

**Closed Joint Stock Company ISBANK**

Financial Statements  
for the Year Ended 31 December 2011  
and Independent Auditor's Report

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## Independent Auditor's Report

To the Shareholders and the Board of Directors of Closed Joint Stock Company ISBANK

We have audited the accompanying financial statements of Closed Joint Stock Company ISBANK, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management 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

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.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed Joint Stock Company ISBANK as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A.V. Efremov  
Senior Partner



15 February 2012  
ZAO BDO



## Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2011

The following statement, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the financial statements of Closed Joint Stock Company ISBANK (the Bank).

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2011, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud and other irregularities.

On behalf of the Bank's management the financial statements for the year ended 31 December 2011 were authorised for issue on 15 February 2012 by:



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A.A. Shchelkunov,  
Chairman of the Management Board



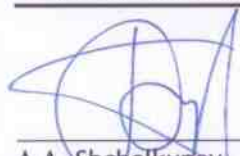
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L.V. Kosorukova,  
Acting Chief Accountant

CJSC ISBANK  
Russian Federation, Moscow  
15 February 2012

**CJSC ISBANK**  
**Statement of Financial Position as at 31 December 2011**  
*(in thousands of Russian Roubles)*

	Note	2011	2010
<b>Assets</b>			
Cash and cash equivalents	5	826 651	1 309 443
Mandatory cash balances with the Central Bank of the Russian Federation		60 420	77 529
Due from other banks	6	977 461	211 645
Loans to customers	7	2 200 451	1 715 657
Financial assets available for sale	8	315 395	-
Investments held to maturity	9	-	143 593
Premises and equipment	10	712 630	715 777
Other assets	11	160 411	400 696
Deferred tax assets	22	15 476	8 260
<b>Total assets</b>		<b>5 268 895</b>	<b>4 582 600</b>
<b>Liabilities</b>			
Due to other banks	12	323 263	56
Customer accounts	13	4 141 510	3 764 388
Financial liabilities at fair value through profit or loss	14	10 156	2 179
Debt securities issued	15	-	27 294
Current tax liabilities		4 462	-
Other liabilities	16	18 944	18 891
<b>Total liabilities</b>		<b>4 498 335</b>	<b>3 812 808</b>
<b>Equity</b>			
Share capital	17	739 071	739 071
Share premium	17	3 496	3 496
Revaluation reserve for premises and equipment		138 074	130 795
Fair value reserve for financial assets available for sale		(784)	-
Accumulated deficit		(109 297)	(103 570)
<b>Total equity</b>		<b>770 560</b>	<b>769 792</b>
<b>Total liabilities and equity</b>		<b>5 268 895</b>	<b>4 582 600</b>



A.A. Shchelkunov,  
Chairman of the Management Board



L.V. Kosorukova,  
Acting Chief Accountant

15 February 2012

*The notes set out on pages 9 to 53 are an integral part of these financial statements.*

	Note	2011	2010
Interest income	19	322 995	386 940
Interest expense	19	(190 614)	(216 048)
<b>Net interest income</b>		<b>132 381</b>	<b>170 892</b>
Provision for impairment of loans to customers	7	60 416	(12 877)
<b>Net interest income after provision for impairment of loans to customers</b>		<b>192 797</b>	<b>158 015</b>
Gains less losses arising from financial assets at fair value through profit or loss		(7 977)	4 857
Gains less losses arising from financial assets available for sale		(280)	-
Gains less losses from dealing in foreign currency		19 715	15 712
Gains less losses from revaluation of foreign currency		10 081	5 371
Fee and commission income	20	138 421	123 556
Fee and commission expense	20	(11 668)	(9 382)
Gains on origination of assets at rates below market	15	-	326
Provision for impairment of other assets and credit related commitments	11, 25	(1 124)	(182)
Other operating income		11 293	15 142
<b>Operating income</b>		<b>351 258</b>	<b>313 415</b>
Operating expenses	21	(358 339)	(311 257)
<b>Profit/(loss) before taxation</b>		<b>(7 081)</b>	<b>2 158</b>
Income tax expense/(recovery)	22	1 354	(509)
<b>Net profit/(loss)</b>		<b>(5 727)</b>	<b>1 649</b>
<b>Other comprehensive income</b>			
Effect of revaluation of premises and equipment	10	9 098	11 571
Effect of revaluation of financial assets available for sale	8	(773)	-
Income tax relating to components of comprehensive income	22	(1 830)	(2 314)
<b>Other comprehensive income after taxation</b>		<b>6 495</b>	<b>9 257</b>
<b>Total comprehensive income for the period</b>		<b>768</b>	<b>10 906</b>



A.A. Shchetkunov,  
Chairman of the Management Board



L.V. Kosorukova,  
Acting Chief Accountant

15 February 2012



**CJSC ISBANK**  
**Statement of Cash Flows for the Year Ended 31 December 2011**  
*(in thousands of Russian Roubles)*

	2011	2010
<b>Cash flows from operating activities</b>		
Interest received	302 308	373 223
Interest paid	(194 703)	(213 802)
Gains less losses arising from financial assets at fair value through profit or loss	-	(334)
Gains less losses arising from financial assets available for sale	(280)	-
Gains less losses from dealing in foreign currency	19 715	15 712
Fees and commissions received	138 421	123 556
Fees and commissions paid	(11 668)	(9 382)
Other operating income	11 264	8 150
Operating expenses paid	(322 284)	(277 684)
Income tax paid	(3 229)	(79)
<b>Cash flows provided by (used in) operating activities before changes in operating assets and liabilities</b>	<b>(60 456)</b>	<b>19 360</b>
<b>Net (increase)/decrease in operating assets</b>		
Mandatory cash balances with the Central Bank of the Russian Federation	17 109	(54 569)
Due from other banks	(729 793)	(210 245)
	(394 37)	
Loans to customers	7)	(77 977)
Other assets	266 686	(14 947)
<b>Net increase/(decrease) in operating liabilities</b>		
Due to other banks	309 331	(74)
Customer accounts	382 866	790 745
Debt securities issued	(28 558)	17 067
Other liabilities	(18 009)	(8 310)
<b>Net cash flows from operating activities</b>	<b>(255 201)</b>	<b>461 050</b>
<b>Cash flows from investing activities</b>		
Purchase of investments held to maturity (Note 9)	(369 178)	(206 487)
Purchase of investments available for sale (Note 8)	(240 790)	-
Proceeds from disposal of investments held to maturity (Note 9)	55 224	-
Proceeds from redemption of investments held to maturity (Note 9)	323 083	65 360
Proceeds from redemption of investments available for sale (Note 8)	62 184	-
Purchase of premises and equipment (Note 10)	(11 438)	(12 263)
Proceeds from disposal of premises and equipment	40	120
<b>Net cash flows from investing activities</b>	<b>(180 875)</b>	<b>(153 270)</b>
Effect of exchange rate changes on cash and cash equivalents	(46 716)	(23 787)
<b>Net change in cash and cash equivalents</b>	<b>(482 792)</b>	<b>283 993</b>
Cash and cash equivalents at the beginning of the year	1 309 443	1 025 450
<b>Cash and cash equivalents at the end of the year (Note 5)</b>	<b>826 651</b>	<b>1 309 443</b>



A.A. Shchetkunov,  
Chairman of the Management Board




L.V. Kosorukova,  
Acting Chief Accountant

15 February 2012

*The notes set out on pages 9 to 53 are an integral part of these financial statements.*

	Share capital	Share premium	Revaluation reserve for premises and equipment	Fair value reserve for financial assets available for sale	Accumulated deficit	Total equity
Balance as at 1 January 2010	739 071	3 496	121 538	-	(105 219)	758 886
Comprehensive income for 2010	-	-	9 257	-	1 649	10 906
Balance as at 31 December 2010	739 071	3 496	130 795	-	(103 570)	769 792
Comprehensive income/(expense) for 2011	-	-	7 279	(784)	(5 727)	768
Balance as at 31 December 2011	739 071	3 496	138 074	(784)	(109 297)	770 560

  
A.A. Shchelkunov,  
Chairman of the Management Board

  
L.V. Kosorukova,  
Acting Chief Accountant

15 February 2012



## 1. Principal Activities of the Bank

Closed Joint Stock Company ISBANK (former Joint Stock Commercial Bank Sofia (closed joint stock company)), hereinafter referred to as the Bank, was founded on 15 December 1998 as a closed joint stock company under the laws of the Russian Federation through restructuring of Commercial Bank Sofia (limited liability partnership) established by the founders' meeting on 6 October 1993. The name of the Bank was changed to CJSC ISBANK subject to Resolution No. 3 of the Bank's sole shareholder dated 25 July 2011. The amendments to the Charter were agreed with the Central Bank of the Russian Federation (CBR) on 25 August 2011.

The Bank has membership in the Association of Russian Banks, International payment systems MasterCard Worldwide, Society for Worldwide Interbank Financial Telecommunications (S.W.I.F.T.), Moscow Interbank Currency Exchange, Moscow Interbank Union, and is a Dealer in the government bonds market.

The priority lines of the Bank's business are commercial banking services in the Russian Federation.

In 2011 the Bank operated subject to the following licenses:

- General License of the Central Bank of the Russian Federation No. 2867 of 19 December 2002 for banking operations (valid until 30.09.2011);
- General License of the Central Bank of the Russian Federation No. 2867 of 30 September 2011 for banking operations (valid from 30.09.2011);
- License of the Central Bank of the Russian Federation No. 2867 of 19 December 2002 for receiving and placing deposits in precious metals and for conducting other operations in precious metals (valid until 30.09.2011);
- License of the Central Bank of the Russian Federation No. 2867 of 30 September 2011 for receiving and placing deposits in precious metals and for conducting other operations in precious metals (valid since 30.09.2011);
- Licenses issued by the Federal Commission for the Securities Market (FCSM):
  - No. 077-02950-100000 of 27 November 2000 for brokerage transactions;
  - No. 077-03055-10001 0 of 27 November 2000 for dealing transactions;
  - No. 077-03174-000100 of 4 December 2000 for depository activities;
  - No. 077-03130-001000 of 27 November 2000 for securities management operations;
- Licenses issued by the Federal Security Service of the Russian Federation:
  - No. 6864 Kh of 19 March 2009 for servicing of (coding) cryptographic equipment (valid until 01.11.2011);
  - No. 11406 Kh of 1 November 2011 for servicing of (coding) cryptographic equipment (valid from 01.11.2011);
  - No. 6865 R of 19 March 2009 for distributing of (coding) cryptographic equipment (valid until 01.11.2011);
  - No. 11407 R of 1 November 2011 for distributing of (coding) cryptographic equipment (valid from 01.11.2011);
  - No. 6865 U of 19 March 2009 for providing information encryption services (valid until 01.11.2011);
  - No. 11408 U of 1 November 2011 for providing information encryption services (valid until 01.11.2011).

The Bank has 5 branches in Balakovo, Samara, Saint-Petersburg, Saratov and Novosibirsk.

The Bank's legal address and place of business: 13D Nametkina Str., Moscow, 117420.

Since 14 September 2005 the Bank has been a member of the Obligatory Deposit Insurance System regulated by the state corporation Deposit Insurance Agency.

The average annual number of the Bank's employees in 2011 was 335 (2010: 361).

