---|
| **Carrying amount at 13 August 2010** | | - | - | - | - |
| Additions | | 15 541 | 15 541 | 51 438 | 66 979 |
| Depreciation and amortisation | 18 | (782) | (782) | (3 077) | (3 859) |
| **Carrying amount at 31 December 2010** | | **14 759** | **14 759** | **48 361** | **63 120** |
| Cost at 31 December 2010 | | 15 541 | 15 541 | 51 438 | 66 979 |
| Accumulated depreciation | | (782) | (782) | (3 077) | (3 859) |
| **Carrying amount at 31 December 2010** | | **14 759** | **14 759** | **48 361** | **63 120** |
| Additions | | 13 059 | 13 059 | 45 171 | 58 230 |
| Depreciation and amortisation | 18 | (5 612) | (5 612) | (13 073) | (18 685) |
| **Carrying amount at 31 December 2011** | | **22 206** | **22 206** | **80 459** | **102 665** |
| Cost at 31 December 2011 | | 28 600 | 28 600 | 96 609 | 125 209 |
| Accumulated depreciation | | (6 394) | (6 394) | (16 150) | (22 544) |
| **Carrying amount at 31 December 2011** | | **22 206** | **22 206** | **80 459** | **102 665** |

## 11 Other Assets

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| Prepayments, receivables and deferred expenses | 7 763 | 3 283 |
| Taxes recoverable other than on income | 23 | 135 |
| Other | 410 | 7 |
| **Total other assets** | **8 196** | **3 425** |

Amounts included in other assets are neither past due nor impaired. All of the above assets are expected to be recovered within twelve months after the year-end.

Information on related party balances is disclosed in Note 25.

## 12 Due to Other Banks

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| Short-term placements of other banks | 404 000 | - |
| **Total due to other banks** | **404 000** | **-** |

Refer to Note 23 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 20. Information on related party balances is disclosed in Note 25.

## 13 Customer Accounts

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| **Other legal entities** | | |
| - Current/settlement accounts | 1 048 070 | 492 |
| **Total customer accounts** | **1 048 070** | **492** |

Economic sector concentrations within customer accounts are as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Amount** | **%** | **Amount** | **%** |
| Manufacturing | 1 012 828 | 97 | 272 | 55 |
| Trade | 34 855 | 3 | 220 | 45 |
| Other | 387 | 0 | - | - |
| **Total customer accounts** | **1 048 070** | **100** | **492** | **100** |

As at 31 December 2011 the Bank had 1 customer (2010: 2 customers) with balances above RR 144 276 thousand (2010: RR 200 thousand). The total aggregate balance of these customers was RR 1 012 828 thousand (2010: RR 492 thousand), or 97% (2010: 100%) of total customer accounts.

Refer to Note 23 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 20. Information on related party balances is disclosed in Note 25.

## 14 Other Liabilities

Other liabilities comprise the following:

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| Accrued employee benefit costs | 25 350 | 8 912 |
| Payables on business operations and professional services | 18 652 | 17 975 |
| Taxes payable other than on income | 3 512 | 2 446 |
| **Total other liabilities** | **47 514** | **29 333** |

All of the above liabilities are expected to be settled within twelve months after the year-end.

## 15 Share Capital

The Bank's share capital was funded by contributions of participants in Roubles. The participants transferred cash to fund the Bank's share capital at the end of July 2010 and the Central Bank of the Russian Federation credited this cash to a special transit account up to the moment of issuance of license to the Bank as follows:

| *In thousands of Russian Roubles* | 2010 |
|---|---|
| VOLKSWAGEN FINANCIAL SERVICES AG | 1 742 400 |
| VOLKSWAGEN BANK GMBH | 17 600 |

On 13 August 2010, the Central Bank of the Russian Federation issued to the Bank a license for carrying out banking transactions in Russian Roubles and foreign currency (without the right to attract individual deposits).

On 16 August 2010, the founders' contributions to the Bank's share capital were transferred from the special transit account to the Bank's correspondent account in the Central Bank of the Russian Federation.

The Bank's charter sets the amount of the share capital equal to RR 880 000 thousand. The amount of the founders' contribution in excess of the set amount of charter capital was recognised within share premium.

| *In thousands of Russian Roubles* | Share capital | Share premium | Total |
|---|---|---|---|
| **At 13 August 2010** | - | - | - |
| Contribution from the Bank's participants | 880 000 | 880 000 | 1 760 000 |
| **At 31 December 2010** | 880 000 | 880 000 | 1 760 000 |
| Contribution from the participants to the Bank's property | - | 2 050 000 | 2 050 000 |
| **At 31 December 2011** | **880 000** | **2 930 000** | **3 810 000** |

## 16 Interest Income and Expense

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| **Interest income** | | |
| Loans and advances to customers | 90 489 | 2 764 |
| Due from other banks | 18 228 | 977 |
| **Total interest income** | **108 717** | **3 741** |
| **Interest expense** | | |
| Term placements of other banks | 8 722 | - |
| **Total interest expense** | 8 722 | - |
| **Net interest income** | **99 995** | **3 741** |

## 17 Fee and Commission Income and Expense

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| **Fee and commission income** | | |
| - Storage and transfer of Vehicle Certificate of Title | 2 077 | 37 |
| - Loans issued | 396 | - |
| - Settlement transactions | 153 | 7 |
| **Total fee and commission income** | **2 626** | **44** |

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| **Fee and commission expense** | | |
| - Loans received | 2 584 | - |
| - Settlement transactions | 145 | 29 |
| - Other | 39 | 132 |
| **Total fee and commission expense** | **2 768** | **161** |
| **Net fee and commission expense** | **(142)** | **(117)** |

## 18 Administrative and Other Operating Expenses

| *In thousands of Russian Roubles* | Note | 2011 | 2010 |
|---|---|---|---|
| Staff costs | | 108 908 | 25 391 |
| Professional services | | 35 199 | 3 845 |
| Operating lease expense | | 23 351 | 7 452 |
| Depreciation of equipment and amortisation of intangible assets | 10 | 18 685 | 3 859 |
| Cost of equipment and intangible assets | | 15 148 | 202 |
| Taxes other than on income | | 11 365 | 4 391 |
| Insurance contributions | | 9 138 | 4 900 |
| Communication, telecommunication and information system services | | 2 481 | 3 860 |
| Audit fees | | 2 350 | 744 |
| Transport expenses | | 1 527 | - |
| Security | | 1 127 | 369 |
| Advertising and marketing services | | 342 | - |
| Other expenses | | 4 657 | 13 184 |
| **Total administrative and other operating expenses** | | **234 278** | **68 197** |

Other expenses for 2010 include expenses to hold events related to the official opening of the Bank in the amount of RR 11 217 thousand.

## 19 Income Taxes

### *(a) Components of income tax benefit*

Income tax expense/(credit) recorded in profit or loss for the year comprises the following:

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| Deferred tax | 8 535 | (2 407) |
| **Income tax expense/(credit) for the year** | **8 535** | **(2 407)** |

### *(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate*

The income tax rate applicable to the Bank's 2011 financial result is 20% (2010: 20%).

A reconciliation between the expected and the actual taxation charge is provided below.

| *In thousands of Russian Roubles* | 2011 | 2010 |
|---|---|---|
| **Loss before tax** | **(142 781)** | **(68 778)** |
| Theoretical tax credit at statutory rate (2011: 20%; 2010: 20%) | (28 556) | (13 755) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Non-deductible expenses | 1 892 | 2 801 |
| Other non-temporary differences | 253 | 185 |
| Unrecognised tax loss carry forwards | 34 946 | 8 362 |
| **Income tax expense/(credit) for the year** | **8 535** | **(2 407)** |

## 19 Income Taxes (Continued)

### *(c) Tax loss carry forwards*

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards. The amount of potential deferred tax asset is RR 43 308 thousand as at 31 December 2011 (31 December 2010: RR 8 362 thousand). In accordance with tax legislation tax losses can be recovered against taxable profits during ten subsequent tax periods.

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| Tax loss carry-forwards expiring: | | |
| - after 31 December 2017 | 216 541 | 41 811 |
| **Total tax loss carry forwards** | **216 541** | **41 811** |

### *(d) Deferred taxes analysed by type of temporary difference*

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

| *In thousands of Russian Roubles* | **1 January 2011** | **Credited/ (charged) to profit or loss** | **31 December 2011** |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | |
| Equipment | (161) | (45) | (206) |
| Loan impairment provision | 547 | (12 948) | (12 401) |
| Accrued expenses | 2 021 | 4 458 | 6 479 |
| **Net deferred tax asset/(liability)** | **2 407** | **(8 535)** | **(6 128)** |
| Recognised deferred tax asset | 2 407 | (2 407) | - |
| Recognised deferred tax liability | - | (6 128) | (6 128) |
| **Net deferred tax asset/ (liability)** | **2 407** | **(8 535)** | **(6 128)** |

## 19 Income Taxes (Continued)

| *In thousands of Russian Roubles* | 13 August 2010 | Credited/ (charged) to profit or loss | 31 December 2010 |
|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | |
| Equipment | - | (161) | (161) |
| Loan impairment provision | - | 547 | 547 |
| Accrued expenses | - | 2 021 | 2 021 |
| **Net deferred tax asset** | **-** | **2 407** | **2 407** |
| Recognised deferred tax asset | - | 2 407 | 2 407 |
| Recognised deferred tax liability | - | - | - |
| **Net deferred tax asset** | **-** | **2 407** | **2 407** |

## 20 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

***Credit risk.*** The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank’s lending and other transactions with counterparties giving rise to financial assets.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The credit risk is mitigated by collateral and other credit enhancements (guarantees).

The Bank discloses the information about collateral and other loan security forms in the notes to financial statements.

The Bank's borrowers are the dealers of automotive companies that are funded for the purpose of car purchase. The Credit Check Department performs the analysis of the borrowers' performance. The information on the borrower and the potential deal is included in the loan application and submitted to the Credit Committee, which considers the application and takes a decision.

In order to monitor credit risk exposures, regular reports are produced by Credit Check Department and Risk Management Department staff based on the analysis of the customer’s business and financial performance and the existing customer portfolio. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Management Board.

The Bank’s Contract Administration Department and Risk Management Department jointly review ageing analysis of outstanding loans and follow up on past due balances.

## 20 Financial Risk Management (Continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as the result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

***Market risk.*** The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate and currency instruments, all of which are exposed to general and specific market movements.

Market risk management is the responsibility of the Asset and Liability Management Committee ("ALCO"). ALCO controls the market risk accepted by the Bank on a regular basis by monitoring internal limits, market development expectations and funding rate projections.

***Currency risk.*** The Bank monitors compliance with the CBRF requirements to open currency position limits set by CBRF Instruction No. 124-I of 15 July 2005 "On Establishing Amounts (Limits) of Open Currency Positions, Calculation Methodology and Specifics of Oversight over Their Compliance by Credit Institutions" on a regular basis.

The table below summarises the Bank’s exposure to foreign currency exchange rate risk at the end of the reporting period:

| | **At 31 December 2011** | | | **At 31 December 2010** | | |
|---|---|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Monetary financial assets** | **Monetary financial liabilities** | **Net position** | **Monetary financial assets** | **Monetary financial liabilities** | **Net position** |
| Russian Roubles | 4 987 220 | 1 462 048 | 3 525 172 | 1 654 502 | 18 467 | 1 636 035 |
| US Dollars | 2 | 1 480 | (1 478) | - | - | - |
| Euros | 6 | 7 194 | (7 188) | - | - | - |
| **Total** | **4 987 228** | **1 470 722** | **3 516 506** | **1 654 502** | **18 467** | **1 636 035** |

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied, with all other variables held constant:

| | **At 31 December 2011** | | **At 31 December 2010** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Impact on profit or loss** | **Impact on equity** | **Impact on profit or loss** | **Impact on equity** |
| US Dollar strengthening by 9% (2010: by 5%) | (133) | (106) | - | - |
| US Dollar weakening by 9% (2010: weakening by 5%) | 133 | 106 | - | - |
| Euro strengthening by 5% (2010: strengthening by 8%) | (359) | (288) | - | - |
| Euro weakening by 5% (2010: weakening by 8%) | 359 | 288 | - | - |
| **Total** | **-** | **-** | **-** | **-** |

## 20 Financial Risk Management (Continued)

***Interest rate risk.*** The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Treasury Department of the Bank monitors interest rate risk within the scope of the Asset-Liability Management (ALM) procedure on a monthly basis. Regular ALM procedure is aimed at mitigation of interest rate risks and ensures compliance with the internal limits set for assets and liabilities interest rate gap by dates. Compliance with internal limits is the responsibility of ALCO,

The table below summarises the Bank's exposure to interest rate risks. The table presents the amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **More than 1 year** | **Total** |
|---|---|---|---|---|
| **31 December 2011** | | | | |
| Total financial assets | 1 733 674 | 3 253 554 | - | 4 987 228 |
| Total financial liabilities | 1 461 118 | 9 602 | 2 | 1 470 722 |
| **Net interest sensitivity gap at 31 December 2011** | **272 556** | **3 243 952** | **(2)** | **3 516 506** |
| **31 December 2010** | | | | |
| Total financial assets | 1 277 149 | 377 353 | - | 1 654 502 |
| Total financial liabilities | 18 467 | - | - | 18 467 |
| **Net interest sensitivity gap at 31 December 2010** | **1 258 682** | **377 353** | **-** | **1 636 035** |

Some of the Bank's standard credit products have complex interest rate structure, which is reviewed on a monthly basis.

At 31 December 2011 if interest rates had been 200 basis points lower (2010: 200 basis points lower), with all other variables held constant, net loss would have been RR 40 944 thousand (2010: RR 3 035 thousand) higher, mainly as a result of lower interest income on due from other banks and loans to legal entities.

If interest rates had been 200 basis points higher (2010: 200 basis points higher), with all other variables held constant, net loss would have been RR 40 944 thousand (2010: RR 3 035 thousand) lower, mainly as a result of higher interest income on due from other banks and loans to legal entities.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel.

| *In % p.a.* | **2011** | | | **2010** | | |
|---|---|---|---|---|---|---|
| | **RR** | **USD** | **Euro** | **RR** | **USD** | **Euros** |
| **Assets** | | | | | | |
| Cash and cash equivalents | 0% | 0% | 0% | 0% | - | - |
| Due from other banks | - | - | - | 4% | - | - |
| Loans and advances to customers | 11% | - | - | 8% | - | - |
| **Liabilities** | | | | | | |
| Due to banks | 8% | - | - | - | - | - |
| Customer accounts | | | | | | |
| - current and settlement accounts | 0% | - | - | 0% | - | - |

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in corresponding currency.

## 20 Financial Risk Management (Continued)

***Other price risk.*** The Bank is exposed to prepayment risk through providing fixed or variable rate loans, which give the borrower the right to repay the loans early. The Bank's current year financial result and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at, or close to the amortised cost of the loans and advances to customers.

***Geographical risk concentrations.*** The geographical concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

| *In thousands of Russian Roubles* | Russia | OECD | Total |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 1 651 027 | - | 1 651 027 |
| Mandatory cash balances with the Bank of Russia | 12 477 | - | 12 477 |
| Loans and advances to customers | 3 323 660 | - | 3 323 660 |
| Other financial assets | 64 | - | 64 |
| **Total financial assets** | **4 987 228** | - | **4 987 228** |
| **Financial liabilities** | | | |
| Due to banks | 404 000 | - | 404 000 |
| Customer accounts | 1 048 070 | - | 1 048 070 |
| Other financial liabilities | 9 594 | 9 058 | 18 652 |
| **Total financial liabilities** | **1 461 664** | **9 058** | **1 470 722** |
| **Net position in on-balance sheet financial instruments** | **3 525 564** | **(9 058)** | **3 516 506** |
| **Credit related commitments** | **10 936 304** | **-** | **10 936 304** |

The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2010 is set out below:

| *In thousands of Russian Roubles* | Russia |
|---|---|
| **Financial assets** | |
| Cash and cash equivalents | 275 961 |
| Mandatory cash balances with the Bank of Russia | 106 |
| Due from other banks | 1 200 977 |
| Loans and advances to customers | 177 458 |
| **Total financial assets** | **1 654 502** |
| **Financial liabilities** | |
| Customer accounts | 492 |
| Other financial liabilities | 17 975 |
| **Total financial liabilities** | **18 467** |
| **Net position in on-balance sheet financial instruments** | **1 636 035** |
| **Credit related commitments** | **440 779** |

## 20 Financial Risk Management (Continued)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and equipment have been allocated based on the country in which they are physically held.

***Other risk concentrations.*** Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 5% of net assets. Refer to Notes 8 and 9.

***Liquidity risk.*** Liquidity risk is the risk that the Bank will lose its ability to timely and fully fulfil its monetary and other obligations arising from the Bank's current activities, including settlements on overnight deposits, accounts on demand, maturing deposits, loan draw-downs.

For the purposes of liquidity risk management the Bank's Treasury department projects cash flows and ensures the availability of sufficient funds to meet the Bank’s cash flow requirements. The Bank's liquidity is managed and forecasted on the basis of cash flow management model implemented by Treasury department and agreed with the Assets and Liabilities Management Committee (ALCO). Cash flow management model is based on the principles of effective communication between business units, back-testing, regular adjustment of projected values to business requirements. Within the scope of this model the Treasury Department regularly stress tests the level of liquidity on the basis of various scenarios that cover both standard and more unfavourable market conditions.

The Bank has developed a Contingency plan of actions to be taken in order to support liquidity. This plan defines the liquidity deficit, measures aimed at its prevention and actions required for its avoidance.

Liquidity risk management is the responsibility of ALCO. The Committee analyses on a regular basis the current and projected liquidity of the Bank, develops the strategy for the use of money market instruments and funding sources, establishes internal liquidity ratios.

On the basis of actual and projected data the Treasury establishes the portfolio of short-term liquid assets, mainly comprising balances on correspondent accounts (including the correspondent account with the CBRF), deposits with banks and other interbank instruments, which is sufficient for meeting the Bank's obligations set by the CBRF in accordance with CBRF Instruction No. 110-I of 16 January 2004 “On Obligatory Ratios for Banks.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of the Russian Federation. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 155.8% at 31 December 2011 (2010: 1593%).

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 117.4% at 31 December 2011 (2010: 7371%);

- Long-term liquidity ratio (N4), which is calculated as the ratio of assets maturing after one year to regulatory capital and liabilities maturing after one year. The ratio was 0% at 31 December 2011 (2010: 0%) due to absence of assets maturing after one year.

## 20 Financial Risk Management (Continued)

The table below shows maturity analysis of assets and liabilities at 31 December 2011 and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The maturity analysis of financial instruments as at 31 December 2011 is as follows:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **From 6 months to 1 year** | **From 1 to 5 years** | **Total** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | 1 651 027 | - | - | - | 1 651 027 |
| Mandatory cash balances with the Bank of Russia | 12 477 | - | - | - | 12 477 |
| Due from other banks | - | - | - | - | - |
| Loans and advances to customers | 83 157 | 3 361 443 | 4 255 | - | 3 448 855 |
| Other financial assets | 64 | - | - | - | 64 |
| **Total** | **1 746 725** | **3 361 443** | **4 255** | **-** | **5 112 423** |
| **Financial liabilities** | | | | | |
| Due to banks | 400 880 | - | - | - | 400 880 |
| Customer accounts | 1 048 070 | - | - | - | 1 048 070 |
| Other financial liabilities | 9 048 | 9 602 | - | 2 | 18 652 |
| **Total potential future payments for financial obligations** | **1 457 998** | **9 602** | **-** | **2** | **1 467 602** |
| **Liquidity gap arising from financial instruments** | **288 727** | **3 351 841** | **4 255** | **(2)** | **3 644 821** |
| **Credit related commitments** | **10 936 304** | **-** | **-** | **-** | **10 936 304** |

## 20 Financial Risk Management (Continued)

The maturity analysis of financial instruments as at 31 December 2010 is as follows:

| *In thousands of Russian Roubles* | **Demand and less than 1 month** | **From 1 to 6 months** | **Total** |
|---|---|---|---|
| **Financial assets** | | | |
| Cash and cash equivalents | 275 961 | - | 275 961 |
| Mandatory cash balances with the Bank of Russia | 106 | - | 106 |
| Due from other banks | 1 003 360 | 200 000 | 1 203 360 |
| Loans and advances to customers | 1 060 | 185 064 | 186 124 |
| **Total** | **1 280 487** | **385 064** | **1 665 551** |
| **Financial liabilities** | | | |
| Customer accounts | 492 | - | 492 |
| Other financial liabilities | 17 975 | - | 17 975 |
| **Total potential future payments for financial obligations** | **18 467** | **-** | **18 467** |
| **Liquidity gap arising from financial instruments** | **1 262 020** | **385 064** | **1 647 084** |
| **Credit related commitments** | **440 779** | **-** | **440 779** |

## 21 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2010 was RR 3 592 313 thousand (2010: RR 1 693 629 thousand). Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of Board and Chief Accountant. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of Russia, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| Net assets under Russian GAAP | 2 885 516 | 1 648 638 |
| **Total regulatory capital** | **2 885 516** | **1 648 638** |

The Bank has complied with externally imposed capital requirements throughout 2011 and 2010.

## 22 Contingencies and Commitments

***Legal proceedings*.** During 2011 and 2010, no claims against the Bank were received.

***Tax contingencies***. Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

As at 31 December 2011 and 31 December 2010 the management did not book any provision for potential tax liabilities as it is believes that its interpretation of the relevant tax legislation is appropriate.

***Operating lease commitments.*** Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| Not later than 1 year | 7 460 | 7 835 |
| Later than 1 year and not later than 5 years | 1 009 | - |
| **Total operating lease commitments** | **8 469** | **7 835** |

## 22 Contingencies and Commitments (Continued)

### *Credit related commitments*

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

| *In thousands of Russian Roubles* | **2011** | **2010** |
|---|---|---|
| Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change. | 10 936 304 | 440 779 |
| **Total credit related commitments, net of provision** | **10 936 304** | **440 779** |

The total outstanding contractual amount of undrawn credit lines does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

All credit related commitments are denominated in Russian roubles.

## 23 Fair Value of Financial Instruments

### *(a) Fair values of financial instruments carried at amortised cost.*

Fair values of financial instruments carried at amortised cost are as follows:

| | **2011** | | **2010** | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **FINANCIAL ASSETS** | | | | |
| ***Cash and cash equivalents*** | | | | |
| - Cash balances with the CBRF | 1 649 654 | 1 649 654 | 273 243 | 273 243 |
| - Correspondent accounts with other banks | 1 373 | 1 373 | 2 718 | 2 718 |
| ***Mandatory cash balances with CBRF*** | 12 477 | 12 477 | 106 | 106 |
| ***Due from other banks*** | | | | |
| - Placements with other banks | **-** | **-** | 1 200 977 | 1 200 977 |
| ***Loans and advances to customers*** | | | | |
| - Corporate loans | 3 323 660 | 3 323 660 | 177 458 | 177 458 |
| ***Other financial assets*** | 64 | 64 | - | - |
| **TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST** | **4 987 228** | **4 987 228** | **1 654 502** | **1 654 502** |

## 23 Fair Value of Financial Instruments (Continued)

| | 2011 | | 2010 | |
|---|---|---|---|---|
| *In thousands of Russian Roubles* | **Carrying amount** | **Fair value** | **Carrying amount** | **Fair value** |
| **FINANCIAL LIABILITIES** | | | | |
| ***Due to banks*** | | | | |
| - Short-term placements of other banks | 404 000 | 404 000 | - | - |
| ***Customer accounts*** | | | | |
| - Current/settlement accounts of other legal entities | 1 048 070 | 1 048 070 | 492 | 492 |
| ***Other financial liabilities*** | 18 652 | 18 652 | 17 975 | 17 975 |
| **TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST** | **1 470 722** | **1 470 722** | **18 467** | **18 467** |

***(b) The methods and assumptions applied in determining fair values.***

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

The best evidence of fair value is price quotations in an active market. Where quoted market prices are not available, the Bank used valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on maturity of the instrument and credit risk of the counterparty and were as follows:

| | **2011** | **2010** |
|---|---|---|
| ***Due from other banks*** | | |
| Placements with other banks | - | 3% to 4% p.a. |
| ***Loans and advances to customers*** | | |
| Corporate loans | 9.28% to 14% p.a. | 7 % to 11 % p.a. |
| ***Due to other banks*** | | |
| Short-term placements of other banks | 7.3% p.a. | - |
| ***Customer accounts*** | | |
| Current/settlement accounts of other legal entities | 0% p.a. | 0 % p.a. |

## 24 Presentation of Financial Instruments by Measurement Category

In accordance with IAS 39 "Financial instruments: recognition and measurement", the Bank classifies financial assets into the following categories: (a) loans and receivables; (b) financial assets available for sale; (c) financial assets held to maturity; and (d) financial assets at fair value through the statement of comprehensive income. Financial assets at fair value through through the statement of comprehensive income have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category.

## 24 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2011:

| *In thousands of Russian Roubles* | **Loans and receivables** |
|---|---|
| **ASSETS** | |
| ***Cash and cash equivalents*** | 1 651 027 |
| ***Mandatory cash balances with the Bank of Russia*** | 12 477 |
| ***Due from other banks*** | |
| - Placements with other banks | - |
| ***Loans and advances to customers*** | |
| - Corporate loans | 3 323 660 |
| ***Other assets*** | 64 |
| **TOTAL FINANCIAL ASSETS** | **4 987 228** |

As at 31 December 2011 all financial liabilities of the Bank are carried at amortised cost.

The following table provides a reconciliation of financial assets with measurement categories as of 31 December 2010:

| *In thousands of Russian Roubles* | **Loans and receivables** |
|---|---|
| **ASSETS** | |
| ***Cash and cash equivalents*** | 275 961 |
| ***Mandatory cash balances with the Bank of Russia*** | 106 |
| ***Due from other banks*** | |
| - Placements with other banks | 1 200 977 |
| ***Loans and advances to customers*** | |
| - Corporate loans | 177 458 |
| **TOTAL FINANCIAL ASSETS** | **1 654 502** |

As at 31 December 2010 all financial liabilities of the Bank are carried at amortised cost.

## 25 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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, not merely the legal form.

## 25 Related Party Transactions (Continued)

At 31 December 2011, the outstanding balances with related parties were as follows:

| *In thousands of Russian Roubles* | **Participants of the Bank** | **Entities under common control** | **Total** |
|---|---|---|---|
| Gross amount of loans and advances to customers (contractual interest rate: 9.28 - 9.31%) | - | 350 608 | 350 608 |
| Impairment provisions for loans and advances to customers at 31 December | - | (6 160) | (6 160) |
| Customer accounts (contractual interest rate: 0 %) | | 1 013 215 | 1 013 215 |
| Other liabilities | 7 188 | - | 7 188 |

The income and expense items with related parties for 2011 were as follows:

| *In thousands of Russian Roubles* | **Participants of the Bank** | **Entities under common control** | **Total** |
|---|---|---|---|
| Interest income | - | 1 899 | 1 899 |
| Provision for loan impairment | - | 2 803 | 2 803 |
| Fee and commission income | - | 2 087 | 2 087 |
| Fee and commission expense | - | 39 | 39 |
| Other operating income | - | 9 | 9 |
| Administrative and other operating expenses | 7 188 | 23 991 | 31 179 |

At 31 December 2011, other rights and obligations with related parties were as follows:

| *In thousands of Russian Roubles* | **Entities under common control** |
|---|---|
| Other contingent obligations | 7 203 |

Aggregate amounts lent to and repaid by related parties during 2011 were:

| *In thousands of Russian Roubles* | **Entities under common control** |
|---|---|
| Amounts lent to related parties during the year | 350 000 |
| Amounts repaid by related parties during the year | 122 000 |

## 25 Related Party Transactions (Continued)

At 31 December 2010, the outstanding balances with related parties were as follows:

| *In thousands of Russian Roubles* | **Entities under common control** |
|---|---|
| Gross amount of loans and advances to customers (contractual interest rate: 6.53%) | 122 065 |
| Impairment provisions for loans and advances to customers at 31 December | (3 357) |
| Other assets | 37 |
| Customer accounts (contractual interest rate: 0%) | 220 |
| Other liabilities | 14 405 |

The income and expense items with related parties for 2010 were as follows:

| *In thousands of Russian Roubles* | **Entities under common control** |
|---|---|
| Interest income | 2 052 |
| Provision for loan impairment | 3 357 |
| Fee and commission income | 39 |
| Fee and commission expense | 17 |
| Administrative and other operating expenses | 8 751 |

At 31 December 2010, other rights and obligations with related parties were as follows:

| *In thousands of Russian Roubles* | **Entities under common control** |
|---|---|
| Other contingent obligations | 7 835 |

Aggregate amounts lent to and repaid by related parties during 2010 were:

| *In thousands of Russian Roubles* | **Entities under common control** |
|---|---|
| Amounts lent to related parties during the year | 122 000 |

The ultimate beneficiary and ultimate controlling party of the Bank is Volkswagen AG (Germany).

In 2011, the total remuneration of members of the Management Board comprised salaries, discretionary bonuses and other short-term benefits of RR 32 325 thousand (2010: RR 3 854 thousand) before tax.

## 26 Events After the End of the Reporting Period

On 11 January 2012 the membership of the Bank's Management Board was changed. Bugaenko Oleg Alexandrovich was removed from the Management Board.