



**VOZROZHDENIE  
BANK**

THE BANK THAT IS ALWAYS WITH YOU

# 1991 20 YEARS 2011

**ANNUAL  
REPORT**

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BANK VOZROZHDENIE'S HISTORY BEGAN IN APRIL 1991. TODAY, THE BANK IS ONE OF THE LARGEST FINANCIAL INSTITUTIONS IN RUSSIA, AND IT HAS BEEN AMONG THE TOP 30 NAMES IN THE BANKING SECTOR FOR 19 YEARS.

## Portrait of the bank

Offering an individual service for corporate clients and individuals, Bank Vozrozhdenie provides financial services across the whole of Russia. With a history dating back to 1991, the Bank is one of the largest financial institutions in Russia today and has been among the country's top 30 banks for 19 years in a row.

We serve almost 62,600 corporate clients and around 1.6 million retail clients, offering a variety of services that include deposits, business financing, mortgage and consumer lending, bank cards and settlement operations. Its services are accessible both at outlets and remotely, such as through mobile and internet banking.

Bank Vozrozhdenie's network consists of 157 branches and 785 ATMs in 21 Russian regions, primarily those in the European part of the country: Moscow Region and the Southern and North-West areas of Russia. The Bank is differentiated for the loyalty of its clients, many of whom have been with the Bank for more than 20 years.

Bank Vozrozhdenie's strategy is based on developing a profitable business that generates stable commission income. In the corporate segment the key clientele are small and medium-sized enterprises (SMEs), while another rapidly expanding area is retail lending, where funding primarily comes from customer deposits. The Bank adheres to a conservative risk-management policy, which has enabled it to successfully emerge from all of the financial crises in modern Russian history.

The Bank is a public company, and its shares are traded on local and international stock exchanges. Its shareholder base includes over 9,000 individuals and legal entities, many of whom are long-term investors. The main shareholder is Dmitry Orlov, Chairman of the Management Board.

Bank Vozrozhdenie publishes financial statements according to Russian Accounting Standards and International Financial Reporting Standards. Its external auditor is PricewaterhouseCoopers Audit.

<sup>1</sup> Source: RBC Rating for 2011

<sup>2</sup> For the first half of 2011

<sup>3</sup> For the first half of 2011

### Market positions<sup>1</sup>:

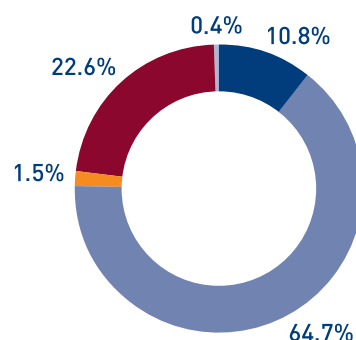
- 3rd by loans to SMEs<sup>2</sup>
- 7th by volume of mortgages
- 8th by active bank cards<sup>3</sup>
- 16th by individual deposits
- 20th by loans to corporate clients
- 20th by volume of loan portfolio

<sup>4</sup> Here and below, all financial indicators are based on IFRS results

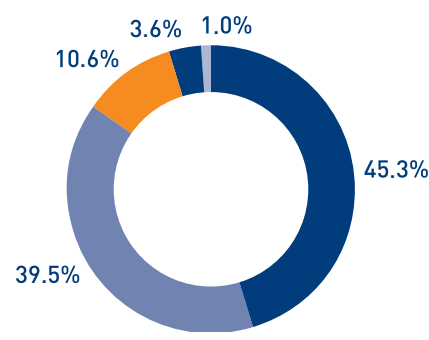
<sup>5</sup> Before provisions

Key financial indicators <sup>4</sup>	2011	2010	Change
Assets, RUB billion	183.9	166.2	10.7%
Loan portfolio <sup>5</sup> , RUB billion	137.3	115.2	19.2%
Retail client funds, RUB billion	145.1	130.3	11.4%
Net income, RUB billion	1.6	0.6	174.4%
Capital adequacy	13.8%	15.2%	-1.4 pps
ROE	9.1%	3.5%	5.6 pps
Number of retail clients, '000	1,594	1,546	3.1%
Number of corporate clients, '000	62.6	60.0	4.4%

#### Asset structure



#### Liabilities structure



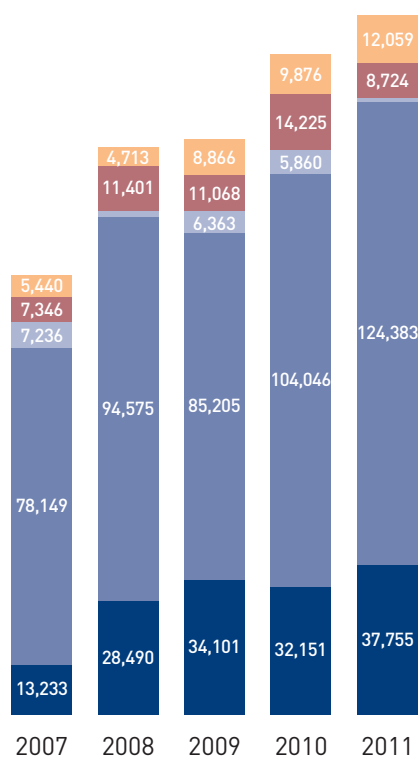
\* Undistributed financial indicators

Retail business	
Corporate business	
Bank cards business	
Operations on financial markets	
Other*	

Retail business	
Corporate business	
Bank cards business	
Operations on financial markets	
Other*	

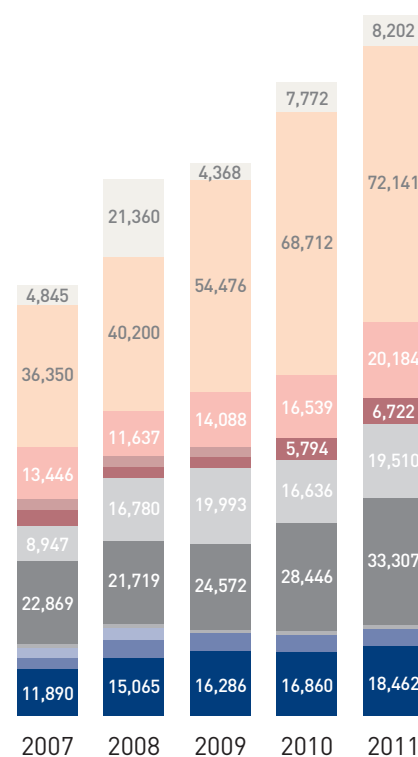
#### Credit ratings

Agency	Type	Rating	Outlook
Moody's Investors Service	Foreign-currency deposit rating	Ba3/NP	Stable
	Local-currency deposit rating	Ba3/NP	Stable
	Financial stability rating	D-	Stable
Standard & Poor's	Long-term counterparty credit rating	BB-	Stable
	Short-term counterparty credit rating	B	Stable
	National-scale rating	ruAA-	Stable
Moody's Interfax	Long-term national-scale credit rating	Aa3.ru	Stable

Dynamics and breakdown of assets,  
RUB million

\* Interbank loans

Cash and equivalents	
Loans to clients	
Interbank loans granted	
Securities	
Other assets	

Dynamics and breakdown of liabilities,  
RUB million

Funds from other banks	
Deposits of individuals	
Current accounts of individuals	
Bonds	
Promissory notes and deposit certificates	
Deposits of corporate clients	
Current accounts of corporate clients	
Other*	
Syndicated loans	
Subordinated deposits	
Capital	

## Letter from the Chairman of the Management Board



Last year was successful for the Russian banking sector. The ongoing economic recovery stimulated the financial sector – assets expanded more rapidly than in 2010. Last year marked positive dynamic in growth of a real sector's crediting as a result of growing business activity in the country in general as well as the improvement of borrower's financial positions.

Bank Vozrozhdenie took full advantage of the favorable market environment and delivered solid results.

FOR 2011 NET INCOME TOTALED RUB 1.6 BILLION, THREE FOLD HIGHER THAN IN 2010 AND ABOVE OUR FORECASTS.

We substantially reduced the cost of funding to a record low 3.7% in the fourth quarter, boosting the net interest margin to 4.3% for the year, compared with 3.6% in 2010. In 2012 we intend to further increase net income despite any possible pressure on margin.

### LOAN PORTFOLIO EXPANDED BY 19.2% IN 2011.

Growth mainly came from the corporate business, which added up RUB 14.4 billion. In line with our strategy, we concentrated our efforts on lending to the real sector, primarily small and medium-sized enterprises (SMEs), working in close cooperation with regional funds of support. Moreover, we entered the micro-financing market, which focuses on the needs of small companies and private entrepreneurs. We are implementing this project with the European Bank for Reconstruction and Development that provides funding, shares technology and its working expertise in this field. The pilot of the micro-financing program was launched in several branches last year, and we intend to extend it in 2012.

In the retail segment, the Bank increased consumer financing as a result of improved demand and growth of real disposable incomes among general population.

### IN 2011 BANK'S RETAIL LOAN PORTFOLIO INCREASED BY 46.5% AND REACHED RUB 6.3 BILLION. THE AMOUNT OF DISTRIBUTED LOANS TOTALED RUB 5.8 BILLION.

<sup>5</sup> Source: RBC Rating

We continued to work only with stable and low-risk clients, including people involved in our payroll programs, employees of large corporations, depositors and clients with a solid credit history. At the same time, bank was actively promoting mortgage loans among other potential clients with proven sufficient collateral. Within year of 2011 our mortgage portfolio marked an increase of 57%. As a result of this year ending Bank Vozrozhdenie was 7th on Russian mortgage market<sup>1</sup>, by the volume of loans issued totaling RUB 9.2 billion. Solid growth of the loan portfolio further underlined for us the importance of its quality control. If in the beginning of 2011 we liberalized our lending conditions, then second half of the year, with a liquidity squeeze taking place, our lending policy became more cautious and we started to pay more attention to the quality of our portfolio. Over the year, the share of non-performing loans (NPLs) fell to 7.7%. Despite substantial improvement, we maintained a conservative provisioning policy: the cost of risk was 1.8%, in line with the level of 2010.

Elevation of active operations and a fall in interest rates, particularly in the first half of 2011, encouraged us to expand our funding base and reduce borrowing costs. Last year, the structure of our liabilities did not change significantly. Client funds accounted for almost 88% of our liabilities, having soared to RUB 145.1 billion. In addition, due to expiration of the remainder of deposits, opened at high rates during the peak of the crisis in 2009-10, interest expenses of the Bank fell by almost 20%, supporting the improvement in our profitability.



In December, we concluded a RUB 4 billion deal to securitize part of our mortgage portfolio, provided additional long-term resources for development of our operations in 2012.

A substantial contribution to the net income growth in 2011 came from the business that generates fees and commissions. In the reporting period the increase by almost 22% was achieved, while the stake of non-interest income in the operating revenue of the bank before provisions was 42% – one of the highest indicators within the Russian banking sector. Last year we expanded commission operations significantly. In the retail segment we tried to stimulate and promote payments by debit/credit cards among our customers. Moreover, we launched the “Vbank with You” service, which provides the opportunity for the clients to manage their accounts and make payments online and via mobile phone. In the corporate segment, we focused on developing of remote banking service, as well as promoting the integrated payment solutions for major clients.

A substantial increase in the amount of bank’s transactions and favorable market conditions strengthened our efforts to enhance efficiency. Operating expenses in the reporting period demonstrated growth by only 16.3%, while the share of non-personnel costs fell to 41%. As a result, our cost-to-income ratio before provisions dropped by 7.7 pp to 64.8%. We will continue to strictly control operating expenses in the future as well – enhancing operating efficiency remains a priority for us this year.

Looking over the development prospects of bank Vozrozhdenie and Russian banking sector in general for the year of 2012 we remain cautiously optimistic. Present situation on the market is normal: Russian economy shows good growth dynamic, demand for credit resources remains high, and competition has eased. We expect that the second half of 2012 will provide us with favorable conditions to reinforce bank’s capital and attract long-term funding that will allow creating the necessary foundation for the growth of lending in the upcoming years.

Bank Vozrozhdenie’s long-term development prospects largely depend on our ability to adapt to the current market conditions and change in response to the constant growth of client’s requirements. In the beginning of 2012, together with international consulting company, we launched a project, aimed to improve bank’s operating model, including careful analysis and some transformations in our management system. The important aspect of this work is holding to the valuable experience that bank Vozrozhdenie has accumulated through the years of operating on the Russian market. I am confident that we will accomplish all our goals, become stronger and more attractive to our clients.

Dmitry Orlov

## Strategy

Bank Vozrozhdenie's primary objective is to robustly expand its corporate and retail business in order to deliver long-term growth of shareholder value and a superior return on capital.

Offering a full range of banking services, the Bank strives to be within easy reach for clients and help them with all of their needs. We aim to constantly improve customer service, establish long-term client relationships and promote our brand. Our customer policy is to ensure strong client loyalty through offering a wide range of modern and convenient products, as well as high standards of service.

Key goals in the development of our client base are to increase sales of different products and use the potential in the corporate client base to generate retail business. With an extensive line of banking services, we focus on proactive development of cross-selling and boosting non-interest income as a share of the revenue structure. The key source for financing active operations is funds of our clients, whom we offer convenient instruments with decent returns to invest available funds.

Bank Vozrozhdenie focuses on sustainable growth through business development assistance and increasing clients' prosperity.

### Business segments

Bank Vozrozhdenie operates in three key segments:

- **In the corporate segment**, Bank Vozrozhdenie's main target is SMEs, as well as core companies with well established networks whose offices overlap with the Bank's branch network.

Our goal is to establish long-term relationships with clients by offering not just personal service, but also an essential set of products. Key factors in our success are personal service, responsiveness and attention to detail.

A priority client segment is SMEs. Alongside increasing the number of new borrower companies, the Bank intends to enhance the quality of its services by improving existing credit products and developing new ones. It has also launched a new SME lending program that has vast potential and will diversify the client base significantly: attract new categories of borrowers and make the business more profitable.

In expanding its corporate funding base, Bank Vozrozhdenie will focus on working with resource-rich companies, as well as attracting smaller deposits from major clients to diversify its deposit book. Priorities in the corporate segments remain increasing the number of products used by each client, and boosting clients' usage of remote services.

Bank Vozrozhdenie plans to pro-actively develop its bank-card service infrastructure as the main instrument of attracting corporate clients for payroll programs. Here, the main goals will be to maintain the Bank's leading position in Moscow Region and to provide active support to the corporate segment at regional branches.

- **In the retail segment**, the key products are deposits, consumer and mortgage lending, bank-card services, payments and cash services for individuals. Bank Vozrozhdenie sees funds from individuals as a major source of funding for its operations, and generally as a stabilizing factor in its activities. We intend to maintain our position in the top 15 Russian banks by volume of retail deposits, delivering annual deposit growth above the market average. Individual deposits will comprise at least 40% of the Bank's balance sheet.

Bank Vozrozhdenie shapes its loan portfolio based primarily on quality and yield. It plans to run lending operations primarily with customers involved in its payroll projects, employees of corporate clients, major companies or state organizations, depositors, and people with a proven credit history. Mortgages remain our core lending product, and access to long-term sources of financing is the key to developing this business line further. Retail financing contributes to enhancing the profitability of active operations.

Another important area for the Bank is cross-selling of retail products using bank cards, as well as supporting the greater use of self-service facilities by offering a full range of remote technologies and operations.

Non-interest income is an extremely important element in the Bank's revenue. Growth rates of non-interest income in the retail business are directly correlated to loan and payment volumes, as well as cash operations.

- **In its operations on financial markets**, Bank Vozrozhdenie intends to further diversify its securities portfolio in order to maintain sufficient long-term liquidity, reduce risk and increase asset yield. The Bank continues to develop instruments for reducing risks relating to operations on financial markets, including currency, interest-rate and market risk.

### Sales and service network

To support long-term growth across all business segments, Bank Vozrozhdenie plans to create an efficient sales and service infrastructure. The Bank focuses on balanced development of its sales network of offices and self-service facilities. We adhere to a strategy of gradual regional expansion, and plan to focus on regions where we already have branches. The number of sales points will be increased to meet market demand in each specific region and within

the limits of the business model. Further development of the Bank's sales infrastructure will focus mainly on Moscow Region and surrounding areas, and on the Southern and North-West parts of the country.

### Marketing

The Bank's marketing strategy is intertwined with its key business goals. Its priorities include developing sales channels, launching products that match client requirements more closely than those of competitors, and developing the brand. The ultimate aim of the strategy is to strengthen market positions and increase customer loyalty. Bank Vozrozhdenie's target is to be a market leader in terms of customer satisfaction in both corporate and retail segments.

Our brand is a crucial asset. We will develop the brand in the belief that our most valuable asset is our client relationships.

### Information technology

The Bank sees IT as a crucial factor in maintaining its competitive advantages, expanding the product range, and enhancing the quality of customer service. We intend to use the latest information and communications technologies to streamline the management system and make business process more efficient.

### Corporate governance

Bank Vozrozhdenie's strategy includes ongoing corporate governance development in accordance with best international practice and interests of the shareholders. The Bank intends to improve the efficiency of the Board of Directors – key initiatives would include launching self-assessment procedures and optimizing interaction with the executive management. We also intend to increase the role of the Board of Directors in our risk-management function by improving the way in which we provide information to Board members in this area. We will also further develop the system for monitoring the use of insider information.

### Risk management

The Bank's risk-management strategy targets further improvements to the risk-management system that are appropriate to the Bank's business goals and risk exposure. It is based on meeting the strategic goals, as defined by the Board of Directors. High-quality risk management is a competitive advantage that improves the Bank's capitalization.

### Personnel development

Bank Vozrozhdenie's HR policy aims to unlock the potential of every employee. Priorities in this area include motivating employees to achieve key business goals, creating an effective internal-communications function, and developing employees' professional potential.

### Optimizing the business model

To maintain its position and become more competitive on the market, Bank Vozrozhdenie has undertaken a major project, in partnership with international consulting company, to optimize the business model. On the basis of a rigorous

analysis of work processes, measures will be implemented to update the management system, bank structure and operating procedures. Ultimately, they should enhance productivity and make the Bank more attractive to clients.

We do not intend to simply repeat the experience of other banks, however. As such, alongside the changes made, we will rely on our tried-and-tested approach to working with clients and retain the best of our experience gained over 20 years on the Russian banking market.

## Main Events of 2011

### Financial and operating results

- Net income rose by 2.7 times to RUB 1.594 billion and the ROE was 9.1%.
- Assets increased by 10.7% to RUB 183.9 billion.
- The corporate loan portfolio expanded by 14.6% to RUB 113 billion. The share of small and medium-sized businesses (SMEs) in it climbed to 62%.
- The retail loan portfolio expanded by 46.7% to RUB 24.4 billion.
- The mortgage loan portfolio exceeded RUB 15 billion, up 57% year-on-year.
- Deposits rose by 11.4% to RUB 145.1 billion. The share of retail deposits was 63.6%.
- Turnover on bank-card accounts increased by 11% to RUB 167 billion.

### Strengthening market positions

- International rating agency Standard & Poor's upgraded the Bank's ratings to 'BB-' on the international scale and 'ruAA-' on the national scale, the outlook 'stable'.
- In a rating of the world's top-500 banking brands, Brand Finance valued the Vozrozhdenie brand at US\$168 million.
- Bank Vozrozhdenie again featured in a rating of the world's top 1,000 banks compiled by authoritative British magazine *The Banker*.
- The Bank expanded its geographic presence by opening a branch in Voronezh.

### Professional recognition

- The Bank won its second award for Best Financial Institution Providing Customs Services in the Customs Olympus competition for leaders in foreign economic activity.
- Bank Vozrozhdenie won the European Bank for Reconstruction and Development (EBRD)'s "Deal of the Year – Export" award for its Trade Facilitation Program.



**Dmitry Orlov**  
Chairman  
of the Management Board:



“BANK VOZROZHDENIE HAS DEMONSTRATED CONTINUOUS GROWTH FOR MANY YEARS. WE ARE PROUD OF OUR RESULTS THAT ARE PRIMARILY BUILT ON ACHIEVEMENTS OF OUR WELL-KNIT TEAM. FOR MORE THAN TWO DECADES, WE HAVE BEEN CONTINUOUSLY ACCOMPLISHING MOST CHALLENGING AND AMBITIOUS TARGETS. THE INTELLIGENCE OF OUR EXPERIENCED EMPLOYEES AND ENERGY OF YOUNG GENERATION ARE KEY PARTS OF OUR STRATEGY IN THE SUCCESSFUL DEVELOPMENT. WE ALWAYS TRY TO MEET THE DEMANDS AND REQUIREMENTS OF OUR CLIENTS, OFFERING THEM A HIGH QUALITY SERVICE AND A WIDE RANGE OF BANKING PRODUCTS. WE LOOK TO THE FUTURE WITH OPTIMISM AND NEVER STOP CHANGING FOR THE BEST, ALWAYS REMAIN TRUE TO OURSELVES.”

**Viktor Gerashchenko**  
Chairman of the Central Bank  
in 1992-1994 and 1998-2002:



“OVER 3,000 BANKS APPEARED AT A POINT IN RUSSIA – A RELATIVELY SMALL COUNTRY IN TERMS OF FINANCE, – A QUITE SIGNIFICANT NUMBER. IT TOOK OVER 20 YEARS, TWO CRISES AND MAJOR LEGISLATIVE WORK TO REDUCE THIS TO A COMPARATIVELY ACCEPTABLE LEVEL. FROM A GLOBAL POINT OF VIEW, THE SPEED AND INTENSITY OF THE PROCESS WERE SIMPLY FANTASTIC. SO THE BANKS, SUCH AS BANK VOZROZHDENIE, THAT MANAGED NOT ONLY TO SURVIVE THESE YEARS, BUT KEEP THE LEADING POSITIONS ON THE MARKET, HAVE A TRUE RIGHT TO BE PROUD. SERGEY TSIKALYUK, CHAIRMAN OF THE BOARD OF DIRECTORS OF VSK: “BANK VOZROZHDENIE WORKS ACTIVELY WITH ITS CLIENT BASE AND CONSTANTLY EXPANDS IT. NATURALLY, ITS WIDE NETWORK OF BRANCHES IS A STRONG ADVANTAGE. IT IS STRATEGICALLY IMPORTANT THAT BANK OPERATES PRIMARILY IN THE REGIONS WITH THE HIGH DEMAND ON AVAILABLE CREDIT RESOURCES.”

- The Bank won *Finance* magazine's 2011 award "For Longstanding Adherence to a Policy of Independence from Politics".
- In a competition organized by Thomson Reuters Extel and IR Magazine, Bank Vozrozhdenie's investor relations division was again recognized as one of the best in Russia and the CIS, taking second place in the Grand Prix for the best service for investors of small-cap companies.
- In the Top 1,000 Russian Managers rating compiled by the Association of Managers, Dmitry Orlov was named one of the top 10 senior managers in the commercial banking sector.



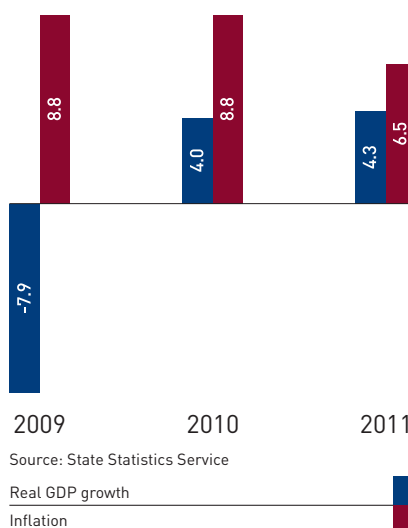
## Russian Economy and Banking Sector

In 2011, the Russian economy continued to recover after the crisis. Compared with 2010, overall GDP growth did not change, but the economic situation improved in many respects, and numerous industries rebounded to pre-crisis growth. Last year, the main drivers of economic growth in Russia were strengthening domestic demand and high international oil prices. At the same time, the major uncertainty in the global economy, escalating debt crisis in Europe, and volatility on financial markets restrained the Russian economy.

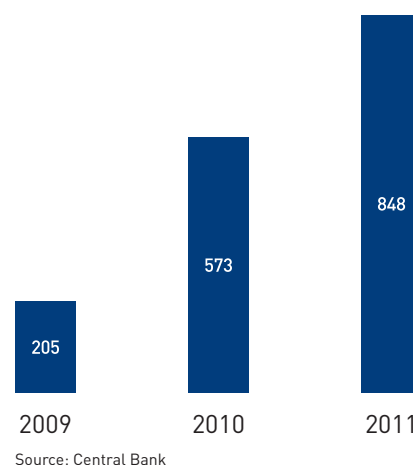
In 2011, Russia's GDP increased by 4.3%, industrial production by 4.7%, and investment in fixed assets by 6.2%. GDP growth was driven mainly by an increase in commercial reserves, whose share in GDP was 4.4%, compared with 1% in 2010. In addition, the share of net exports increased from 8.1% to 8.5%. The share of ultimate consumption decreased from 69.5% to 66.5% and that of investments in fixed assets from 21.4% to 20.6%. In absolute terms, however, all of these indicators rose. The key drivers of GDP growth were agriculture (16%), manufacturing (6.5%) and mining (1.9%).

The rapid recovery of the economy and record low inflation for Russia of 6.5% had a positive effect on the banking sector. Overall, 2011 was successful for Russian banks: by the year-end, the aggregate profit of credit

Key indicators for the Russian economy, %



Profits of Russian banks, RUB billion



institutions had reached a record RUB 848.2 billion, 46% higher than in 2010. The key profit drivers were income from the difference between interest on retail loans and expenses on deposits, as well as income from trading operations.

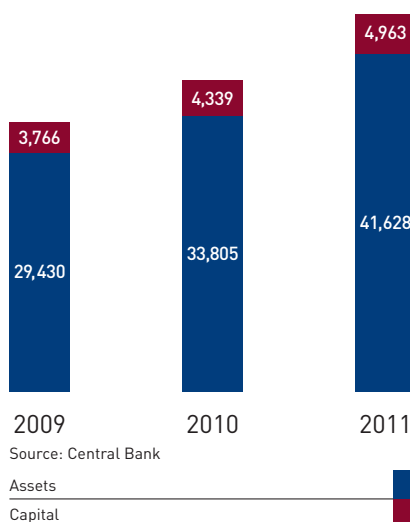
Last year, the assets of the Russian banking sector increased by 23.1% to RUB 41.6 trillion. The four largest domestic banks had a combined share of 51.0%, 4.7 percentage points more than in December 2010. The rapid asset growth was due to an increase in penetration of banking services, defined as the ratio of total bank assets to GDP, from 75% to 77%.

Deposits by businesses and individuals remained the main source of funding in 2011. The volume of corporate funds in accounts and deposits climbed by 25.9% to RUB 13.7 trillion, while that of individual savings in deposits and securities rose by 20.9% to RUB 11.9 trillion. The Central Bank also played a more prominent role as a source of funding.

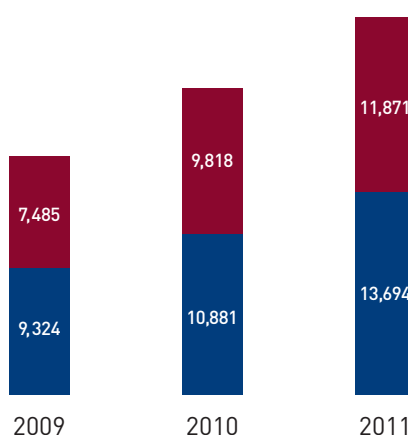
In 2011, there was a significant revival in lending to the real sector, which more than doubled year-on-year. The increase in loan portfolio growth took place in the second half of the year, largely due to the devaluation of the ruble, and was dominated by significant foreign-currency lending: at the year-end, foreign-currency loans accounted for 18% of the loan portfolio.

Overall, the loan portfolio of Russian banks climbed by 29.6% to RUB 28.7 trillion. The most rapid growth in lending was in the retail portfolio, which increased by 35.9% to RUB 5.6 trillion. Unlike in 2010, all types of lending increased in 2011. The volume of loans to the non-financial sector of the economy expanded by 26.0% in 2011, compared with 12.1% in 2010.

#### Key indicators for the Russian banking system, RUB billion



Corporate and retail deposits, RUB billion

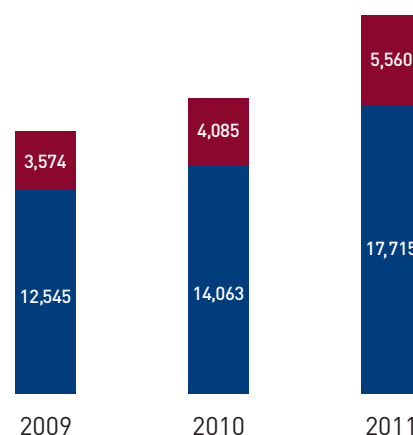


Source: Central Bank

Corporate funds

Individual funds

Bank lending in Russia, RUB billion



Source: Central Bank

Corporate loans

Individual loans

Increased lending in Russia was accompanied by a marked reduction in the share of overdue loans, which totaled 3.9%, compared with 4.7% in 2010. As of 1 January 2012, the share of overdue loans to non-financial organizations was 4.6%, compared with 5.3% a year earlier, while that of consumer loans was down by 1.67 percentage points to 5.24%. Stricter requirements for borrowers and the general improvement in the Russian economy helped improve loan repayments in the second half of 2011.

The fall in the share of bad debt and higher asset quality allowed banks to reduce allocations to provisions. Hence the share of provisions in the total portfolio fell to 8.5% at the year-end, compared with 10.5% at the end of 2010. The NPL coverage ratio remained at a comfortable level of 179%, slightly lower than 186% in 2010.

Seeking to maximize profits, Russian banks remained active in the securities market in 2011, and the securities portfolio of the sector expanded by 6.6% to RUB 6.2 trillion. However, unlike 2010, the share of securities in banking assets declined amid a rising loan portfolio share.

In the second half of 2011 there was a liquidity squeeze in the banking system coupled with strong demand for loans and low interest rates on retail deposits. Because of the worsening debt crisis in the US and Europe, Russian companies' access to international funding sources was temporarily closed and capital outflows increased, causing the ruble to weaken. Rates on the interbank market rose and the volume of funds provided in the form of Finance Ministry deposits and via Central Bank repo operations increased. Competition for retail customers intensified and banks began to raise rates on deposits, which made them more attractive given the relatively low inflation. By the year-end, the liquidity situation stabilized and demand for credit remained strong, helping to

boost interest rates: from July to December, the average rate on corporate loans rose from 7.9% to 9.3%.

### Outlook for 2012

This year, the outlook for the economy worldwide and in Russia, as well as the domestic banking sector, will remain uncertain. However, given the trends in the banking industry, we expect demand for loans to remain quite high, while requirements for borrowers may tighten.

In 2012, the Central Bank believes that lending growth in Russia will slow slightly and is unlikely to exceed 20%, while deposits will expand by no more than 15-19%. However, the slowdown will not allow the banking sector to grow faster than other parts of the economy, and this consequently reduces the risk of the 2009 crisis reoccurring.

The major factors that could hinder lending growth in Russia are funding and capital adequacy. Nonetheless, overall profits are expected to be RUB 600-700 billion in 2012.

# Business Overview

## ANALYSIS OF FINANCIAL RESULTS

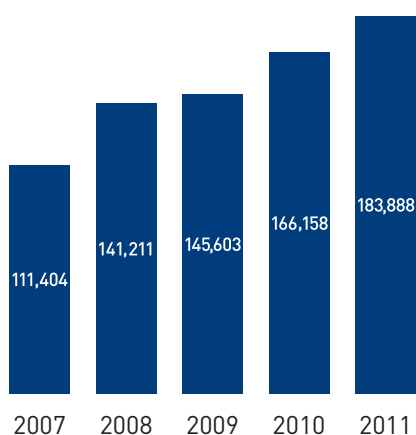
- Net profit was RUB 1,594 million, up 2.7 times year-on-year
- Total assets increased by 11% to RUB 184 billion
- Operating income reached RUB 10.6 billion, up 32% year-on-year
- Return on equity (ROE) was 9.1%, up 5.6 percentage points year-on-year

### Assets

In 2011, assets increased by 10.7% to RUB 183.9 billion, mainly due to a rise in the net loan portfolio of RUB 20.3 billion (up 19.5%). The corporate loan portfolio expanded mainly in the first half of the year, while retail lending soared throughout 2011.

Driven by an influx of corporate and retail customers, the Bank's funding base strengthened in 2011 with an increase of 11.4% year-on-year to RUB 145.1 billion. The main growth was in the fourth quarter due to a seasonal increase in balances on current accounts and greater deposits by retail customers amid rising interest rates throughout the whole system. Funds from individuals remain the Bank's primary source of funding, accounting for 56% of all liabilities. Due to the rapid growth of the loan portfolio, the ratio of loans before provisions for deposits increased by 6.2 percentage points to 94.6% by

Assets, RUB million



**Sergei Tsikalyuk**  
Chairman of the Board  
of Directors of VSK:



“BANK VOZROZHDENIE WORKS ACTIVELY WITH ITS CLIENT BASE AND CONSTANTLY EXPANDS IT. NATURALLY, ITS WIDE BRANCH NETWORK IS A STRONG ADVANTAGE. IT IS STRATEGICALLY IMPORTANT THAT THE BANK OPERATES IN THE REGIONS WITH THE STRONGEST DEMAND FOR CREDIT.”

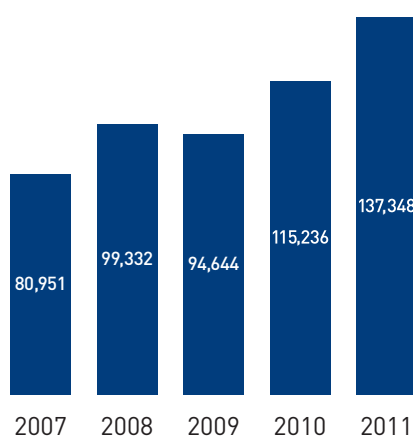
**Tatiana Gavrilkina**  
Deputy Chairwoman  
of the Management Board:



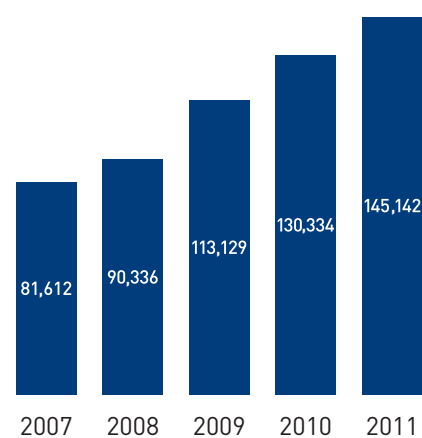
“BANK VOZROZHDENIE IS ONE OF THE FEW RUSSIAN FINANCIAL ORGANIZATIONS THAT MANAGED TO GO THROUGH ALL THE ECONOMIC CATAclysms OF 90S AND EARLY 2000S WITHOUT LOSSES FOR ITS CLIENTS. WE HAVE NEVER CHASED PROFITS AT THE EXPENSE OF OUR CLIENTS CONFIDENCE, WE HAVE BEEN CAUTIOUS AND CONSERVATIVE, YET ALWAYS TAKEN ADVANTAGE OF FAVORABLE OPPORTUNITIES ON THE MARKET TO MAXIMIZE OUR GROWTH POTENTIAL. WE INTEND TO FOLLOW THESE BUSINESS PRINCIPLES IN THE FUTURE.”

<sup>7</sup> Before loan-loss provisions

Loan portfolio<sup>7</sup>, RUB million



Client funds, RUB million

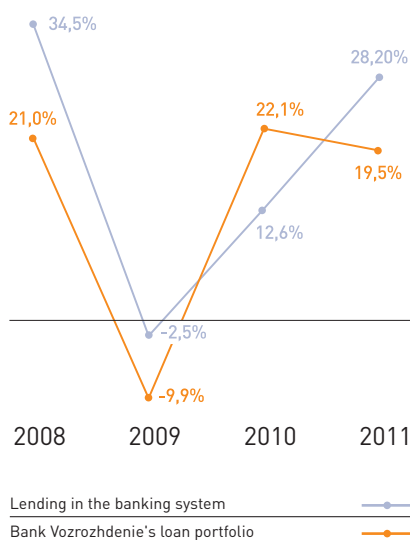


the year-end, demonstrating greater efficiency and paving the way for future business expansion.

## Capital

Bank Vozrozhdenie's capital increased on the back of net income earned in 2011, totaling RUB 18.5 billion, up 9.5% year-on-year. The overall capital adequacy ratio fell to 13.8% and the tier 1 capital ratio to 11.9%, compared with a respective 15.2% and 12.8% in 2010, due to business expansion and an increase in working assets.

Trends of lending in Russia and Bank Vozrozhdenie's loan portfolio





### Loan portfolio

In 2011, Bank Vozrozhdenie's loan portfolio before provisions increased by 19.2% to RUB 137.3 billion, due to growth in the corporate loan portfolio of 14.6% and a surge in retail lending. The corporate loan portfolio remained well diversified by industry, with the largest shares falling on manufacturing (27%) and retail sales (23%). Almost 62% of all corporate loans were issued to small and medium-sized businesses, a key client segment for the Bank. The retail loan portfolio expanded by 46.7% (compared with 35.9% for the sector), mainly due to mortgage lending increasing by 56.9% to RUB 15.4 billion – mortgages remain a key part of the Bank's retail business. The consumer loan portfolio also demonstrated a positive trend, climbing by 46.6% to RUB 6.3 billion. As a result, the share of retail lending reached 17.7% of the total loan portfolio.

### Securities portfolio

The Bank's securities portfolio stood at RUB 8.7 billion at the end of 2011, compared with RUB 14.2 billion a year earlier. The securities traded mainly included investment-grade short-term debt instruments. As of 31 December 2011, the securities portfolio consisted primarily of corporate bonds and Eurobonds (91.2%), as well as bonds and Eurobonds from federal and regional issuers (8.7%).

### NPLs

In 2011, the share of non-performing loans (NPLs) in the Bank's loan portfolio declined by 2.78 percentage points to 7.7%. In absolute terms, its volume decreased to RUB 10.6 billion (down 12.4%), from a peak of RUB 12.1 billion at the beginning of 2011. There was significant progress in dealing with NPLs in the fourth quarter, when the volume of bad debt in the total loan portfolio fell by 7.9% due to an improvement in quality in both corporate and retail segments. Despite the higher quality of the loan portfolio, the Bank continues to charge significant provisions: the ratio of provisions to the average corporate portfolio remained at the 2010 level of 1.8%. Given that the total provisions for loan impairment was RUB 13.0 billion, the coverage for NPLs was 134% in arrears for more than one day, 140% for more than 30 days, and 151% for more than 90 days.

### Net interest income

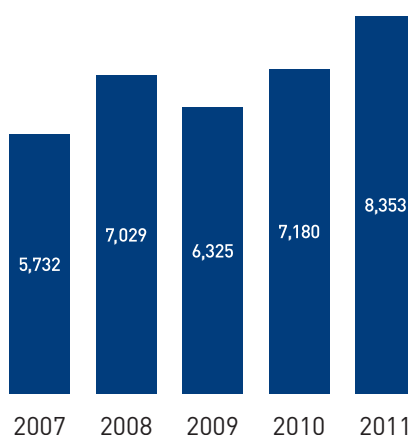
In 2011, the Bank's net interest income totaled RUB 7.5 billion, up 36% year-on-year. A key driver was the decline in funding costs stemming from the gradual expiration of the remaining deposits opened in 2009-10 at higher rates, as well as a rise in the share of more profitable retail lending. The net interest margin on average assets was 4.3% for the year, compared with 3.6% in 2010.

### Non-interest income

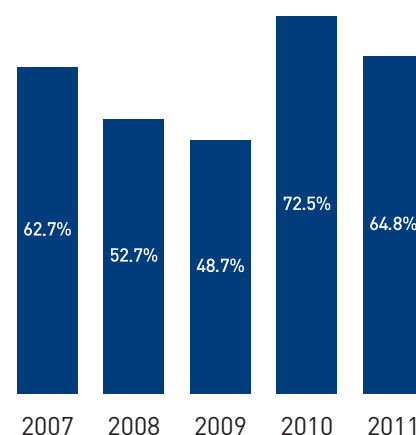
The Bank's non-interest income increased to RUB 5.4 billion in 2011, up 23.3% year-on-year. However, their share in the Bank's total operating income before provisions remains high at 42%. Net fee income rose by 22.5% to RUB 4.8 billion.



Operating expenses, RUB million



Cost-to-income ratio



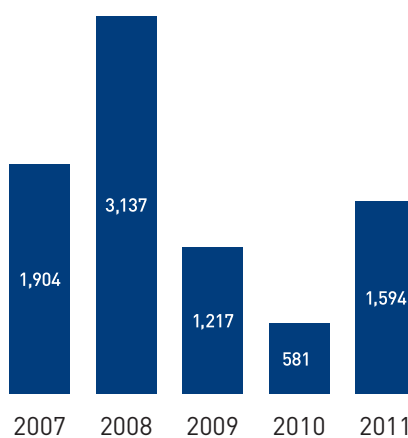
### Operating expenses

The Bank's operating expenses climbed by 16.3% to RUB 8.4 billion last year. The share of non-personnel costs in total operating expenses decreased to 41%, compared with 44% in 2010. Due to the rapid income growth, the Bank managed to reduce the ratio of cost to income before provisions from 72.5% to 64.8%.

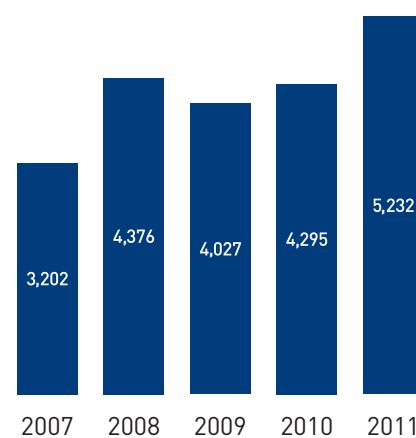
### Net profit

The Bank's net profit reached RUB 1.6 billion in 2011, up by 170% amid greater operating income and fee income. The effective tax rate was 21%.

Net profit, RUB million



Fee and commission income, RUB million



## CORPORATE BUSINESS

Last year Bank Vozrozhdenie's corporate business demonstrated solid results, despite the low margins in the banking sector due to the slow pace of recovery of the Russian economy and greater competition in the sector. The segment's positive results were due to the prudent conservative policy of previous years, sustainable partnerships with clients and effective use of a broad product line. Thanks to its solid foundations, the Bank hit its annual targets for the corporate business in the first two quarters.

The key areas of focus for the Bank's corporate business in 2011 were:

- continuing to work with the most reliable and relevant borrowers
- developing loyalty programs for clients
- expanding the loan portfolio while improving its quality
- reducing the share of low-quality debt and NPLs in the loan portfolio
- enhancing the monitoring and management of credit risks while making them more diversified

The number of corporate clients increased to 62,600, while the number of SME clients rose by 23.2%. Key factors in attracting new clients were an individual approach and partnership in dealing with financial issues, as well as a wide range of high-tech banking products. Last year, Bank Vozrozhdenie's clients included Systematika, Real Hypermarket, KM/H, Soyuzdorstroi, Ilyushin, Kondopoga, Kola Energy Retail Company and other important businesses in the aviation, metals and mining, construction, chemicals, pulp and paper, agricultural, retail and service sectors in Moscow Region and other areas where the Bank has a presence.

### Corporate client funds

In 2011, Bank Vozrozhdenie focused closely on creating a sufficient, diversified resource base. In the middle of the year, the Bank had amassed funds that exceeded targets by 40%, thanks to the active work of branches and centralized fund raising of insurers and state corporations, as well as the resources of federal and municipal budgets. This liquidity reserve enabled Bank Vozrozhdenie to navigate a lean period at the year-end without scaling down its business.

The Bank continued to raise funds from its long-term partners: the Agency for Housing Mortgage Lending, the St. Petersburg Finance Committee, funds to support SMEs, management companies and insurers. A new line of business in 2011 was working with electronic trading platforms to participate in auctions for the placement of available funds by companies.

One trend last year was a slight decrease in the time needed to secure immediate resources, as well as a fall in the share of foreign-currency deposits

**Evgeny Shilnikov**  
General Director of Elektrostal:



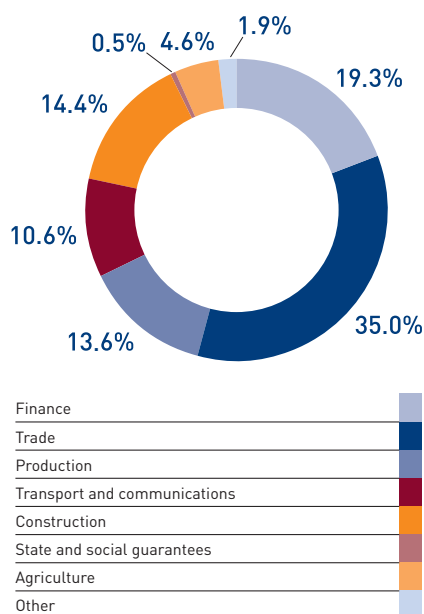
“FOR MORE THAN TWO DECADES OF COOPERATION, OUR BUSINESS RELATIONSHIPS WITH BANK VOZROZHDENIE ACHIEVED A POINT OF A GREAT TRUST AND UNDERSTANDING. WE HAVE ESTABLISHED NOT ONLY BUSINESS AFFAIRS AS THEY ARE, BUT FIRST OF ALL A DIALOGUE BETWEEN TWO PARTNERS – WE LISTEN TO EACH OTHER AND REACH NEW GOALS TOGETHER.”

**Ludmila Goncharova**  
Deputy Chairwoman  
of the Management Board:

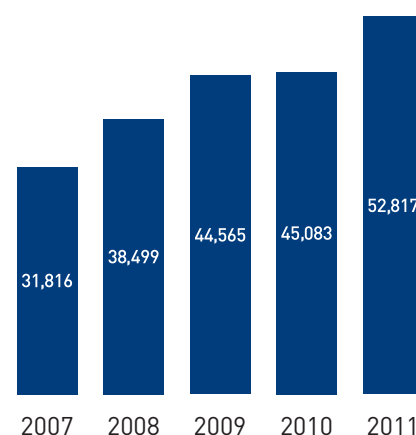


“WE HAVE LEARNED A LOT FROM OUR WORK WITH FOREIGN PARTNERS. I REMEMBER THE BEGINNING OF OUR COOPERATION WITH CIBC. THE VICE PRESIDENT ARRIVED IN RUSSIA TO HELP ONE OF THEIR CLIENTS IN FINDING A RELIABLE LOCAL BANK. THUS, HE PERSONALLY TOOK RESPONSIBILITY FOR DEVELOPING THE BUSINESS OF CIBC’S PARTNERS! WE USE THIS APPROACH ACTIVELY IN OUR WORK TODAY. I AM PROUD THAT FOR OVER 20 YEARS, WE HAVE BEEN NOT ONLY A SERVICE OR CREDIT ORGANIZATION FOR CLIENTS, BUT ALSO A TRUE PARTNER IN THE DEVELOPMENT OF THEIR BUSINESSES.”

Corporate client funds by industry



Corporate client funds, RUB million



among corporate clients. The total volume of funds from corporate clients stood at RUB 52.8 billion at the end of 2011, 17.2% higher than a year previously.

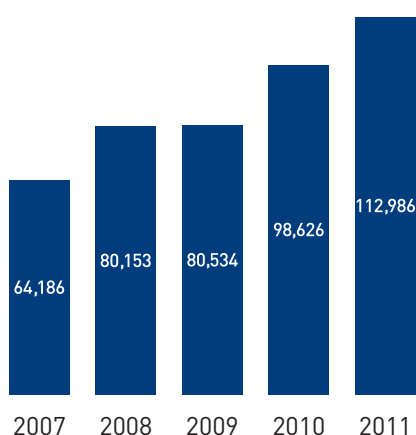
### Lending

The main objectives of the Bank's lending policy in 2011 were to maintain positions in the corporate lending market amid greater competition from state banks, sustain loan portfolio quality and ensure an adequate balance between profitability and risk. The most important task was to boost the number of loyal clients, as well as maintain income against the background of a minimal margin. The Bank focused especially on reducing NPLs, as well as monitoring and diversifying credit risks.

When lending to corporate clients, the Bank maintained a conservative approach. Loans were granted mainly to enterprises and organizations in the real sector with a solid reputation, positive borrowing history and stable financial condition. In 2011, the Bank's credit policy was amended to optimize credit procedures for SMEs. In particular, it approved a more loyal approach to collateral and extended the power of branches to authorize loans independently when guaranteed by regional funds to support and develop SMEs.

**IN 2011, THE BANK'S CORPORATE CREDIT PORTFOLIO EXPANDED BY RUB 14.4 BILLION TO RUB 112.9 BILLION. THE VOLUME OF LENDING TO SMES ROSE BY 22.6% YEAR-ON-YEAR, WHICH RECONFIRMED THE BANK'S STATUS AS A LEADER IN THAT SEGMENT.**

Corporate loan portfolio, RUB million



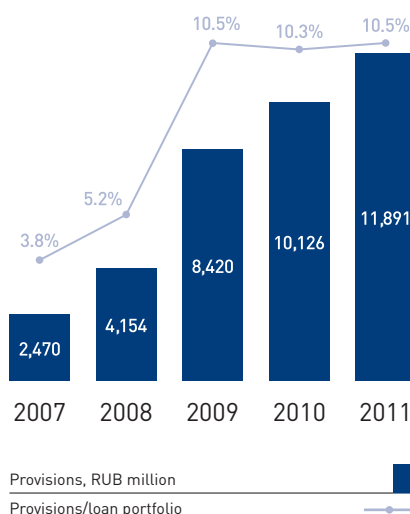
To ensure convenient lending terms for borrowers, the Bank expanded the number of partners in state support programs last year. It signed a cooperation agreement with funds that support and develop SMEs in the Ryazan, Voronezh and Tula regions, as well as the republics of Mordovia and Karelia. Meanwhile, the volume of collateral from regional funds exceeded RUB 440 million, which allowed the Bank to grant more than RUB 1.1 billion in loans to SMEs as part of various programs. Today, the Bank's borrowers have access to funds in the 12 regions where it is present.

In December 2011, as part of the second annual "Small and Medium Businesses: Contribution to a New Economy" forum, the Bank won an award "For Promoting the Quality Development of the Program". The forum is organized by SME Bank, with which Bank Vozrozhdenie has been working closely, aiming to enhance SME access to financial resources.

In the first stage of its work with the SME Bank, as part of the long-term state program of financial support for SMEs, Bank Vozrozhdenie fulfilled all of its obligations in six months, disbursing more than RUB 6 billion in loans to SMEs, split equally between funds from SME Bank and its own. During the program, which runs to December 2015, Bank Vozrozhdenie intends to maintain the loan portfolio at current levels. The program involves over 420 SMEs throughout regions where the Bank is present, which have received over RUB 9 billion funding.

In 2011, Bank Vozrozhdenie continued to finance small businesses as part of its long-term partnership with the European Bank for Reconstruction and Development (EBRD). In late 2009, the EBRD extended a US\$51 million credit line to the Bank for the purpose of lending to micro enterprises and small businesses. Last year, as part of this, the Bank granted over RUB 3.2 billion to SMEs and used new opportunities to expand its loan portfolio.

#### Quality of corporate loan portfolio



In addition, Bank Vozrozhdenie won 25 electronic auctions for providing lending services to federal and municipal bodies and enterprises in which state and local authorities have stakes. Such loans totaled RUB 2.1 billion overall.

In 2011, Bank Vozrozhdenie's corporate loan portfolio remained well balanced, with investments in such sectors as industry, agriculture, construction, trade, transport and communications accounting for 81.9% of the total. In addition, during the year, the Bank took steps to further diversify the portfolio geographically. By the end of 2011, the share of loans issued in Moscow Region had fallen by 2.4 percentage points to 53.3%.

The breakdown of the loan portfolio by currency did not change significantly last year. Despite the popularity of foreign-currency loans in the second half, by the end of 2011, ruble loans accounted for 86% of the total.

In 2011, Bank Vozrozhdenie paid close attention to the quality of the loan portfolio. Amid its solid growth, the volume of loan-loss provisions was increased to RUB 11.9 billion. The share of NPLs in the portfolio stood at 8.7% at the year-end, down from 11.2% a year earlier.

#### Leasing and factoring

In 2011, factoring remained a popular facility for financing working capital. Factoring is popular among clients that do not have sufficient collateral or that want to boost sales using flexible delivery terms and offering deferred payment options to their customers.

The Bank's strategy is to provide factoring services to both clients and their suppliers and customers, thereby financing the entire business chain. In 2011, its factoring portfolio expanded by 40% and the client base by 150%.

Last year, the Bank actively financed leasing company V-Register. It granted RUB 450 million in loans to the company, while the overall loan portfolio was over RUB 1 billion.

### Trade financing

In 2011, Bank Vozrozhdenie consistently boosted its trade financing transactions, which rose by 40%. Such facilities were predominantly popular among metals and timber-processing enterprises that were actively developing and upgrading their production capacity.

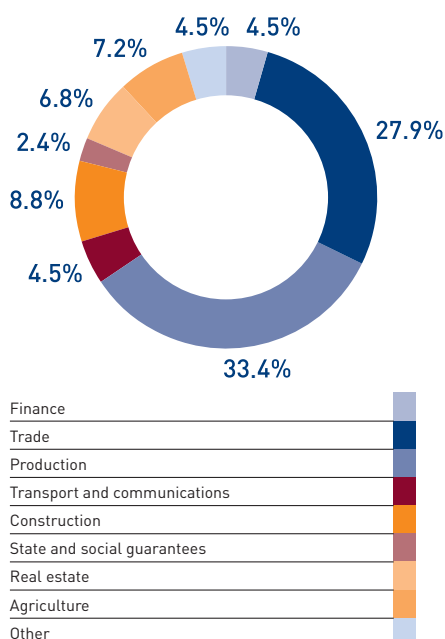
The Bank worked effectively with some of the world's largest lending institutions, including the European Bank for Reconstruction and Development, as well as numerous national export credit agencies. Trade financing remains an effective tool for implementing the Bank's policy, which aims to expand the loan portfolio and modernize the real sector of the economy.

### Customs duties

In 2011, the professional community recognized the Bank's success in the Green Corridor project for the second consecutive year, when the Bank was again named "Best Financial Institution Providing Customs Services" in the Customs Olympus competition for leaders in foreign economic activity.

The Green Corridor card is an advanced method for paying customs duties. In 2011, the number of clients using the service rose to 350, turnover on the cards increased by 33%, and total annual payments exceeded RUB 50 billion.

Breakdown of corporate loan portfolio  
by sector, 2011



In 2011, Bank Vozrozhdenie was authorized to issue up to RUB 1.7 billion in concurrent guarantees for the secure payment of customs duties.

#### Remote services

In 2011, Bank Vozrozhdenie continued to develop remote channels of customer service, as they are a key source of non-interest income in the corporate segment. The main products are "Client-Bank", "Corporate Control", "Corporation Settlement Center" and "Secure E-Mail". As a result, the share of working accounts using remote banking services reached 50%, while that of payments made through remote channels was 80% of all customer payments.

Bank Vozrozhdenie is planning to develop a system for remote banking, enhance functionality and develop new capabilities that enable customers to use convenient and high-quality services, including via the internet.

#### Development priorities

In 2012, the key priorities in the corporate business will be Optimizing existing business and reducing costs. Bank Vozrozhdenie plans to adjust pricing to continue the practice of creating user-friendly tariff plans and benefits for active corporate clients. An important task will be to attract new clients and retain existing ones. The Bank will maintain its focus on SMEs by developing a full range of services and promoting loan programs tailored to the needs of that segment.

Bank Vozrozhdenie intends to build a sustainable resource base while maintaining the income margin and boosting non-interest income. At the same time, maintaining profitability and loan portfolio quality will remain among the most important issues.



## RETAIL BUSINESS

Last year was a favorable one for retail banking in Russia. As purchasing power rose, activity on consumer credit programs intensified contributing to a recovery in demand for mortgages, bank cards and related services. Depositor confidence in the Russian banking system was fully restored, so the Central Bank began to monitor more closely offers on interest rates that are substantially higher than the refinancing rate.

In 2011, the main drivers of the Bank's retail banking business were loans to individuals, term deposits, and other fee-based services.

The Bank's main objectives in the retail segment in 2011 were:

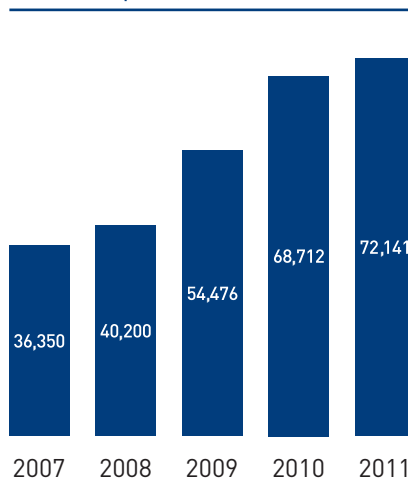
- attracting deposits, with a focus on the medium and long terms
- rapidly expanding the loan portfolio
- improving the quality of the loan portfolio by reducing arrears and NPLs
- continuing active cross-selling
- securitization of the Bank's mortgage portfolio

### Deposits

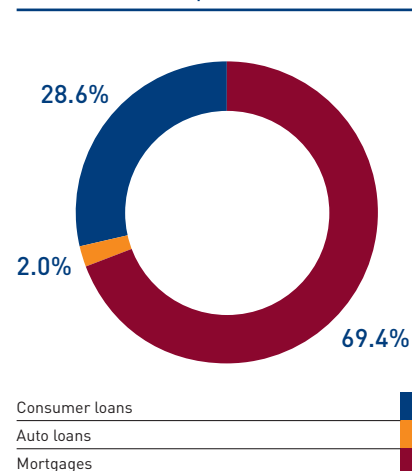
Bank Vozrozhdenie's retail deposit portfolio stood at RUB 72.1 billion at the end of 2011. This moderate growth was generally in line with market trends during the reporting period. As such, the Bank was the 12th largest Russian bank in terms of retail deposits.

In the first half of 2011, Bank Vozrozhdenie did not adjust the interest rates on its term deposits; only in the fourth quarter were they increased on ruble

Individual deposits, RUB billion



Breakdown of retail portfolio, 2011



**Mikhail Eskindarov**  
Rector  
of the Financial Academy:



“BRITISH MAGAZINE *THE BANKER* RECENTLY PRAISED BANK VOZROZHDENIE, SINGLING IT OUT AMONG OTHER REPRESENTATIVES OF RUSSIA’S BANKING SECTOR. ABOVE ALL, THIS UNDERLINES ITS STABILITY AND THE SOLIDITY OF ITS POSITION NOT ONLY IN MOSCOW AND ITS DISTRICT, BUT ALSO OTHER REGIONS IN RUSSIA. THE BANK CAN TRULY BE PROUD OF ITS WIDE NETWORK OF BRANCHES AND THEREFORE AVAILABILITY TO ITS CLIENTS.”

**Alexander Dolgopolov**  
Deputy Chairman  
of the Management Board:



“TODAY, ONE OF THE PRIORITY AREAS IN OUR WORK IS STANDARDIZING THE QUALITY OF SERVICES AND PRODUCT LINES IN ALL REGIONS WHERE BANK VOZROZHDENIE IS PRESENTED. RECENTLY, WE LAUNCHED A PROJECT OF IMPLEMENTING A NEW OPERATIONAL MODEL, WHICH WILL ENABLE US TO PROVIDE A FULL RANGE OF BANKING SERVICES ON AN EVEN HIGHER LEVEL, IN LINE WITH THE MODERN STANDARDS OF DEVELOPMENT IN THE BANKING SECTOR. FOR US, IT IS IMPORTANT TO KEEP UP WITH TIME, EXPAND WHILE REMAINING LOYAL TO OUR PRINCIPLES, WHICH HAVE REMAINED INTACT FOR OVER 20 YEARS.”

instruments. Over the year, the maximum interest rate on the Bank's deposits rose by 1 percentage point to 9% annually. The effective maximum rate for foreign-currency deposits fell by 0.29 percentage points to 5.1% annually.

At the year-end, about 291,000 customers had retail deposits with the Bank.

In 2011, the Bank managed to expand its long-term deposit base. The share of deposits for 18 months or more in the retail deposit portfolio was 67.8%, compared with 62.7% in 2010. The most popular long-term deposits are seasonal ones with added benefits: the ability to make credit and debit transactions and have interest added monthly.

A priority for 2012 is to boost the deposit base more rapidly, primarily by providing high-quality, convenient banking services. There are plans to increase the existing customer loyalty by offering special terms for deposits in high-priority categories: people that use Bank Vozrozhdenie payroll programs, pensioners, and state employees.

### Lending

In 2011, the total retail loan portfolio climbed by RUB 7.7 billion, an increase of around 46.7%. Late in the year, the Bank concluded a RUB 4 billion deal to securitize the mortgage portfolio.

The growth came mainly from greater demand for home loans, which accounted for around 63% of all retail loans granted in 2011. When disbursing credit, the Bank focused on customers with proven and stable incomes, mainly those involved in its corporate payroll programs, government personnel, employees of large enterprises that meet the Bank's requirements, depositors, and people who already have a positive credit history.

One priority in 2011 was to maintain high quality of the portfolio. The share of NPLs in the total retail loan portfolio stood at 2.59% at the year-end, down from 5.36% at the end of 2010.

### Mortgages

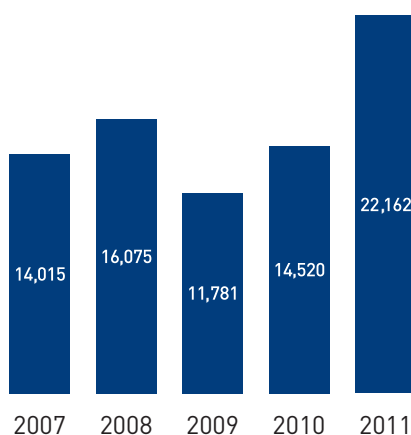
Last year, the rise in the Bank's retail loan portfolio was primarily driven by a surge in mortgage lending. In 2011, the mortgage portfolio soared from RUB 9.9 billion to RUB 15.4 billion (including securitization), up 56.9%.

To boost mortgage lending last year, Bank Vozrozhdenie revised various conditions in favor of clients: it canceled the fees for arranging and maintaining loans, launched a collective insurance scheme and approved new partnership programs.

In 2011, the Bank actively developed partnership programs with realtors, developers and corporate clients, and it concluded several agreements with new partners. These ensured that loan issuance volumes remained high throughout the year.

Despite the difficulties with liquidity in the banking system, in December 2011, the Bank successfully and promptly completed a transaction to securitize its

## Retail loan portfolio



mortgages. RUB 2.931 billion in Class A bonds were placed via public offering on MICEX and RUB 1.14 billion in Class B bonds were bought by the Bank. International ratings agency Moody's has assigned the Class A bonds a rating of 'Baa2'. The price per bond was RUB 1,000, which is 100% of the par value. The instruments are to be redeemed in full on 10 August 2044.

The securitization of mortgages allowed the Bank to attract long-term financing for funding active transactions, as well as increase long-term liquidity.

## Consumer and auto loans

In 2011, the Bank gradually improved its terms for consumer and car terms. It increased the maximum amount available for individual products and terms and reviewed the option of securing loans with land, a parking space, or claims on such property.

As a result, last year, the Bank's consumer lending portfolio expanded from RUB 4.3 billion to RUB 6.3 billion, while the loans granted totaled RUB 5.8 billion.

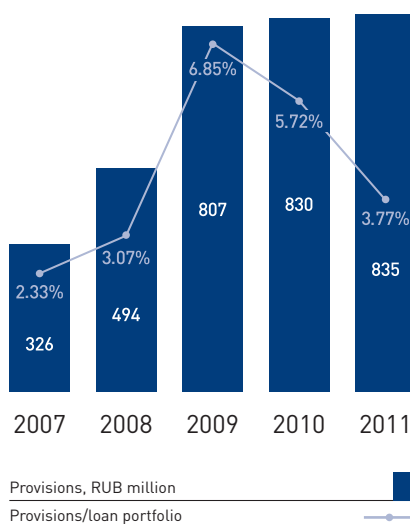
By the end of 2012, the Bank intends to expand its portfolio of consumer loans to RUB 9.2 billion.

## Payments and transfers

One of the Bank's priorities in the retail business is boosting fee income. Products that generate fees provide a stable revenue base. In 2011, the Bank conducted over 16.7 million retail payments and transfers, while revenues from settlement operations increased by 11%. Bank Vozrozhdenie intends to maintain the growth momentum in 2012.

The main drivers of the fee-based business are enhancing the size and quality of the partner pool, streamlining banking technology and improving customer service. Today, the Bank processes payments from the public for more than 5,300 organizations, more than 1,000 of which work with Bank

#### Quality of the retail loan portfolio



Vozrozhdenie under direct contracts. Among them are core recipients such as Mosenergosbyt, Mosoblgaz, Rostelecom, the “Big Three” mobile operators, regional providers of communal services, and subdivisions of state institutions.

The Bank’s settlement services are currently available in 160 sales offices and via self-service equipment, including 785 ATMs. In 2011, the Bank installed 40 payment terminals on its own premises and those of partner organizations. This increased the speed of customer service in branches and enhanced overall service quality by transferring less important mass transactions to self-service equipment. Last year, about 300 million payments totaling RUB 260 million were made to 440 different organizations.

The Bank intends to develop its payments and transfers business rapidly by expanding its terminal network and service range. In 2012, it also plans to launch joint projects with major payment and money transfer systems.

#### Cross-selling and customer service

As interbank competition intensified, the Bank stepped up its cross-selling campaign in 2011. The main drivers of cross-selling were customized programs for corporate clients and partnership programs with the largest developers and realtors, while the number of partners also rose.

The Bank used text messages and phone calls to work with retail customers, informing employees of corporate programs about preferential terms for loans, as well as notifying about the end of term deposits, changes in office opening hours, the installation of new ATMs, etc. Starting in 2011, customers could apply online to obtain preliminary calculations for loans and deposits. As a result, loans worth RUB 538 million were disbursed.

Cross-selling was also conducted for people involved in the Bank's payroll programs and employees of large organizations that meet its requirements. By the year-end, the volume of deposits held by participants in payroll programs had climbed by 2.7%, while the number of loans and their volume were up 38.4% and 24.5% respectively.

#### Development priorities

In 2012, the Bank intends to maintain retail business growth. In terms of lending, the priorities will be rapidly expanding the loan portfolio and preserving its quality. There are plans to increase the mortgage portfolio further and consumer loans by 33%. The Bank intends to market loans mainly to reliable clients, including participants in payroll programs, clients with solid credit histories, and employees of government organizations and large companies.

Key drivers of the retail business will be increasing the number of partners on mortgage programs, boosting cross-selling and expanding the network of self-service equipment. The latter includes those on the premises of partner organizations, where customers will be able to pay for services on delivery.

In 2012, an important source of growth will be cross-selling. The Bank intends to maintain active contacts with existing, former and potential clients. A priority will be increasing the number of depositors and the volume of funds. To accomplish this, the Bank plans to introduce bundled services for holders of large deposits and premium services for VIP clients.



## BANK CARDS

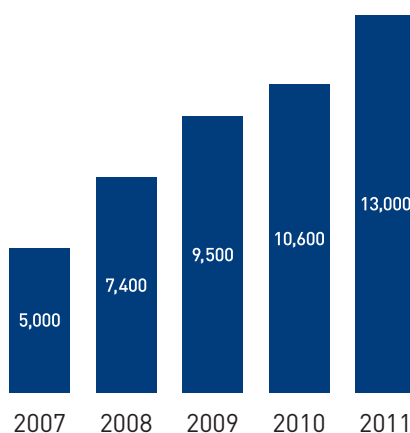
The key factors affecting the market for bank cards in 2011 remained competitive pressure from state-owned banks and ongoing instability in the financial sector. Given these circumstances, the Bank concentrated its efforts on increasing cooperation with existing clients by providing universal and quality service. The main drivers of Bank Vozrozhdenie's card business last year were a rise in the number of customers, more cross-selling and the development of self-service technology.

Meanwhile, greater competition and vast market potential attracted many new players offering their own payroll programs in Moscow Region. Often lacking developed infrastructure, these banks relied on low tariffs in trying to win new customers. Compared with this, the Bank's payroll program is convenient, supported by an extensive ATM network, and remains very popular in the market. In 2011, the Bank increased the number of payroll projects to 13,000.

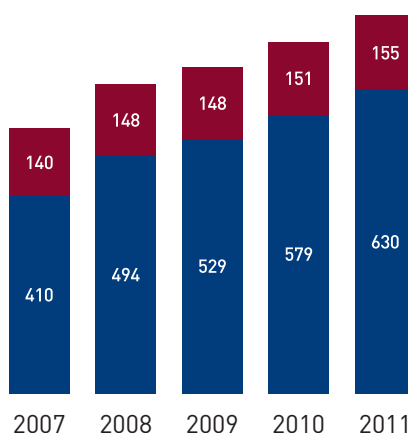
Despite the more intense competition, Bank Vozrozhdenie's card issuance continued to rise. Last year, the Bank opened 204,000 new accounts, while the number of its cards in circulation reached 1.3 million, strengthening its position among the ten largest Russian banks in this respect. Alongside an increase in cards within payroll programs, the positive trend has been driven by customers "off the street", drawn by the Bank's convenience and infrastructure. The share of active cards in the total issued remains one of the highest in the market at 73%, reflecting customer loyalty and quality service.

In 2011, the volume of sales using the Bank's credit cards increased by 54%. Customers used them primarily for non-cash payments for goods and services involving the Bank's credit facilities. Today, the Bank's credit cards serve as a tool for reinforcing customer loyalty, and their active use in non-cash transactions is an important source of non-interest income.

Number of payroll projects



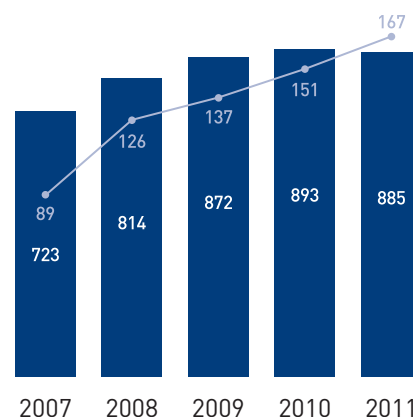
Number of ATM machines



ATMs

ATMs cash-in

Number of active accounts



Active accounts, '00

Deposits, RUB billion

A landmark event in 2011 was the transition from the “Your Account 7/24” service to the “Vbank with You” service, which helped to transform the Bank’s information service into a remote service channel. Since September 2011, customers have been able to conduct numerous transactions online: pay for mobile communications and utilities, open deposits, etc. Tens of thousands of clients have recognized the convenience, simplicity and safety of the new system. Last year, the number of customers connected to the remote service climbed by 41% to over 670,000.

### IN 2011, NON-INTEREST INCOME FROM THE BANK-CARD BUSINESS ROSE BY 14.6%, CLOSE TO PRE-CRISIS LEVELS.

The launch of “Vbank with You” created new opportunities for making deposits via ATM. To highlight the new characteristics of the product – namely, the ability to open deposits via the internet and mobile phone – the Bank gave the deposit a new name, “Momentary”. By the end of 2011, the average size of deposit stood at RUB 172,000.

Amid the active development of remote customer service via the Web and mobile phones, the Bank continued to expand its ATM network as a key competitive advantage in the market. On 1 January 2012, it had 785 ATMs, including 155 offering a cash-in service. Most of the new machines were installed in Moscow Region, where the Bank has expanded its presence from 143 to 160 locations over the past two years. Thanks to the continuous development of services available, in 2011, over a quarter of the three million transactions conducted at ATMs were not cash withdrawals.

In response to the soaring public interest in cashless settlements in 2011, the Bank continued to expand cooperation with retail and service companies.



**Andrei Vylegzhanin**

Head of Business Development  
for Visa in Russia:



“ON BEHALF OF VISA, I AM GENUINELY GLAD TO CONGRATULATE OUR RELIABLE PARTNER, BANK VOZROZHDENIE, ON REACHING A MAJOR MILESTONE – ISSUANCE OF OVER 1 MILLION VISA CARDS. WE BEGAN DEVELOPING THE RUSSIAN BANK CARD MARKET TOGETHER BY LAUNCHING THE FIRST VISA CARDS. WITHOUT A DOUBT, ACHIEVING SUCH IMPRESSIVE RESULTS AND BUILDING A TRUSTING RELATIONSHIP WOULD NOT HAVE BEEN POSSIBLE WITHOUT A PROFESSIONAL TEAM, AN INNOVATIVE SPIRIT AND HIGH BUSINESS STANDARDS.”

**Mark Nakhmanovich**

Deputy Chairman  
of the Management Board:



“IN OUR AGE, TECHNOLOGY DOES NOT STAND STILL FOR A SECOND, ESPECIALLY IN BANKING SERVICES. NOW, WITH THE HELP OF A MOBILE PHONE AND AN INTERNET CONNECTION, YOU CAN CARRY OUT MOST OPERATIONS ON ACCOUNTS: MAKE PAYMENTS AND TRANSFERS, OPEN DEPOSITS, AND REPAY LOANS. WE ARE DEVELOPING THIS NEW LEVEL OF POSSIBILITIES RAPIDLY. WE ARE WORKING TO KEEP UP WITH TIME AND OFFER OUR CLIENTS A FULL RANGE OF HIGH-QUALITY, MODERN SERVICES.”

In 2011, its acquiring network increased by 945 units (34%) to 3,755 points of sale. Meanwhile, the volume of the Bank's card transactions on the network increased by 40% to over RUB 11 billion in absolute terms.

In 2011, the Bank conducted a series of marketing activities in Moscow Region aimed at promoting a culture of paying for goods and services using bank cards. One of them was the Visa Fair held in Noginsk. The campaign implied giving holders of Bank Vozrozhdenie Visa cards a discount when paying for purchases at numerous stores, and the payment system compensates merchants for the difference in cost. In practice, this was the first Visa marketing campaign with a budget that was spent not on advertising, but on reimbursing of the difference in value of goods. As a result of it, the number of customers using cards to pay for goods and services increased by 35%.

In 2012, the Bank's priorities are maintaining the growth of the client base, increasing the cross-selling of fee-based products and services, and boosting the number of self-service transactions through the system "Vbank with You".

Alongside this, the Bank intends to maintain the rate of debit card issuance at the 2011 level, as well as increase the issuance of credit cards. It is also preparing to launch contactless payment cards for payment, as well as online payment for goods and services using the 3D-Secure system.

## OPERATIONS ON FINANCIAL MARKETS

In the first half of 2011, domestic and foreign financial markets continued to recover after the crisis of 2008-09. Interest rates were relatively low, inflation was moderate, demand for investment and consumer durables was relatively solid, and energy prices rose. All these factors pushed Russian stock market indexes higher and caused the ruble to appreciate against major world currencies.

In the second half of the year, risk aversion of domestic investors increased due to rising tension on global financial markets (especially in Europe and the US). Combined with volatility in world oil prices, this led to a weakening of the national currency, a fall in stock market indexes, short-term capital outflows and a deterioration in banking liquidity.

The Central Bank implemented measures aimed at increasing the flexibility of the ruble and maintaining an effective interest rate policy. In the first half of 2011, it twice raised its refinancing rate and interest rates on its operations; then in December, it cut rates. The instability of the global economy ultimately had a moderately negative impact on the financial and economic situation in Russia. At the same time, the domestic market was substantially supported by low public debt and higher world energy prices.

Bank Vozrozhdenie's priority on financial markets in 2011 was diversifying its securities portfolio to maintain strong liquidity, reduce risk and increase return on assets. The Bank focused on transactions with debt instruments and work on the interbank lending market.

Last year, the Bank conducted securities transactions totaling RUB 48 billion through auctions on MICEX and on the OTC market. The average size of its securities portfolio was RUB 14 billion.

The bulk of the Bank's operations in debt instruments involved Central Bank bonds, sovereign Eurobonds and high-quality municipal and corporate Eurobonds that provide an optimum combination of profitability, reliability and liquidity. The portfolio also included "quasi-sovereign" corporate bonds, blue-chip securities and municipal bonds with a put/redemption within one year. The Bank also carried out operations on the stock market with shares of blue-chip Russian companies, especially those in the commodity sectors.

The quality of the securities portfolio enabled the Bank to minimize losses during the market correction in the second half of 2011.

Meanwhile, the interbank lending market experienced a gradual liquidity squeeze. This pushed interest rates on overnight interbank loans up from 2.7% at the beginning of 2011 to 5% at the end of the year.

Throughout 2011, the Bank continued to participate actively in the interbank lending market, placing funds in rubles and foreign currencies. Interbank loans

were granted via credit lines with highly reliable banks using high-quality assets as collateral.

Some of the Bank's available funds were placed in deposits with the Central Bank to maintain liquidity.

### International funding

In 2011, Bank Vozrozhdenie worked closely with financial institutions under existing agreements and developed relationships with new foreign partners.

The Bank continued to place funds secured through an agreement with the European Bank for Reconstruction and Development (EBRD), aimed at supporting the real economy. Tranches of credit lines totaling US\$35 million were fully utilized for lending to SMEs, and US\$16 million was allocated from the EBRD's Small Business Fund Bank to micro- and small businesses.

Through credit lines from numerous foreign lending institutions, the Bank organized backing for letters of credit and drew short-term loans to cover clients' foreign trade contracts. To attract long-term loans from overseas banks to finance foreign trade contracts, clients used the EBRD guarantees and insurance coverage of the national export credit agencies of Germany, Italy, the Netherlands, Denmark, the Czech Republic and other countries.

Meanwhile, the Bank increased the number of counterparty banks used in international funding. In particular, a framework loan agreement was signed with German bank Unicredit Bank AG, which also applies to other banks in the Unicredit group. This stipulated the involvement of medium-term loans (up to five years) guaranteed by national export credit agencies to finance the projects of Bank Vozrozhdenie's clients.

In 2011, the Bank signed a total of 34 deals to attract international loans, including 20 short-term loans totaling some US\$23.5 million and 14 long-term loans (three to five years) amounting to around US\$43 million. In addition, an issue of five guarantees by foreign banks, including undertakings regarding performance and payment, was organized on behalf of clients.

### Priorities on financial markets in 2012

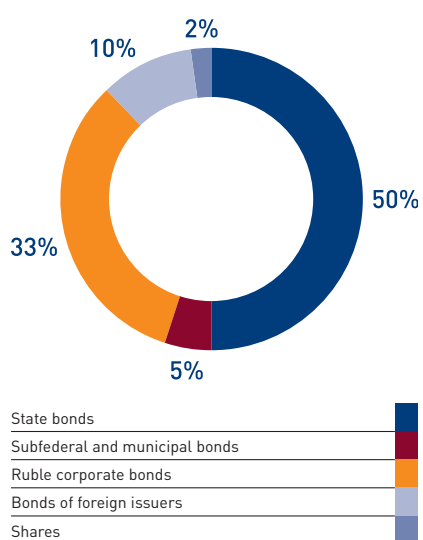
In 2012, the Bank's operations on financial markets will focus on further diversifying the securities portfolio to maintain sufficient liquidity, reduce risk and increase return on assets. The Bank will continue to carry out transactions with government securities, including sub-federal and municipal debt and Central Bank bonds. The Bank aims to use investments in government and Central Bank bonds as a tool for managing liquidity. It will also operate on the interbank market, placing free funds in loans and deposits with highly reliable banks.

Meanwhile, the Bank will continue to enter into master agreements for deposit, foreign-exchange and securities transactions with Russian and foreign banks. These include agreements with the International Swaps and Derivatives

Association (ISDA), as well as contracts for information services with brokerage firms. There are plans to hold talks with the major clearing banks to reduce fees for servicing correspondent accounts.

The Bank also intends to increase the volume of credit lines and terms of lending from foreign banks, as well as the number of bank counterparties using in international financing. The number of foreign banks funds engaged for trade financing is expected to be at least the same as in 2011.

Breakdown of revenues from securities transactions, 2011



## BANKING TECHNOLOGIES

The Bank pays close attention to banking technologies, considering them an important factor in developing all lines of business: corporate, retail, financial, and bank cards. In its work to improve and upgrade technological infrastructure, the Bank also focuses on developing internal business processes, including internal accounting and providing management information for planning, analysis and decision-making, as well as ensuring regulatory compliance.

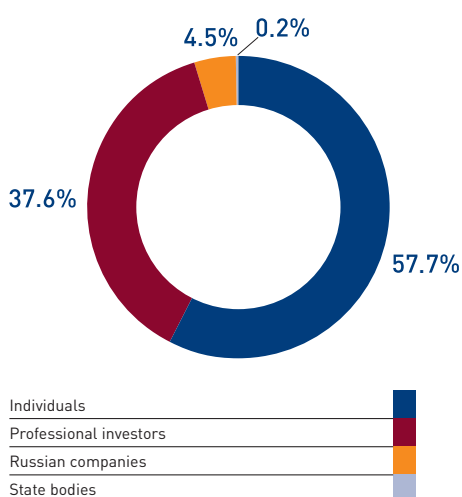
In 2011, the development of technology focused primarily on expanding the functionality of banking systems and increasing their productivity, as well as centralizing and automating certain functions. The Bank completed the automation of transactions for CONTACT, a system for transferring money without opening an account. This reduced labor costs and allowed some functions to be transferred to the head office. An important project in 2011 was the launch of the “Vbank with You” service, which enables individual customers to manage their accounts remotely online. The Bank also automated dealer transactions in futures contracts.

In 2012, the priority regarding banking technology will be increasing efficiency, including that of divisions, as well as technology and service processes as part of streamlining the operating model. The Bank will continue to work on creating a single electronic data repository and integrating it with banking and CRM systems. There will be a particular emphasis on the mobility of professionals between business units. The Bank will also continue to develop the customer self-service system for terminals and mobile devices, as well as undertake other measures to improve and simplify client interaction.

## Shareholder Structure

As of the record date on 5 May 2011, the Bank had 9,082 shareholders, including 8,004 individuals and 1,078 legal entities.

Shareholder structure as of the record date  
(5 May 2011)



Shareholders owning more than 5% of the authorized capital

Shareholder	Share in authorized capital, %
Dmitry L. Orlov	30.70
Otar L. Margania	18.65
JPM International Consumer Holding Inc.	9.37

Bank Vozrozhdenie's authorized capital totals RUB 250,431,990 and consists of 23,748,694 ordinary shares (94.8% of authorized capital) and 1,294,505 preferred shares (5.2%) with a fixed dividend rate, each with par value of RUB 10.

The Bank has a right to issue 8,000,000 authorized shares.

Bank Vozrozhdenie's ordinary and preferred shares are traded on MICEX (tickers: VZRZ and VZRZP). The ordinary shares have been included in the A2 list of the exchange since 2007.

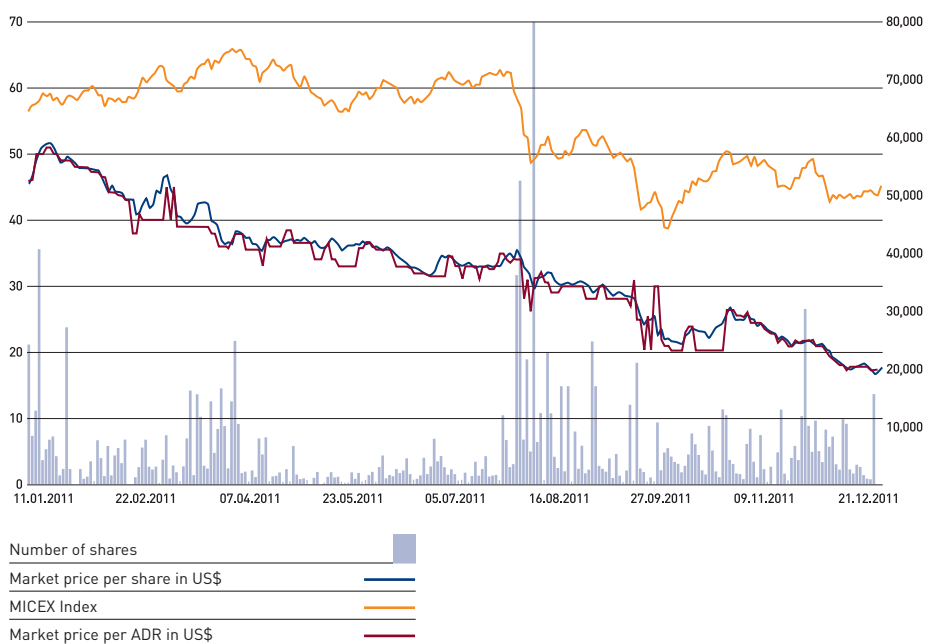


As of 1 January 2012, 461,312 ordinary shares of the Bank (1.94% of those issued) were traded on the Berlin, Frankfurt and Stuttgart stock exchanges in the form of Level 1 ADRs. One ordinary share equals one ADR.

<sup>8</sup> Figures from MICEX

At the close on the last trading day of 2011, the ordinary shares had a price of RUB547.50 and a market capitalization of RUB13 billion.<sup>8</sup>

#### Bank Vozrozhdenie's share price and trading volumes



Last year, the following members of the management bodies carried out transactions in the ordinary shares:

Name and position	Share in authorized capital, %	
	01.01.2011	01.01.2012
Mark Nakhmanovich, Deputy Chairman of the Management Board	0.41	0.40

## Corporate Governance

### Achievements in 2011

Bank Vozrozhdenie's corporate governance system is one of the most developed in Russia. It ensures equal rights for all shareholders, including minorities, and gives them the opportunity to influence the business through voting at general meetings of shareholders. The system is based on Russian legislation and further development in line with best international practices.

The Articles of Association define the corporate governance principles and procedures; the authority and responsibilities of each level of management; and the work of the internal control and audit system. The main objectives are given in the Corporate Conduct Code and Code of Corporate Ethics. They include:

- Increase information transparency
- Improve management processes
- Reduce risk exposure
- Prevent conflicts of interest
- Adhere to ethical principles in relationships with all interested parties

Last year, the Bank undertook considerable efforts to streamline decision-making processes, improve risk-management mechanisms, and ensure that internal procedures comply with best international practice and amendments to local legislation.

In particular, the Bank created procedures to manage and safeguard insider information, optimized internal documents that regulate the work of the Board of Directors and its committees, and streamlined approaches to managing stock, market, interest-rate and regulatory risks. The reporting procedures to the Board of Directors were also updated.

In accordance with Central Bank recommendations, the Board of Directors conducts an annual assessment of the quality of corporate governance. This evaluates the distribution of responsibilities between management bodies, the organization of the Board's work, relations with affiliated parties, compliance with principles of professional ethics, and information disclosure. Based on the results, measures are devised to streamline the system of corporate governance, and a plan for the following year is approved.

In 2012, The Bank plans to assess the efficiency of the activities of the Board and management bodies, continue to enhance procedures for controlling insider information, and introduce measures to increase information transparency.

### Management bodies

#### General Meeting of Shareholders

The senior management body of Bank Vozrozhdenie is the General Meeting of Shareholders. The Bank provides equal rights to all shareholders and ensures equal participation of all shareholders in the Meeting, which takes place at least once a year. Shareholders receive timely notification of the event and have access to information relating to items on the agenda.

The Bank holds the Annual General Meeting to provide all shareholders with the opportunity to review and discuss the results of the Bank's activities during the previous financial year. Shareholders with at least 2% of voting shares are entitled to include items on the Meeting agenda and nominate candidates for election to the Board of Directors and the Audit Commission. In 2011, the Annual General Meeting was held on 24 June.

In the period between annual meetings, an Extraordinary General Meeting of Shareholders may be called by the Board of Directors, the Audit Commission, the external auditor or shareholders with 10% or more of voting shares at the date of making the request. Last year, there were no Extraordinary General Meetings.

To learn more about the procedure for holding General Meetings of Shareholders or view the official documents from the Annual General Meeting in 2011, visit [www.vbank.ru](http://www.vbank.ru).

#### Board of Directors

The Board of Directors is responsible for general management of the Bank's activities, in accordance with current legislation and the Articles of Association. It is empowered to determine the strategic priorities of the Bank, to control its financial and economic activities, maintain an effective system of internal control, secure shareholders' rights, and supervise the activity of executive bodies.

Directors are elected by the Annual General Meeting of Shareholders for the period until the next Annual General Meeting or until an Extraordinary General Meeting with an agenda that includes the election of new Directors. The Board consists of 12 members.

Bank Vozrozhdenie places great importance on the presence of independent directors, in the belief that their work increases the objectivity of decisions by the Board and ensures maximum protection of shareholders' rights and interests. In accordance with internal documents, the Board should include at least three independent directors. In 2011, in line with best international practice, six of the 12 members of the Board were independent.

To determine the independence of members of the Board of Directors, the Bank uses criteria laid out in internal documents that meet FFMS requirements. Last year, the requirements for independent directors did not change.

#### Report of the Board of Directors

In 2011, the Board of Directors held ten planned meetings and two extraordinary ones. A total of 106 agenda items were reviewed.

The key decisions of the Board of Directors in 2011 related to:

- Approval of the financial plan (budget) of the Bank for 2011
- Approval of the Audit Committee membership
- Approval of the Human Resources and Remuneration Committee membership
- Approval of amendments to the Articles of Association
- Convocation of the Annual General Meeting of Shareholders and approval of its agenda
- Development of recommendations for the General Meeting of Shareholders on the amount of dividends to be paid for the year
- Preliminary approval of the annual report
- Approval of the schedule of reviews by the Internal Control and Audit Service of the Bank's internal divisions for 2011
- Approval of the fee paid to PricewaterhouseCoopers Audit for the Bank's annual audit.

In 2012, alongside matters that are reviewed regularly, the Board of Directors plans to evaluate the efficiency of its work and devise measures to improve it.

#### Committees of the Board of Directors

The committees are responsible for providing recommendations and expertise to the Board of Directors regarding key issues within their competencies. In 2011, there were two committees: the Audit Committee and the Human Resources and Remuneration Committee. In accordance with best international practice, both committees are headed by independent directors.

#### Audit Committee

The Audit Committee submits recommendations to the Board of Directors on the appointment of an external auditor and assesses the auditor's

opinion on the Bank's financial statements. It also evaluates existing procedures for internal control and provides recommendations for their improvement.

A new Audit Committee was elected at the Annual General Meeting of Shareholders on 24 June 2011. Its members are V. Panskov (Chairman of the Committee), N. Zatsepin and O. Lapushkin, who replaced outgoing director V. Zhigulich. The Committee held eight meetings in 2011.

Last year, the Audit Committee carried out a preliminary review of the:

- Execution of the Bank's financial plan for 2011
- The Bank's financial plan for 2010
- Schedule of reviews of internal divisions by the Internal Control and Audit Service in 2011
- Report on work of the Internal Control and Audit Service in 2010
- Quarterly reports of the Controller of the Bank's activity as a professional participant in the securities market
- Quarterly reports on compliance with the rules of internal control to prevent the legalization of criminally obtained revenues and financing of terrorism
- Quarterly IFRS results

Other work included:

- Quarterly analysis of information about inspections conducted by the Central Bank sent to the Board of Directors
- Analysis of the results of audit checks in 2010 and review of the auditor's report
- Preparation of recommendations to the Board of Directors regarding candidates for the external auditor
- Preliminary review of the report by the Credit Risk division for 2010 and the results of the stress-testing as of 1 January 2011

#### **Human Resources and Remuneration Committee**

The Human Resources and Remuneration Committee develops the principles and criteria for establishing the amount of remuneration paid to members of the Board of Directors, the Chairman and members of the Management Board. In addition, it defines requirements applied to candidates for the Chairman and members of the Management Board. It also carries out assessments of the activity of the Chairman and members

of the Management Board and provides recommendations regarding the renewal of their contracts.

The existing Human Resources and Remuneration Committee was re-elected at the Annual General Meeting of Shareholders on 24 June 2011. The members are M. Eskindarov (Chairman of the Committee), N. Mikhalkov and Y. Poletaev. Last year, the Committee held seven meetings, at which it:

- Provided recommendations regarding candidates for the members of the Board of Directors and Audit Commission to be elected by the Annual General Meeting of Shareholders
- Developed recommendations regarding the amount of remuneration paid to members of the Board of Directors based on the results for the year
- Preliminarily reviewed the new version of the Regulation on the Human Resources and Remuneration Committee
- Preliminarily reviewed Amendment 1 to the Regulation on Self-assessment of the Activities of the Board of Directors
- Preliminarily reviewed Amendment 1 to the Regulation on Assessment of the Activities of the Executive Bodies

#### Members of the Board of Directors

On 24 June 2011, the Annual General Meeting of Shareholders elected a new independent director, O. Lapushkin. V. Zhigulich left the Board of Directors. All other members were re-elected for a new term.

#### OTAR L. MARGANIA

Chairman of the Board of Directors, Non-executive Director

Born in 1959

Since February 2011, Mr. Margania has been the Dean of the Economics faculty of St Petersburg State University. Previously, he was a Senior Vice-President at Bank VTB. He has been a member of the Board of Directors at Bank Vozrozhdenie since 2003 and was a member of Human Resources and Compensation Committee from 2008 to 2010. He has been Chairman of the Board of Directors since June 2010.

Mr. Margania graduated from Leningrad State University and dedicated 15 years to science.

In 2009, he was awarded an Order of Honor in accordance with a Russian presidential decree.

Share in authorized and issued capital: 18.65%

**DMITRY L. ORLOV****Executive Director**

Born in 1943

Mr. Orlov is the Chairman of the Trustee Fund of the Moscow Financial Academy, a member of the Russian Banks Association, and a member of the Representatives Council of Banks Authorized by the Mayor of Moscow.

Mr. Orlov graduated from the Credit faculty of the Moscow Finance Institute (now, the Financial Academy under the Government of Russia). He worked in the Gosbank system for about 20 years, and in 1988 he became the Head of the Moscow Regional Department of Agroprombank of the USSR.

Mr. Orlov has been awarded the title "Honored Economist of the Russian Federation". He has also been awarded the medal of the Order of Ivan Kalita, the medal "In Memory of the 850th Anniversary of Moscow", the medal "For Strengthening Military Cooperation", the mark of distinction "For Contribution to Moscow Region", the award of the Governor of Moscow Region "For Contribution", the award of the Governor of Moscow Region "In Gratitude", and the mark of distinction "For Impeccable Service to the City of Moscow".

Mr. Orlov has been working with the bank since its foundation as Chairman of the Management Board and has been a member of the Board of Directors since 1994.

Share in authorized and issued capital: 30.70%

**LUDMILA A. GONCHAROVA****Executive Director**

Born in 1958

Mrs. Goncharova manages the Economic Council, and the Bank's Credit and Investment Committee and Client Committee. She is also responsible for the activity of the Credit, Asset Restructuring, Corporate Business and Legal Departments. Mrs. Goncharova has been working at Bank Vozrozhdenie since its foundation. She has been a member of the Board of Directors since 1996.

Mrs. Goncharova graduated from the Ternopol Financial-Economic Institute.

Mrs. Goncharova is also Chairwoman of the Board of Directors of V-REGISTR CJSC, Vozrozhdenie Finance and YUNOST, as well as a member of the Board of Directors of Baltiyskiy Kurort LLC.

Mrs. Goncharova has been awarded the medal of the Order of Ivan Kalita, the Honor "For Contribution to Moscow Region", and the Honor of the Governor of Moscow Region "For Contribution", "In Gratitude" and the medal "In Memory of



the 850th Anniversary of Moscow". She was also named "Honored Economist of Moscow Region".

Share in authorized and issued capital: 1.25%

**ALEXANDER V. DOLGOPOLOV**

**Executive Director**

Born in 1961

Mr. Dolgoplov oversees the Retail, Marketing and Communications, Corporate, and Cash Operations Departments. He has been with the Bank since 1994 and has been a member of the Board of Directors since 1997.

Mr. Dolgoplov graduated from the Moscow G. V. Plekhanov Institute of National Economy. He has a doctorate in Economic Science and a license to carry out professional activities on the securities market.

Mr. Dolgoplov has been awarded the Honor of the Governor of Moscow Region "In Gratitude" and "For Contribution and Dedication".

Share in authorized and issued capital: 0.36%

**NIKOLAI S. ZATSEPIN**

**Non-executive Director**

Born in 1951

Mr. Zatsepin is CEO of Retail Trade Company, General Director of SP-Dorohovo-NK and the Director of Edelweiss. He has been a member of the Board of Directors at Bank Vozrozhdenie since 1994 and is a member of the Audit Committee.

Mr. Zatsepin graduated from the Moscow Institute of Civil Aviation Engineers.

Share of authorized and issued capital: 0.16%

**OLEG I. LAPUSHKIN**

**Independent Director**

Born in 1941

Mr. Lapushkin was previously a General Manager of the Cyprus division of Vneshtorgbank, a General Manager of the Russian Commercial Bank, and a Consultant to FBME BANK Ltd (Cyprus). He was elected to the Board of Directors in 2011 and is a member of the Audit Committee.

Mr. Lapushkin graduated from the Moscow Institute of Finance in 1963.

Share of authorized and issued capital: 0%

**YURY M. MARINICHEV****Non-executive Director**

Born in 1937

Mr. Marinichev is Chairman of the Board of the Moscow Regional Union of Consumer Cooperation. Previously, he was Chairman of the Management Board of the organization. He is a member of the International Academy of Information, Information Processes and Technologies. He has been a member of the Board of Directors at Bank Vozrozhdenie since 1991 and was Chairman of the Board from 1994 to 2009.

Mr. Marinichev graduated from the Moscow Transport Institute and from the Industrial Production and Construction Organization faculty of the Moscow Engineering and Economics Institute.

Mr. Marinichev was awarded the Honor "For Contribution to the Motherland" IV class and "Honor Sign".

Share of authorized and issued capital: 0.23%

**NIKITA S. MIKHALKOV****Independent Director**

Born in 1945

Mr. Mikhalkov is a film director, script writer, actor, producer and public figure. He is a National Artist of the RSFSR and has received the State Award of Russia three times. He is a member of the Presidium of the Culture and Art Council under the President of the Russian Federation. He is the Chairman of the Management Board of Studia TRITE, the President of the Russian Cultural Fund, and the Chairman of the Union of Russian Cinematographers.

Mr. Mikhalkov has been a member of the Board of Directors at Bank Vozrozhdenie since 2007 and is a member of the Human Resources and Remuneration Committee.

Mr. Mikhalkov graduated from Producer Faculty of the All-Russia State Institute of Cinematography in 1971.

The films made by Mr. Mikhalkov have received international recognition and have received a great number of awards, including an Oscar in 1994 for the film *Burnt by the Sun* and a special Golden Lion in Venetian Filmfest for the film *12* in 2007.

Mr. Mikhalkov has been awarded with such Honors as "Labor Red Banner", "For Contribution to the Motherland" III and II classes, and the Honor of Sergei Radonezhskiy I class. He is a Knight (1992) and a Commander

(1994) of the Legion d'Honneur (France). In 2004 he was awarded with Knight Grand Cross and Vittorio De Sica prize. In 2005, he was awarded the highest Russian public honor "For Labor and the Homeland" of Alexander Nevskiy.

Share of authorized and issued capital: 0%

**VLADIMIR G. PANSKOV**

**Independent Director**

Born in 1944

Mr. Panskov is the Advisor to the General Director of the International Center for Financial and Economic Development. He is a professor at the Moscow G.V. Plekhanov Institute of National Economy and the All-Russian Financial and Economic Institute. He is a member of the International Academy of Corporate Governance, the Russian Academy of the Natural Sciences, and the Board of Directors of Bankhaus Erbe.

Mr. Panskov has been a member of the Board of Directors at Bank Vozrozhdenie since 2008. He is Chairman of the Audit Committee.

Mr. Panskov graduated from the Moscow Financial Institute with a degree in Finance and Credit in 1965 and a master's in 1971. He holds a doctorate in Economic Science.

Mr. Panskov was previously an Auditor in the Audit Chamber of the Russian Federation. He has been awarded the medals "Honor" and "Veteran of Labor".

Share of authorized and issued capital: 0.003%

**YURY V. POLETAEV**

**Independent Director**

Born in 1943

Mr. Poletaev has been a member of the Board of Directors since 2008. He is a member of the Human Resources and Compensation Committee.

Previously Mr. Poletaev was the Chairman of the Management Board and a member of the Board of Directors at Vneshtorgbank. He also was the Director of Moscow National Bank in London.

Mr. Poletaev graduated from the Moscow Financial Institute with a degree in Finance and Credit in 1965.

Share of authorized and issued capital: 0%

**VIKTOR V. KHARTOV****Independent Director**

Born in 1955

Mr. Khartov is a chief designer and CEO of FSUE "Scientific and Production Union Named After S. A. Lavochkin". Previously he was a deputy chief designer on electricity planning and management system JSC "Informational Satellite Systems Named After M. F. Reshetnev". He has been a member of the Board of Directors at Bank Vozrozhdenie since 2010.

Mr. Khartov graduated from Tomsk Polytechnic University in 1978. He holds a doctorate in Engineering. He has been awarded the "Laureate of Government Prize in the Field of Science and Engineering for 2008" and was named "Honored Designer of the Russian Federation" in 2009.

Share of authorized and issued capital: 0%

**MUKHADIN A. ESKINDAROV****Independent Director**

Born in 1951

Mr. Eskindarov has been rector of the Financial Academy under the Government of the Russian Federation since 2006 and was a first pro-rector from 2002. He has been rector of the Financial University under the Government of the Russian Federation since 2010.

Mr. Eskindarov has been a member of the Board of Directors at Bank Vozrozhdenie since 2010. He is the Chairman of the Human Resources and Compensation Committee.

At present, Mr. Eskindarov is a member of the Board of Directors of Bank of Moscow, TMK and MInB, as well as a member of the Supervisory Board of VTB.

Mr. Eskindarov graduated from the Moscow Finance Institute in 1976 with a degree in Finance and Credit. He holds a doctorate in Economic Science, and is a professor and an honored figure of science in the Russian Federation.

Share of authorized and issued capital: 0%

**Remuneration to Members of the Board of Directors**

All members of the Board of Directors receive remuneration for their work, apart from executive directors. The amount of remuneration is determined individually, based on the personal contribution of each director to the Bank's development, position occupied and additional responsibilities.

Remuneration is paid to members of the Board of Directors based on the results for the previous year. The amount depends on the following factors: number of meetings of the Board of Directors and its committees, personal participation in meetings, participation in the work of committees, profit for the year, and results of the self-assessment of the Board of Directors.

The amount of remuneration to the Chairman of the Board of Directors shall not exceed RUB 3 million per annum. The amount of remuneration paid to independent directors and chairpeople of Board committees shall not exceed RUB1.5 million per annum. The amount of remuneration paid to other members of the Board of Directors shall not exceed RUB600,000 per annum.

In accordance with the resolution by the Annual General Meeting of Shareholders dated 24 June 2011, the amount of remuneration paid to members of the Board of Directors for 2010 was RUB 9,600,000.

## Management Board

### Chairman of the Management Board

The Chairman of the Management Board is responsible for operational management and implementing the strategy approved by the Board of Directors in accordance with the authorities given to him by the Articles of Association and the General Meeting of Shareholders.

The Chairman of the Management Board is Dmitry Orlov. For his biography, refer to page 58.

## Members of the Management Board

To ensure effective day-to-day management of the Bank's operations, the Board of Directors elects a corporate executive body, the Management Board. It is responsible for resolving issues regarding operational management of the Bank's activities that relate to its current activity and require joint approval. The Management Board consists of 11 members.

### ALEXANDER A. BOLVINOV

#### Deputy Chairman of the Management Board

Born in 1962

Mr. Bolvinov oversees the Administration, Maintenance and Service Departments, the Information Security Service, and labor safety. He has been at Bank Vozrozhdenie since 2000. Previously he was General Director of Amarillis M.

Mr. Bolvinov graduated from the Moscow State Institute of International Relations (MGIMO) in 1986.

Share of authorized and issued capital: 0%

**TATIANA F. GAVRILKINA****Deputy Chairwoman of the Management Board**

Born in 1959

Mrs. Gavrilkina oversees the Bank's Financial, Accounting and Audit, and Deposit Operations Departments. She has been working at the Bank since its foundation.

Previously Mrs. Gavrilkina was Deputy Head of the Resources Management Department and Head of the Liquidity Management Department.

Mrs. Gavrilkina graduated from the Moscow Finance Institute (now the Finance Academy under the Government of Russia). She has been awarded the Honor of the Governor of Moscow Region "For Contribution".

Share in authorized and issued capital: 0.12%

**LUDMILA A. GONCHAROVA****Deputy Chairwoman of the Management Board**

Born in 1958

Mrs. Goncharova manages the Economic Council, and the Bank's Credit and Investment Committee and Client Committee. She is also responsible for the activity of the Credit, Asset Restructuring, Corporate Business and Legal Departments. Mrs. Goncharova has been working at Bank Vozrozhdenie since its foundation. She has been a member of the Board of Directors since 1996.

Mrs. Goncharova graduated from the Ternopol Financial-Economic Institute.

Mrs. Goncharova is also Chairwoman of the Board of Directors of V-REGISTR CJSC, Vozrozhdenie Finance and YUNOST, as well as a member of the Board of Directors of Baltiyskiy Kurort LLC.

Mrs. Goncharova has been awarded the medal of the Order of Ivan Kalita, the Honor "For Contribution to Moscow Region", and the Honor of the Governor of Moscow Region "For Contribution". She was also named "Honored Economist of Moscow Region".

Share in authorized and issued capital: 1.25%

**ALEXANDER V. DOLGOPOLOV****Deputy Chairman of the Management Board**

Born in 1961

Mr. Dolgoplov oversees the Retail, Marketing and Communications, Corporate, and Cash Operations Departments. He has been with the Bank since 1994 and has been a member of the Board of Directors since 1997.

Mr. Dolgopolov graduated from the Moscow G. V. Plekhanov Institute of National Economy. He has a doctorate in Economic Science and a license to carry out professional activities on the securities market.

Mr. Dolgopolov has been awarded the Honor of the Governor of Moscow Region "In Gratitude" and "For Contribution and Dedication".

Share in authorized and issued capital: 0.36%

**MARK M. NAKHMANOVICH**

**Deputy Chairman of the Management Board**

Born in 1957

Mr. Nakhmanovich oversees the Bank Card, Information Processing and Cashier Departments. He has been at the Bank since 1993. Previously he was Financial Director of agricultural company Belaya Dacha.

Mr. Nakhmanovich graduated from Moscow K. A. Timiryazev Academy of Agriculture in 1980. He has a doctorate in Economic Science.

Mr. Nakhmanovich has been awarded the Honor of the Governor of Moscow Region "For Contribution and Dedication".

Share in authorized and issued capital: 0.40%

**YURY I. NOVIKOV**

**Deputy Chairman of the Management Board**

Born in 1962

Mr. Novikov heads the Bank's Northwest Inter-Regional Center (representative office in the Northwest Federal District). He coordinates the activity of the regional Credit and Coordination committees. He has been working at the Bank since 2003.

Previously Mr. Novikov was the Director for Economics and Deputy Chairman of the Management Board of Industrial Construction Bank in St Petersburg. In addition, he was President of Bank St. Petersburg and North-West Telecombank. He was also a member of the Council of the National Fund Association.

Mr. Novikov graduated from Leningrad State University in 1985 and has a doctorate in Economic Science.

Share in authorized and issued capital: 0%



# Management Board



**Dmitry L. Orlov**  
Chairman of the Management Board,  
Member of the Board of Directors

**Alexander A. Bolvinov**  
Deputy Chairman  
of the Management Board

**Yury I. Novikov**  
Deputy Chairman  
of the Management Board

**Tatiana F. Gavrilkina**  
Deputy Chairwoman  
of the Management Board

**Andrei A. Shalimov**  
Deputy Chairman  
of the Management Board

**Ludmila A. Goncharova**  
Deputy Chairwoman  
of the Management Board  
Member of the Board of Directors

**Rushan A. Abdullin**  
Head of Banking Technologies

**Alexander V. Dolgoplov**  
Executive Director, Deputy Chairman  
of the Management Board  
Member of the Board of Directors

**Sergei N. Malinin**  
Head of the Corporate Department

**Mark M. Nakhmanovich**  
Deputy Chairman  
of the Management Board

**Alla A. Novikova**  
Chief Accountant,  
Member of the Management Board

**ANDREI A. SHALIMOV****Deputy Chairman of the Management Board**

Born in 1973

Mr. Shalimov oversees the Treasury, Credit Risk, Banking Technologies, Settlements, Financial Institutions and Investor Relations Departments. He was previously Deputy Head of the Liquidity Department and then Head of the Treasury. He has been at the Bank since 1993.

Previously Mr. Shalimov was Deputy Head of the Liquidity Department. He graduated from the Finance Academy under the Government of Russia and from the State University – Higher School of Economy.

Mr. Shalimov has been awarded the Honor of the Governor of Moscow Region “For Contribution”.

Share in authorized and issued capital: 0.00002%

**RUSHAN A. ABDULLIN****Member of the Management Board**

Born in 1968

Mr. Abdullin is Head of Banking Technologies. He started his career as an economist in the Bank’s Accounting Department. He has worked at the Bank since 1993.

Mr. Abdullin graduated from the Finance Academy under the Government of Russia in 1993.

Share in authorized and issued capital: 0%

**SERGEI N. MALININ****Member of the Management Board**

Born in 1963

Mr. Malinin is Head of the Corporate Department. He has been working at the Bank since 1992.

Previously Mr. Malinin was a Chief Economist in the Securities Division of the Securities and Investments Department and later he became Head of the Development Department. He graduated from the G. V. Plekhanov Institute of National Economy in Moscow in 1985.

Share in authorized and issued capital: 0%

**ALLA A. NOVIKOVA****Member of the Management Board**

Born in 1957

Mrs. Novikova is Chief Accountant of the Bank. Previously she was Deputy Chief Accountant. She has been working at the Bank since its foundation.

Mrs. Novikova graduated from the Moscow Institute of Railway Engineers in 1979.

Share in authorized and issued capital: 0.002%

**Remuneration to Members of the Management Board**

Remuneration to members of the Management Board is paid in accordance with the Bank's Regulation on Remuneration to Members of Executive Bodies, approved by the Board of Directors. Remuneration to the Chairman and members of the Management Board includes salary and incentive and compensation payments. Bonuses are paid to members of the Management Board according to the results of the Bank's activity during the reporting period and depend on the Bank's fulfillment of performance indicators in accordance with the Bank's approved development strategy.

In 2011, the amount of remuneration paid to members of the Management Board (including salary, bonuses and other material compensation) amounted to RUB 254,543,000.

**Internal Control and Audit****Internal Control System**

The Bank's internal control system oversees financial and business activities to protect the rights and legal interests of all shareholders and investors. The system aims to ensure compliance with all established procedures and authorities when making management decisions relating to the interests of the Bank, its shareholders and clients; ensure that the Bank fulfils the requirements of federal legislation and acts from the Central Bank and other state bodies; and adopt timely and effective measures to eliminate shortcomings and violations in the Bank's activity, as well as prevent them from reoccurring. The rules for organizing the Web control system and other internal documents define the structure of the system, which consists of various management bodies, internal divisions and responsible employees.

Monitoring of the internal control system is the responsibility of the Board of Directors and the executive bodies.

The main activities of the system are:

- Control over compliance with the Law On Joint-Stock Companies and the Bank's Articles of Association by the executive bodies

- Control over the system for managing banking risks
- Control over distribution of authorities in the course of banking operations and other deals
- Control over management of information flows and ensuring information security
- Control over the system for combating the legalization of criminally obtained revenues and financing of terrorism
- Control to ensure that the Bank's activities as a professional securities market participant comply with Russian laws and the regulations of the Federal Financial Markets Service

In 2011, the Bank continued the work to bring the internal control system in line with the scale and type of banking operations and transactions conducted, as well as streamlined the procedure for eliminating and preventing violations and shortcomings in a timely, complete manner. In addition, an internal knowledge base was established that defines the principles of developing the internal control system and dividing responsibilities for functions between employees, divisions and management bodies.

#### Internal Control and Audit Service

The Internal Control and Audit Service (ICAS) monitors the internal control system and helps management bodies to ensure that the Bank functions effectively. It carries out its activity in line with the Regulation on the Internal Control and Audit Service; the Bank's Articles of Association and internal regulations; and Central Bank regulations.

The ICAS operates according to the principles of consistency, independence and impartiality. Its Head and employees may not combine their work with activities in other divisions.

The ICAS's scope of authority includes:

- Audit reviews of all aspects of the Bank's business
- Control over the efficiency of measures adopted by internal divisions and/or management bodies of the Bank due to the results of reviews aimed at mitigating the risks detected
- Control over measures aimed at eliminating violations and shortcomings detected by specialists of the Central Bank and ICAS
- Cooperation with the Bank's auditor and the Central Bank on issues regarding organization of internal control, as well as prevention and suppression of violations by Bank staff of legal acts, internal documents and professional standards

- Review of internal document drafts

ICAS is subordinate to the Board of Directors. Reports on its work and fulfillment of check plans are submitted at least twice a year.

#### Audit Commission

The Audit Commission is elected by the General Meeting of Shareholders for the period until the next meeting. It must consist of at least three members, who cannot simultaneously be members of the Bank's Board of Directors or Management Board. Last year, the Commission had four members.

In 2011, the Audit Commission carried out an audit of the Bank's financial and business activity in the previous financial year. It also analyzed the Bank's financial position, compliance with established standards and limits, and the functioning of internal control and risk management systems. It confirmed the accuracy of the data in the annual report, annual financial statements and other financial documents. The Commission did not carry out any extraordinary audit based on a decision by the General Meeting of Shareholders or Board of Directors or following any request by shareholders.

#### Membership of the Audit Commission

Name, year and country of birth	Positions held at the Bank or other organizations	Share of the Bank's authorized and issued capital	Education
Viktor A. Afonin, 1956, Russia	Chairman of the Audit Commission; Deputy General Director of Almazvulirexport (federal unitary enterprise)	–	Higher, Moscow Finance Institute
Tamara N. Lapinskaya, 1954, Russia	Member of the Audit Commission; Head of Business Planning and Analysis Division of the Finance Department	0.004%	Higher, Moscow Finance Institute
Svetlana A. Markina, 1952, Russia	Member of the Audit Commission; Head of the Internal Operations Accounting Division of the Accounting and Financial Reporting Department	0.0004%	Specialized secondary, All-Union School of Accounting and Credit
Dmitry V. Obryvalin, 1960, Russia	Member of the Audit Commission; Head of the Shareholder Relations Division of the Corporate Department	0.0001%	Higher, Moscow Institute of Economics and Finance

#### Auditor

Each year, an independent audit is conducted at Bank Vozrozhdenie in accordance with Russian Accounting Standards and International Financial Reporting Standards. The independent auditor is approved by the General



Meeting of Shareholders on the recommendation of the Board of Directors. ZAO PricewaterhouseCoopers Audit (before 1999, ZAO Coopers & Lybrand) has been the auditor since the Bank was founded.

Member of the Chamber of Russian Auditors (non-profit partnership)

State registration number: 1027700148431.

Address: Butyrsky Val 10, Moscow, 125047

ZAO PricewaterhouseCoopers Audit (and its official representatives) has no interests related to the Bank (or its official representatives).

### Dividend policy

The dividend policy aims to maintain a balance between distributing dividends and increasing the Bank's capitalization by reinvesting in development. Thanks to this, the shareholder value is rising over the long term.

The Bank's dividend policy envisages annual dividend payments of up to 10% of net profit earned in the previous financial year. Dividends on preferred shares must be 20% of their face value, according to the Articles of Association. All dividends are paid in monetary form, net of taxes, within 60 days of the approval of their payment by the General Meeting of Shareholders.

The text of the Provision on Dividend Policy is available on the Bank's website: <http://www.vbank.ru/en/investors/cmanagement/internal/>.

In accordance with a resolution of the General Meeting of Shareholders dated 24 June 2011, shareholders as of the record date on 5 May 2011, at 7 pm Moscow time (the date for establishing the list of persons eligible to participate in the Annual General Meeting of Shareholders), are eligible to receive dividends for 2010.

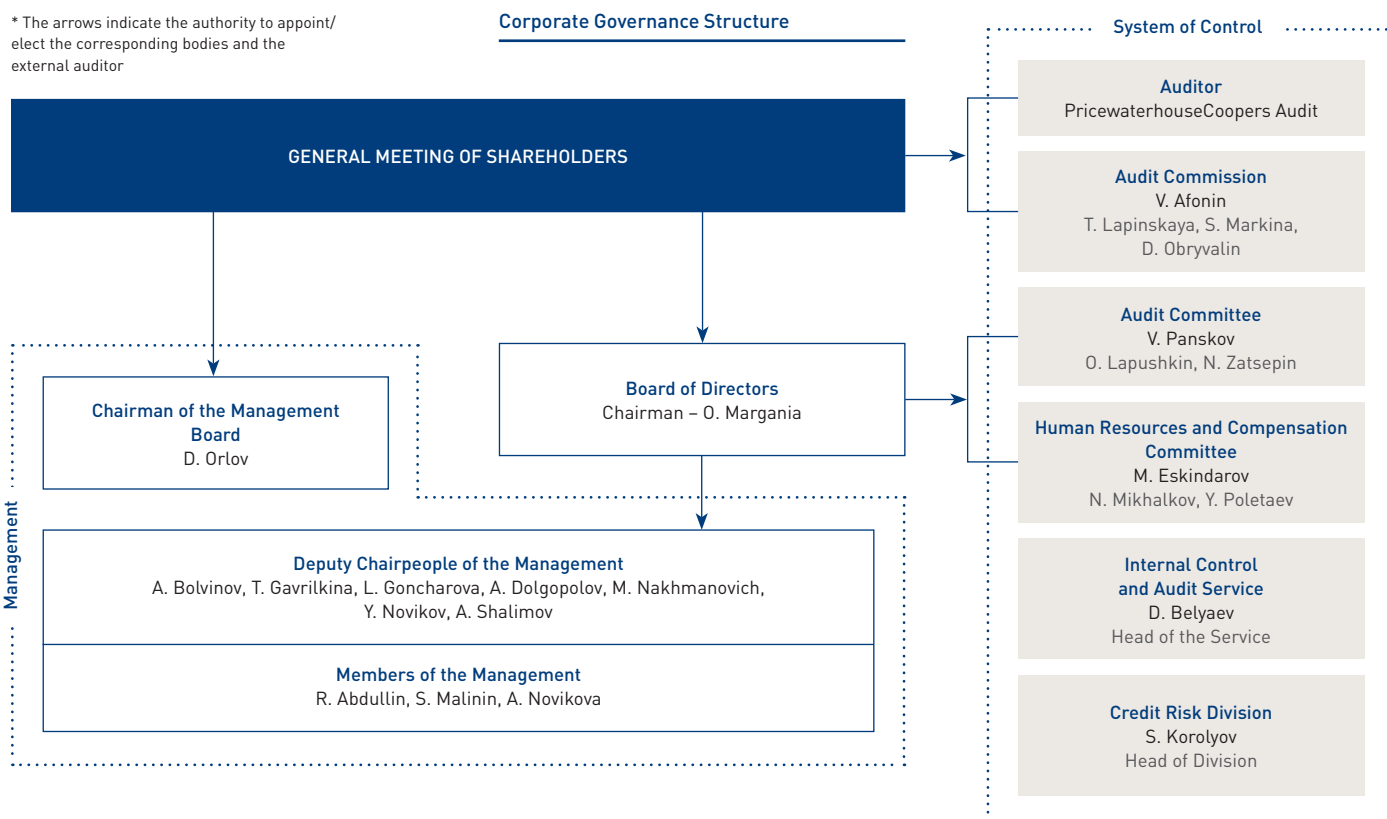
The Dividends declared for last year were:

- 5% of the face value for ordinary non-documentary shares
- 20% of the face value for preferred non-documentary shares with fixed dividend

The total amount of accrued dividends was RUB 14,463,357.

#### Declared and accrued dividends on Bank Vozrozhdenie shares for 2011

	Declared and accrued dividends, %	Amount of declared and accrued dividends, RUB '000
Ordinary shares	5	11,874
Preferred shares (fixed dividend)	20	2,589
Total		14,463



### Insider information

In 2011, the Bank conducted major work to create a system for managing and restricting insider information, ahead of new legislation in this area being introduced in Russia this year.

The Board of Directors developed and approved several underlying documents regulating the Bank's activities to protect insider information. They include the "Procedure for Accessing Insider Information and the Rules for Protecting Its Confidentiality and Ensuring Compliance with Existing Russian Legislation on Preventing the Unlawful Use of Insider Information and Market Manipulation", as well as the "List of Insider Information at the Bank". These documents are available on the Bank's website.

At the instruction of the Chairman of the Management Board, a position has been created to monitor compliance with legislation on protecting insider information. In addition, the Management Board has approved a list of "insiders" at the Bank and appointed a department to maintain it.

### Deals with interested parties

In accordance with a decision by the Annual General Meeting of Shareholders on 24 June 2011, the Bank has concluded certain transactions (loan issuance, guarantees, deposits, and other operations) in respect of which members of the



Board of Directors and the Bank's executive bodies are deemed to be interested parties, in accordance with the Russian Federal Law on Joint-Stock Companies.

The above mentioned transactions were concluded during ordinary business activities. The significant terms of such deals did not differ from the standard terms of similar deals.

The amount of each transaction (a series of related transactions) concluded by the Bank with each of the interested parties did not exceed the limit (RUB 7 billion) approved by the decision of the Annual General Meeting of Shareholders.

The amount of each interested-party transaction bearing credit risk did not exceed the limit of RUB 2.5 billion, while the sum of several interrelated deals with each interested party did not exceed the limit of RUB 5 billion, as approved by the General Meeting of Shareholders.

In 2011, the Bank concluded 397 interested-party transactions totaling RUB 5.906 billion, including:

- loans granted of RUB 1.767 billion
- interbank loans granted/received of RUB 2.8 billion
- guarantees on loan agreements, transactions involving securities, open accreditations and conversion and banknote deals of RUB 1.339 billion

All transactions were conducted on market conditions.

#### Information on major transactions

During 2011, Bank Vozrozhdenie did not carry out any large transactions (as defined by Article 78 of the Federal Law No. 208 On Joint Stock Companies).

## Risk Management

Banking activity involves various specific risks. As the success of the Bank's business depends on them being identified and mitigated promptly, effective risk management is of paramount importance.

Bank Vozrozhdenie's risk management strategy focuses on achieving an optimal balance between profitability and the risks assumed. It has been devised taking into account recommendations of the Central Bank and the Basel Committee on Banking Supervision.

As part of the strategy, work is being conducted to evaluate potential losses, including:

- A system of internal credit ratings for corporate clients
- A data base of historical information for calculating capital at risk
- A methodological base for calculating capital at risk
- An updated method for calculating risks associated with the corporate and retail loan portfolios

The Bank's risk management system takes account of threats both when making management decisions and during day-to-day banking activity. The system is designed to detect, identify and classify potential risks quickly, as well as analyze, measure and assess risk exposure and apply specific methods for managing banking risks. Procedures for assessing and managing risk are integrated into day-to-day business processes.

Bank Vozrozhdenie's main risk management objectives are to mitigate the overall threats to its operations using the resources available, reduce the number of unforeseeable events/losses, evaluate the effectiveness of the business given the risks assumed, and streamline the risk management system.

To evaluate risks, the Bank uses the following key indicators:

- Capital at risk – the maximum possible losses associated with the main types of risk
- Economic capital – the capital necessary to cover overall risk, including potential and materialized

**Andrei Shalimov**  
Deputy Chairman  
of the Management Board:



“IN 2012, WE EXPECT TO DELIVER A STRONG PERFORMANCE IN TERMS OF NET PROFIT, ALTHOUGH GROWTH WOULD BE FROM A HIGHER BASE. THE GLOBAL ENVIRONMENT REMAINS UNCERTAIN, WHICH IS PUTTING PRESSURE ON THE RUSSIAN BANKING SECTOR AS WELL. WE WILL TAKE ALL OPPORTUNITIES TO MAINTAIN DYNAMIC GROWTH, WHILE REMAINING CONSERVATIVE IN OUR RISK PERCEPTION.”

**Richard Mann**  
Head of Auditing Practices for Central and  
Eastern Europe at PricewaterhouseCoopers:



“BANK VOZROZHDENIE IS ONE OF THE FEW BANKS IN RUSSIA WHOSE INTERNATIONAL AUDITOR HAS REMAINED THE SAME FOR ALL OF THESE YEARS. I BELIEVE THAT THE MAIN DRIVERS OF THE BANK’S SUCCESS ARE ITS STRONG TEAM OF MANAGERS, CONSISTENT POLICY, AND SOUND ETHICAL PRINCIPLES.”

In 2011, work to develop the risk management system was conducted in the following key areas:

- Maintain the current level of risk across portfolios in line with the development strategy and resources available for covering risks
- Develop measures to reduce the number of unpredictable events/losses
- Evaluate the effectiveness of the business given the risks assumed
- Meet regulatory requirements for minimizing credit risk

Last year, the Bank adhered to a conservative strategy when evaluating the economic situation and risk management. The main reason for this was the high level of economic uncertainty and instability on financial markets, which substantially hampered efforts to identify trends and make long-term forecasts.

Bank Vozrozhdenie's business is exposed to several risks, the most significant ones being: credit, market, liquidity and operating risk.

### Credit risk

One priority in the Bank's business is effective management of credit risk. Bank Vozrozhdenie defines credit risk as the risk of losses due to non-fulfillment, delayed or incomplete fulfillment by a debtor of his financial obligations, as stipulated by a credit agreement. The Bank assumes credit risks in lending operations with all types of counterparties (corporate clients, financial organizations and individuals).

To manage credit risk, Bank Vozrozhdenie has a system of limits and authorizations to restrict risk and optimize decision-making. The system envisages establishing the maximum size of credit risk per borrower and the overall volume of loan products per body or employee. The authorizations, individual limits and lending conditions are subject to quarterly review and approval by the Management Board.

The Bank has established a Credit and Investment Committee (CIC), which is responsible for managing credit risk efficiently and consists of various bodies and subcommittees:

- The CIC main body is responsible for general issues relating to managing credit risk and defining and implementing credit policy as part of the Bank's approved development strategy
- The CIC small membership deals with issues relating to implementing credit policy when offering products that carry credit risk to clients and when making investments
- The subcommittee on corporate clients is responsible for managing credit risk and implementing credit policy in the corporate segment

- The subcommittee on retail lending is responsible for managing credit risk and implementing credit policy in the retail segment
- The subcommittee on bank cards is responsible for managing credit risk and implementing credit policy when offering bank cards that carry credit risk

Subcommittees, the CIC small membership and branches are authorized to make decisions about accepting credit risk restricting the maximum amount that a debtor can borrow. Subcommittee members include employees of business divisions (Credit, Retail and Bank Cards), depending on the decisions under consideration, as well as employees of the Credit Risk Control, Legal and Economic Security Departments.

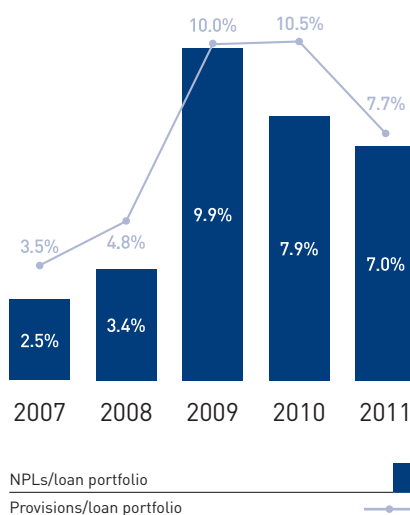
Alongside the system of authorization and decisions, Bank Vozrozhdenie's methods for managing credit risk include a centralized system for setting and regulating interest rates and tariffs, as well as a system for limiting credit risk. In addition to the overall limits, the Bank's credit policy sets planned qualitative and quantitative targets that determine the structure of the corporate loan portfolio by segment, sector and region and the structure of the loan portfolio in terms of currency and duration.

In 2011, as part of the work to streamline the methodological base, a new version of the Regulation on Determining the Independent Credit Limits of Branches was approved. The authorities for branches were established based on set criteria related to compliance with credit risk and profitability of financial and economic activities.

Bank Vozrozhdenie has developed and implemented policies and procedures to avert and minimize losses arising from credit risk. They include:

- Mandatory regular assessment of the financial standing of borrowers and the economic effectiveness of events and projects
- Assessment of the adequacy and liquidity of collateral, objective evaluation of collateral and its insurance by appraisal and insurance companies accredited by the Bank
- Ongoing monitoring of the borrower's fulfillment of his obligations to the Bank and the actual existence of the collateral
- Assessment of credit quality and the level of risk associated with loans
- Procedure for forming provisions against losses on loans and other operations
- Procedure for transferring NPLs to the Department for Legal Enforcement of Payments and completing follow-up work with them
- Procedure for determining and controlling the authority for issuing loans by branches and management bodies within the Bank according to loan size.

## Credit risk



Last year, to prevent and minimize credit risk, the Bank devised and approved a Procedure for Determining Groups of Related Clients and Borrowers. The main aims of the document are to evaluate and mitigate potential credit risks when offering products bearing such risks to individuals and legal entities, as well as streamline the processes of fulfilling Central Bank requirements regarding calculating normal limits and providing mandatory financial reports.

Bank Vozrozhdenie's policy on providing credit to individuals and legal entities changed little last year. As regards legal entities and individual business people, preference was given to SMEs. The criteria involved are:

- The importance, profitability and creditworthiness of a client for the Bank
- The client's business sector
- The Bank's regional policy
- The amount, type, form and purpose of the loan requested.

Throughout 2011, branches and internal divisions of Head Office constantly monitored the activities of borrowers, particularly their financial standing and repayments.

In the case of consumer lending, the Bank analyzes a borrower's financial standing, sources of income and credit history. Preference is given to the following types of clients:

- Staff and managers of large corporate clients of the Bank
- Cardholders and depositors of the Bank

- People with warranted high incomes, a high social status and a decent reputation
- Clients who regularly use Bank services to make payments
- Clients with a good credit history at the Bank.

In 2011, products bearing credit risk were provided to borrowers with adequate and sufficiently liquid collateral, taking into account the Bank's system of discounts depending on type of real estate. Branches conducted regular reviews for adequacy and liquidity. The business activity of a client who has received a loan is constantly monitored by a branch of Bank Vozrozhdenie and, where necessary, by internal divisions of Head Office: the Economic Security Service and Legal Department.

Last year, as part of its risk management strategy, the Bank also considered proposals for automating the collection of primary information and for creating a system of credit ratings. After tests, the decision was made to introduce the Risk Calc software by Moody's Analytics to evaluate the creditworthiness of corporate borrowers.

In addition, as part of the process to streamline the process for allocating loans to individuals, the Bank introduced the Deductor software to analyze applications.

Elsewhere, Bank Vozrozhdenie introduced amendments to stress testing for credit risk. The model for calculating capital exposed to credit risk was changed, moving from a method of maximum losses to scenario analysis based on changes in macroeconomic indicators. The Bank analyzed changes in the default probability indicator for borrowers in relation to the Russian GDP during the crisis. The results formed the basis for a model of calculating capital at risk in the retail and corporate loan portfolio. Stress testing is conducted according to three crisis development scenarios: minor, average and serious. For each of them, a drop in GDP and the amount of capital at risk are determined.

Bank Vozrozhdenie makes provisions against losses on loans, equivalent debt and other operations, in accordance with internal documents.

Control over creating provisions on products bearing credit risk is carried out at the branch level and by the relevant internal divisions of Head Office: the Credit, Retail, and Bank Card departments. Overall supervision is provided by the Department for Credit Risk Control, and subsequent control is the responsibility of the Internal Control and Audit Service.

Throughout last year, the Bank implemented measures to increase the size of its loan portfolio while ensuring an adequate balance between maintaining and enhancing its quality, profitability and credit risks. Thanks to a conservative approach to risk management and improvements in key sectors of the economy, the share of NPLs in the Bank's portfolio fell. The ratio of loan-loss provisions to



the credit portfolio also decreased due to a rise in the latter, despite an increase in provisions in absolute terms.

### Market risk

The Bank is exposed to market risk through open positions in foreign-currency, interest-rate and debt instruments, which are subject to the risk of general and specific changes on the market. It distinguishes the following types of market risk: currency risk (operations on the FOREX market), interest-rate risk (bonds) and equity risk (quoted shares). Each of these is treated separately by the Bank.

Limits are set for each issuer of financial instruments based on the volatility and liquidity of its securities. The volume and structure of the securities portfolio is considered not only as an income source, but also as a tool of current liquidity management. Limits on the interbank market are set according to the financial standing of a counterparty. Limits regarding the risks assumed are monitored on a daily basis.

Foreign-currency, interest-rate and equity risks are monitored by the Management Board, the Assets and Liabilities Management Committee, and the Internal Control and Audit Service, which has constant access to all information at all stages of the management process.

Decisions on managing market risk are made by the Assets and Liabilities Management Committee. It defines the volume and structure of the securities portfolio by assessing the quality of the securities based on capacity to generate income and maintenance of the necessary liquidity. The Bank's market risk is subject to regular stress tests.

Based on the results of stress tests, where necessary, amendments are made to measures to reduce banking risks, including:

- The creation of additional provisions
- Changes in the structure of assets and liabilities
- Changes in the business process to reduce risks.

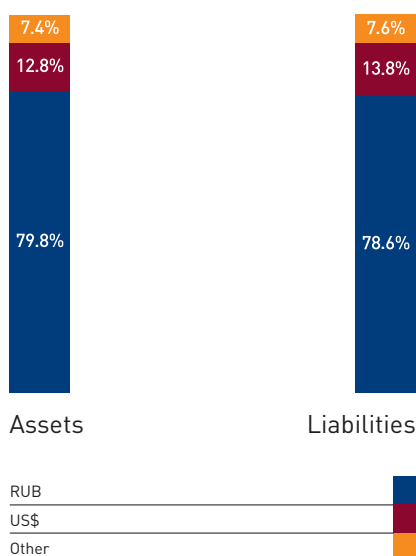
### Interest-rate risk

Interest-rate risk management is aimed at minimizing the negative impact of fluctuations in interest rates on Bank margins. The main objective of interest-rate risk management is to ensure that the Bank achieves an interest margin (the difference between interest obtained from interest-earning assets and interest costs on interest-bearing liabilities) that is sufficient to cover operating costs and ensure profitable operations.

The Bank does not consider interest-rate risk as a source of additional income and does not increase it in response to market expectations. Nonetheless, Bank Vozrozhdenie reacts quickly to any changes in the overall level of interest



## Provisions/loan portfolio



rates and adjusts current base rates on funds received and allocated to meet its targets for interest income.

The Bank has a transfer mechanism for making internal prices for resources. Prices for cash resources within the Bank (purchase and sale of cash between internal divisions) are regulated in accordance with the situation on the short-term capital market. This encourages internal divisions to structure their assets and liabilities in a way that ensures that interest-rate risk is liquid and profitable.

Issues relating to interest-rate risk management are regulated by the quarterly Regulation "On the Main Principles for Managing the Resources of Bank Vozrozhdenie in Rubles and Foreign Currency", as well as the Regulation "On the Procedure for Calculating Interest-Rate Risk at Bank Vozrozhdenie", while the general parameters are defined in the financial plan for the year.

Mortgage loans and the possibility of their early repayment are the main sources of interest-rate risk. The Bank constantly monitors early repayments in its long-term loan portfolio. The volume of early repayments remains immaterial.

The main ways of reducing interest-rate risk are balancing assets and liabilities according to dates of interest-rate adjustment and maturity, as well as reviewing current rates at least once a quarter. Rates may be adjusted during a quarter depending on changes in the Central Bank refinancing rate and rates on financial markets.

Interest-rate risks on loan and deposit operations are assessed using gap analysis on the securities trading portfolio based on the methodology in the

Central Bank Regulation 313-P of 14 November 2007 "On the Procedure for Credit Organizations Calculating the Size of Market Risk". Interest-rate risk is analyzed by the Treasury at least once a month.

#### Currency risk

The main method for assessing and controlling currency risk is calculating open currency positions. The Bank uses Central Bank methodology to estimate the risks from maintaining open positions in foreign currencies.

Bank Vozrozhdenie adheres to a conservative currency policy that strives to restrict currency risk by minimizing open positions. The quality of assets denominated in foreign currency is monitored carefully, particularly the quality of the loan portfolio.

The Bank's policy for managing open positions in foreign currency includes establishing external and internal limits on currency positions as well as controlling compliance with these limits on a daily basis.

Internal management of currency risks includes a procedure for daily revaluation of positions and a system of control over volumes and stop-limits for positions that carry currency risk. The Bank sets limits on cash and term transactions by types of transactions and currencies. All currency operations are within the limits that the Bank sets for counterparties. The Bank sets a stop-loss limit for dealer transactions that restricts losses over a particular period: intraday, five days in a row, and a month.

The Bank periodically carries out a revaluation of assets and liabilities and uses a stress test, which includes calculating potential losses from drastic changes in currency exchange rates. The frequency of such tests depends on the speed at which market conditions are changing and the level of currency risk. Bank Vozrozhdenie regularly analyzes the potential consequences of changes on the market. When evaluating potential profits and losses, it carefully determines possible future foreign-exchange rates and evaluates various situations, including the worst-case scenario.

To limit losses from anticipated changes in currency exchange rates, the Bank uses currency baskets (combinations of currencies in specific proportions). A basket consists of currencies with negatively correlated fluctuations, making the aggregate value of a basket more stable. The most obvious example is a basket consisting of US dollars and euros on the basis of the dual-currency basket of the Central Bank.

Open positions in foreign currency on the spot market are regulated in "today", "tomorrow", and spot transactions within the limits for correspondent banks and the National Clearing Center.

The effect of currency risk on capital is evaluated using the methodology stipulated in Central Bank Regulation No. 313-P of 14 November 2007, "On the Procedure of Calculating the Size of Market Risk for Credit Organizations" and

the internal Regulation “On the Procedure for Bank Vozrozhdenie Calculating the Size of Market Risks”.

#### Stock risk

The Bank conducts transactions involving stocks (local shares, ADRs and GDRs), although this is not a priority area. The volume of its transactions involving debt instruments is also small, so overall stock risk is not significant.

Management of stock risk is regulated by the Regulation “On Managing Stock Risk at Bank Vozrozhdenie (OAO)”. Bank Vozrozhdenie manages its stock risk mainly by establishing and monitoring limits on investments in financial instruments.

The Bank’s system for limiting stock risk includes limits on the securities portfolio (including REPO operations) and separate sub-portfolios of it, as well as resulting limits on the trading portfolio. Given the limited investments and absence of transactions with derivatives, the Bank considers the methods set out in Central Bank Resolution No. 313-P of 14 November 2007, “On the Procedure for Credit Organizations Calculating the Size of Market Risk”, as sufficient for calculating trading portfolio risk.

#### Liquidity risk

Bank Vozrozhdenie has a centralized procedure for managing liquidity. A unified system operates at both internal divisions of the Head Office and branches. Most client operations (cash and settlement service, lending, deposits, etc) are carried out through the branch network. The Head Office carries out operations on financial markets, including international markets.

The liquidity-risk management system complies with both external requirements (standards set by the Central Bank) and with internal limits and operating procedures. These ensure that Bank Vozrozhdenie always has sufficient funds to meet the cash demands of its clients and counterparties in a full and timely fashion, as well as ensuring that the Bank’s business systems run smoothly.

General management and control over Bank liquidity is the responsibility of the Management Board, and is carried out on a permanent basis by the Committee for Asset and Liability Management, which is a working committee of, and subordinate to, the Management Board. Day-to-day liquidity management is carried out by the Treasury, which also regularly conducts liquidity stress tests using various scenarios.

The procedure for interactions between subdivisions and the control mechanism are regulated by the “Policy for Managing and Evaluating the Bank’s Liquidity” and the “Regulation on the Main Principles for Managing the Resources of Bank Vozrozhdenie in Rubles and Foreign Currency”, as well as the financial plan for the year. The documents are approved by the Management Board.

Liquidity risk is managed by matching time limits for returning assets placed and liabilities attracted, as well as maintaining the necessary volume of high-

liquidity funds (cash, balances on correspondent accounts at the Central Bank, interbank lending, REPOs).

Bank Vozrozhdenie adheres to the following basic principles in liquidity management:

- Liquidity management is a constant, day-to-day process
- When making decisions, the Bank always gives priority to liquidity rather than profitability in case of a conflict
- Every transaction that has implications for liquidity must be taken into account when liquidity risk is calculated.

Bank Vozrozhdenie takes strict account of the maturity and size of its investments in various financial instruments. Monitoring of actual and estimated short-term liquidity is carried out daily on the basis of a payment calendar and using projections of short-term cash needs. Calculation of liquidity needs is based on:

- Ongoing compilation and revision of the current payment calendar (the calendar is compiled to reflect needs for one day, one week, one month and three months)
- Periodic (monthly) analysis of gaps regarding the maturity of demands and liabilities.

Bank Vozrozhdenie maintains sufficient liquidity to comply with Central Bank requirements, primarily the standards for instant, current and long-term liquidity detailed in Directive 110-I of 16 January 2004, "On Mandatory Bank Norms". Monitoring of compliance with Central Bank liquidity standards is carried out daily.

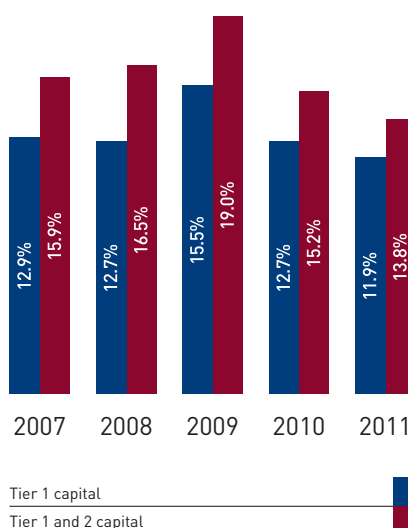
Risk of liquidity loss is analyzed by considering the Bank's dependence on the interbank market, operations by large clients, and concentration of credit risks. To minimize the risk, Bank Vozrozhdenie strives to maintain a stable resource base consisting mainly of corporate and individual deposits and funds from other banks. Particular attention is paid to quality and diversification of assets. To ensure access to refinancing, the Bank is guided by the Central Bank's Lombard List (a list of securities that can be used for REPO operations) when choosing instruments for its securities portfolio.

### Operating risk

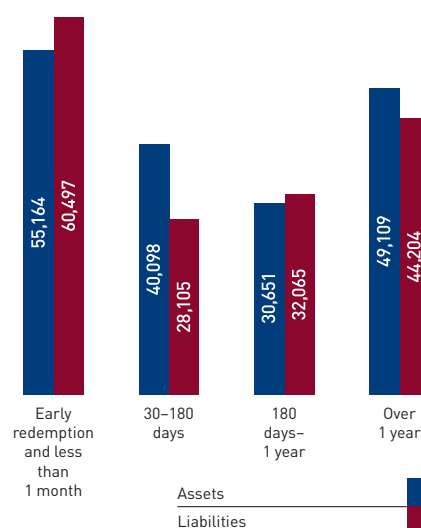
The Bank manages operating risk by implementing measures to mitigate it without having to reduce operations. These include:

- Carefully regulating procedures for conducting all main operations
- Applying principles for separating and restricting functions and responsibilities of employees

Capital adequacy



Assets and liabilities by redemption term, RUB million



- Making collegiate decisions
- Establishing limits for various operations
- Applying internal control procedures to organizing business processes and complying with legislative requirements and internal normative acts
- Ensuring information security.

All divisions of Bank Vozrozhdenie monitor operating risk on a regular basis. Each month, based on an analysis of operating losses borne, a report on uncovered causes of operating risk is submitted. As part of the monitoring, instances of operating risk that do not lead to losses are identified, analyzed and documented.

To minimize operating risk, the Bank has implemented the following measures:

- A banking security system has been devised
- Cash counters have been equipped with alarms and meet all technical requirements
- Work areas of cash and operational employees have alarm buttons, equipment to check watermarks, and books containing examples of signatures
- Premises are equipped with security and fire systems and emergency alarms, including those that go through to the centralized security service or police call center

- All employees have been briefed about evacuation plans in case of an emergency
- Guards and 24-hour CCTV systems have been placed in Bank premises
- All employees involved in the storage and movement of valuables have signed agreements accepting full material responsibility
- Access to IT, electronic payment and data centers is restricted
- A substitution system for IT employees has been established by distributing responsibilities
- A backup of the information data base is kept on a reserve server and maintained
- In case of disruption to the power supply, an independent source of electricity has been organized
- The software for the banking operating system is supported by a firm of developers
- In case of emergencies, a plan has been developed to avoid disruption to the Bank's financial and economic activities.

To minimize operating risk, the Bank has implemented a budgeting system that even at the planning stage identifies the most costly and inefficient operations and determines priority areas of client policy.

Bank Vozrozhdenie pays particular attention to establishing and observing procedures for monitoring its business, preparing accurate financial reports and providing all of the necessary information about its activities in a timely manner.

As regards information security, particular attention is paid to meeting Russian legislation regarding the protection of banking information, commercial secrets and clients' personal details. As part of this, the Bank has all of the necessary licenses, which cover all branches.

The Bank plays an active role in the work of the Association for Banking Information Security Standards (ABISS) and is also one of the first in the banking sector to have received a license from the Russian Federal Service for Technical and Export Control (FSTEK) to protect confidential information. The Bank's specialists have devised special methodologies for auditing information security and certifying in-house IT infrastructure. The FSTEK license applies to all branches.

In addition, an information security audit is conducted on an ongoing basis. This reduces operating risks and ensures a level of information security that is in line with the requirements of state regulatory bodies.

To hedge operating losses, Bank Vozrozhdenie uses a broad range of insurance instruments. It has taken out a Bankers Blanket Bond, Directors and Officers Liability Insurance, and special cover for transporting valuables. Its property (including IT, furniture and other items) is covered by the largest insurance companies in Russia.

In 2011, the Bank's external operating risk increased, and there were cases of vandalism and equipment being damaged, including third-party ATMs. In addition, there were situations linked to systems and technological factors, including disruptions to software systems and modules and telecommunications system.

### Country risk

The Bank's main activities involve providing services to residents in Russia. Country risk arises primarily when carrying out transactions involving foreign currency: settlement, credit, guarantee and trading transactions in securities.

Management of country risk is regulated by the Regulation "On Organizing the Management of Country Risk at Bank Vozrozhdenie". The Treasury is responsible for monitoring country risk.

To evaluate country risk, the Bank uses ratings from S&P and Moody's and classifications from Central Bank documents. The level of country risk that is acceptable for the Bank is '0' and '1', according to the classification of the export credit agencies that are signatories to the agreement with OECD member states, "On the Main Principles of Providing and Using Export Credits with Official Support"; and a rating of at least 'BBB' according to S&P's system or the equivalent Moody's rating; while countries in the first group of offshore territories in Central Bank Regulation No. 1317-U, dated 7 August 2003, are also acceptable.

All other risks are subject to individual examination and evaluation until a transaction is completed, while adequate provisioning must be made. As a rule, country risk is analyzed when reviewing applications for loans and bank guarantees and when implementing currency control.

## Social Responsibility

As its future is inextricably linked to the wellbeing of society, Bank Vozrozhdenie implements numerous charity and sponsorship programs, extending the scope each year. It seeks to support long-term projects that can have a positive effect on Russian society in the long term. The main social priorities are education, culture, art and sport.

### Education and youth development

The Bank traditionally supports initiatives to foster the creative potential of Russia's younger citizens. In 2011, it provided support for the "Look at Childhood" social project and competition, which was organized by Volzhsky city administration in Volgograd Region. The aim of the event was to find and support young, talented workers in the city's general and pre-school education system and raise the prestige of the teaching profession.

Last year, the Bank continued to support the most promising students at leading Russian universities and institutes. In particular, it awarded scholarships to students from the Government's University of Finance, Rostov State University of Economics, Stavropol State University and Magadan NorthEastern State University. Over the year, employees shared their expertise and knowledge with students in final years gaining work experience at the Bank. The best students were offered positions in the Bank.

In April 2011, Bank Vozrozhdenie played an active role in a municipal competition of students' work on creating a competitive financial market in Krasnodar. It presented awards to the winners and, more importantly, gave the best students the opportunity to undergo work experience at the Bank.

In the summer, Bank Vozrozhdenie provided support to graduates from middle schools in the Chekov district of Moscow Region, giving 51 of them debit cards with a decent sum of money on account. As such, the best students were able to pay for goods and services at points of sale, make deposits, and withdraw cash from ATMs.

### Art and culture

Bank Vozrozhdenie supports projects by museums and theaters as well as historical and cultural preservation endeavors.

In 2011, as in previous years, the Bank sponsored the Easter Festival, which aims to support disadvantaged sections of society, students and war veterans. Some 122 concerts of symphonic, choir, chamber and classical music were held in over 30 cities in Russia and several in the CIS.



Alexander Bolvinov

Deputy Chairman  
of the Management Board:



“THE BANK’S HR POLICY AIMS TO MAXIMIZE THE POTENTIAL OF EVERY EMPLOYEE. OUR PRIORITIES REMAIN INTACT – WE WILL KEEP MOTIVATING EMPLOYEES FURTHER, TRAINING PERSONNEL TO PROVIDE HIGH-QUALITY CLIENT SERVICE, HELPING STAFF TO OBTAIN FURTHER PROFESSIONAL QUALIFICATIONS, AND REINFORCING THE CORPORATE CULTURE.”

Valery Gergiyev

Russian conductor, national artist, and  
artistic director of the Mariinsky Theater  
and the Moscow Easter festival:



“BANK VOZROZHDENIE HAS PROVIDED UNWAVERING SUPPORT FOR OUR CONCERTS IN MOSCOW FOR MANY YEARS. IT IS A GREAT PLEASURE FOR ME TO SEE THE ORGANIZATION PAYING SUCH ATTENTION TO SOCIAL PROJECTS. TODAY, WE ARE UNITED BY NOT ONLY COMMON PROJECTS, BUT FRIENDLY RELATIONS AS WELL!”

The Bank was also the general partner of a concert by the world-famous state chamber orchestra Virtuosos of Moscow, led by Vladimir Spivakov, in Volgograd and the general sponsor of a festival of songs and poems by Vladimir Vysotsky in Saransk. In addition, in the capital of Mordovia, the Bank sponsored the World Folk Dancing Championship, in which over 2,500 performers and dance collectives took part from various countries and over 50 regions and cities in Russia.

In the winter, Bank Vozrozhdenie supported the White Columns film festival, which traditionally takes place in the Domodedovo district of Moscow Region. It featured a unique program of archive material from the state film collection, a treasure trove of national and world cinema consisting of over 44,000 titles. Around 300 cinematographers from Russia and the Middle and Far East took part.

In spring 2011, the Bank was a partner in the Platonov International Festival in Voronezh, which aims to be a cultural bridge between Voronezh Region and other areas in the country and worldwide. The main objective of the event, which was being held for the first time, was to show the creative experiments formed from the literary heritage, or dedicated to the work, of author Andrei Platonov.

In May, Bank Vozrozhdenie supported "The Victors' Parade" in Volgodonsk. Together with the newspaper *Volgodonskaya Pravda* and the Rainbow House of Arts and Crafts, it also founded a state competition of literature and art for young people called "Thanks for Victory!" Its main aim is to preserve the memory of World War II heroes.

In June, the Bank was a partner of the "Illusions of the Old City" celebration, timed to coincide with City Day in Petrozavodsk, for the second time. During the event, a unique quarter of the old town was transformed into a historic theater: participants wandered the streets dressed as peasants from the late 19th and early 20th centuries, while there were familiar symbolic scenes from city life of that era.

Also in June, the Young Tula festival, dedicated to National Young People's Day, was held in Tula, and Bank Vozrozhdenie was general partner. The program included various events: a concert by young performers and winners of municipal and regional festivals, a sports day, a hip-hop festival, and an exhibition and trade fair organized by young economic companies.

In December, the Bank sponsored the "First Frames" photo exhibition by the Kommersant publishing house in Nizhny Novgorod, which showed the best shots from the publication. In addition, last year, the Bank played an active role in preparing for and celebrating the 865th anniversary of Tula, the 425th anniversary of Voronezh and the 230th anniversary of Istra.

#### [Supporting business forums and competitions](#)

In 2011, Bank Vozrozhdenie supported leading events aimed at developing financial services and entrepreneurship in Russia. In June, it was a

partner in the 10th International Postal Delivery Forum in St. Petersburg. It featured discussions about current development issues in the information communication sector, the modernization of traditional post services and the creation of related businesses.

Meanwhile, the Bank was a general sponsor of the first annual regional competition Entrepreneur of the Year in Karelia. It also supported the International Forum for Young Entrepreneurs' Companies (known as SMP in Russian) in Yaroslavl and the First Investment Forum in the Kolomenskoye district of Moscow Region.

#### Charity

Last year, the Bank made a major contribution to the "Give Life" fund, which helps children with cancer. The funds were used to buy vital equipment, infusion devices, for the Dmitry Rogachyov Federal Scientific and Clinical Center for Pediatric Hematology, Oncology and Immunology. In addition, some of the funds were used to pay for the work of the psychology service of the Russian Children's Clinical Hospital.

The Bank also took part in various regional charity events in Khabarovsk, Podolsk and other cities where it is present.

## Human Resources

Bank Vozrozhdenie is committed to developing the full potential of all employees. Its key HR priorities are creating decent working conditions and adequate material stimulation, providing quality professional training, creating possibilities for career growth, and training staff to provide quality customer service. Its HR policy also aims to encourage internal transfers that enhance the efficiency of internal communications and reduce the non-production expenses of work time.

The Bank seeks to attract the best people. When selecting employees, preference is given to people with a higher education, practical experience in banking, and a professional approach to solving production issues. Last year, the headcount reached 6,671 people, of which 59% had a higher professional education. The average age was 39 years, while staff turnover was 16.7%.

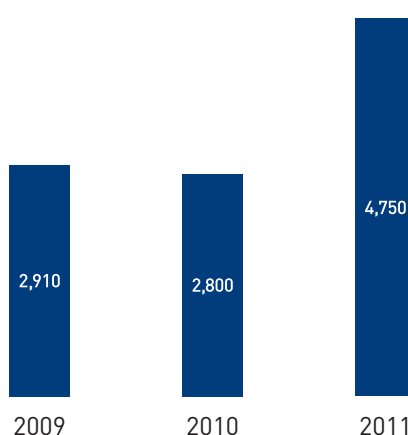
A key element in supporting the motivation of employees is fair material remuneration. Employees receive a decent compensation package that is reviewed annually. In 2011, the average salary at Bank Vozrozhdenie rose by 17% year-on-year. In 2012, the Bank plans to continue streamlining the employee motivation system, which is based on ways of encouragement for results achieved.

One HR priority is training employees and helping them to acquire additional qualifications. The main ways used at the Bank are electronic distance learning (electronic courses), distance studying online (webinars) and external training (seminars, trainings, etc).

The most popular system at the Bank is distance learning, through which some 4,750 employees gained additional qualifications in 2011, up 69% year-on-year. Nineteen courses were run, the most popular of which were "Principles of Communication for Employees of the Bank", "Principles of Ensuring Information Security at the Bank", "Signs of Counterfeiting and Rules for Checking the US Dollar", "Rules for Accepting Damaged Foreign Banknotes" and "Combating the Legalization (Laundering) of Income Obtained Illegally and Financing of Terrorism". All employees of the Bank have access to the "Training and Development Portal" and may take part in a discussion about any professional issue.

There are two types of courses at Bank Vozrozhdenie: those held in-house and those at higher education institutions. Last year, over 2,150 employees went on courses. The most popular included "Training in a New Banking Product – the 'Vbank With You' Service", "Retail Business", "Lending to Corporate Clients:

Employees who underwent distance learning  
in 2011, number



Current Issues, Practical Knowledge”, “Enhancing the Efficiency of Sales to Corporate Clients”, and “Insuring Borrowers”.

Last year, training of heads of business divisions continued using the four-module Effective Manager program, which over 110 people underwent. This year, the Bank plans to introduce several new training programs for managers.

The Bank pays particular attention to its program for creating a talent pool from its employees. Its aim is to ensure that freed or newly created managerial positions can be filled efficiently. Last year, the work continued to organize a modern mechanism for promoting promising employees to managerial positions.

Bank Vozrozhdenie actively develops partnerships with further and higher education institutions. In particular, it has close relations with the State Academy of Finance, North-West State University, Rostov-on-Don State University of Economics, and Stavropol State University, among others. In 2011, 28 students from these institutions received a grant from the Bank and around another 40 students underwent work experience.

## Environment

Bank Vozrozhdenie makes every effort to minimize any negative effect of its business on the natural world around us and reduce its consumption of resources that are vital for operating activities.

The current business has little impact on the environment, as it involves providing banking services, which do not generate emissions into the atmosphere or the water supply. At the same time, the Bank recognizes that it has an indirect effect on the environment through its use of heat and electricity. It has an automated system that measures energy resources used, as well as a system for controlling traffic and equipment, and it identifies any irrational use of energy and implements the measures needed to avoid them. Every five years, the Bank hires a specialist organization to conduct an energy audit, and the next one is scheduled for 2012.

Bank Vozrozhdenie is gradually switching to more economic lighting sources. Head Office and 45% of branches now use energy-saving light bulbs.

In 2011, the air-conditioning equipment in all Bank premises was replaced with more modern, economic and safe units.

Each year, ahead of the autumn and winter season, measures are undertaken to reduce the loss of heat from Bank buildings and the insulation of the heating system is replaced. The Bank does everything possible to minimize heat losses from offices and branches and thus avoid the irrational use of natural resources.

Meanwhile, the Bank is taking steps to reduce its paper consumption, including phasing in electronic document processing, as well as introducing modern banking technologies and self-service equipment. In 2010, the volume of paper used was reduced by 1%. Paper documents are kept in the archive for a certain period, after which they are sent to special enterprises for recycling.

Bank Vozrozhdenie pays particular attention to the environmental characteristics of its vehicle fleet, striving both to reduce fuel consumption and use the most efficient vehicles. At present, more than 50% of its vehicles comply with Euro-4 standards.

The Bank follows the necessary procedures for disposing of waste and equipment properly. Bulbs, outdated electronic equipment and batteries are sent to specialist companies for correct disposal, while tires and vehicle accessories are recycled for subsequent use in various industries.

# Financial Statements

Summary Consolidated Financial Statements Derived  
from the Audited International Financial Reporting  
Standards Consolidated Financial Statements and  
Independent Auditor's Report

31 December 2011



ZA0 PricewaterhouseCoopers Audit,  
White Square Office Center, 10 Butyrsky Val,  
Moscow, Russia, 125047

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## **REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS**

To the Shareholders and Board of Directors of Bank Vozrozhdenie:  
The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as at 31 December 2011 and the summary consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended are derived from the audited consolidated financial statements of Bank Vozrozhdenie and its subsidiary (the "Group") for the year ended 31 December 2011. We expressed an unmodified audit opinion on those consolidated financial statements in our report dated 26 March 2012.

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards ("IFRS"). Reading the summary financial statements, therefore, is not a substitute for reading the audited consolidated financial statements of the Group prepared in accordance with IFRS.

### **Management's responsibility for the summary consolidated financial statements**

Management of the Group is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in Note "Basis for Preparation".

### **Auditor's responsibility**

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

### **Opinion**

In our opinion, the summary consolidated financial statements derived from the audited consolidated financial statements of the Group for the year ended 31 December 2011 are consistent, in all material respects, with those consolidated financial statements, on the basis described in Note "Basis for Preparation".

26 March 2012  
Moscow, Russia



Summary Consolidated Financial Statements Derived  
from the Audited International Financial Reporting  
Standards Consolidated Financial Statements and  
Independent Auditor's Report  
31 December 2011

## SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In millions of Russian Rubles	31 December 2011	31 December 2010
<b>ASSETS</b>		
Cash and cash equivalents	37 755	32 151
Mandatory cash balances with the CBRF	1 939	1 072
Trading securities	7 347	12 182
Due from other banks	967	5 860
Loans and advances to customers	124 383	104 046
Investment securities available for sale	1 377	2 043
Property, equipment and intangible assets	3 048	3 132
Other financial assets	1 254	1 644
Non-current assets classified as held for sale	975	106
Other assets	4 843	3 922
<b>TOTAL ASSETS</b>	<b>183 888</b>	<b>166 158</b>
<b>LIABILITIES</b>		
Due to other banks	8 202	7 772
Customer accounts	145 142	130 334
Debt securities in issue	6 722	5 794
Subordinated loans	4 217	4 293
Other financial liabilities	588	611
Other liabilities	555	494
<b>TOTAL LIABILITIES</b>	<b>165 426</b>	<b>149 298</b>
<b>EQUITY</b>		
Share capital	250	250
Share premium	7 306	7 306
Retained earnings	10 807	9 227
Other reserves	99	77
<b>TOTAL EQUITY</b>	<b>18 462</b>	<b>16 860</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>183 888</b>	<b>166 158</b>

Approved for issue and signed on behalf of the Board of Directors on 26 March 2012.

D.L. Orlov  
President



A.A. Novikova  
Chief Accountant



The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from Bank Vozrozhdenie upon request.

Summary Consolidated Financial Statements Derived  
from the Audited International Financial Reporting  
Standards Consolidated Financial Statements and  
Independent Auditor's Report  
31 December 2011

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In millions of Russian Rubles	2011	2010
Interest income	13 959	13 600
Interest expense	(6 503)	(8 109)
<b>Net interest income</b>	<b>7 456</b>	<b>5 491</b>
Provision for loan impairment	(2 304)	(1 872)
<b>Net interest income after provision for loan impairment</b>	<b>5 152</b>	<b>3 619</b>
Fee and commission income	5 232	4 295
Fee and commission expense	(410)	(360)
Gains less losses / (Losses less gains) from trading securities	7	(90)
Gains less losses from trading in foreign currencies	420	345
Foreign exchange translation losses less gains	(50)	(24)
Gains less losses from disposals of investment securities available for sale	12	15
Dividend income	3	2
Other operating income	219	225
Administrative and other operating expenses	(8 353)	(7 180)
Provision for impairment of other assets	(216)	(121)
<b>Profit before tax</b>	<b>2 016</b>	<b>726</b>
Income tax expense	(422)	(145)
<b>PROFIT FOR THE YEAR</b>	<b>1 594</b>	<b>581</b>
<b>Other comprehensive income:</b>		
Available-for-sale investments:		
Gains less losses/(Losses less gains) arising during the year	32	(5)
(Expense)/Income tax credit recorded directly in other comprehensive income	(10)	12
<b>Other comprehensive income for the year</b>	<b>22</b>	<b>7</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1 616</b>	<b>588</b>
<b>Earnings per share for profit attributable to the equity holders of the Bank, basic (expressed in RR per share)</b>		
Ordinary shares	64	23

The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from Bank Vozrozhdenie upon request.

Summary Consolidated Financial Statements Derived  
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31 December 2011

## SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In millions of Russian Rubles	Share capital	Share premium	Revaluation reserve for available-for-sale investments	Retained earnings	Total equity
Balance as at 31 December 2009	250	7 306	70	8 660	16 286
Profit for the year	-	-	-	581	581
Other comprehensive income	-	-	7	-	7
Total comprehensive income for 2010	-	-	7	581	588
Dividends declared	-	-	-	(14)	(14)
Balance as at 31 December 2010	250	7 306	77	9 227	16 860
Profit for the year	-	-	-	1 594	1 594
Other comprehensive income	-	-	22	-	22
Total comprehensive income for 2011	-	-	22	1 594	1 616
Dividends declared	-	-	-	(14)	(14)
Balance at 31 December 2011	250	7 306	99	10 807	18 462

The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from Bank Vozrozhdenie upon request.

Summary Consolidated Financial Statements Derived  
from the Audited International Financial Reporting  
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Independent Auditor's Report  
31 December 2011

## SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of Russian Rubles	2011	2010
Cash flows from operating activities		
Interest received	14 660	13 199
Interest paid	(6 601)	(8 448)
Fees and commissions received	5 244	4 267
Fees and commissions paid	(410)	(360)
Net losses paid/income received from trading in trading securities	(32)	19
Net income received from trading in foreign currencies	420	345
Other operating income received	178	217
Administrative and other operating expenses paid	(7 708)	(6 575)
Income tax paid	(825)	(633)
Cash flows from operating activities before changes in operating assets and liabilities	4 926	2 031
Changes in operating assets and liabilities		
Net increase in mandatory cash balances with the Central Bank of the Russian Federation	(867)	(204)
Net decrease/(increase) in trading securities	4 920	(2 541)
Net decrease in due from other banks	4 912	506
Net increase in loans and advances to customers	(24 039)	(20 568)
Net decrease/(increase) in other financial assets	407	(425)
Net (increase)/decrease in other assets	(213)	148
Net increase in due to other banks	215	3 126
Net increase in customer accounts	13 773	17 978
Net increase/(decrease) in debt securities in issue	819	(333)
Net (decrease)/ increase in other financial liabilities	(24)	26
Net (decrease)/increase in other liabilities	(110)	41
Net cash from/(used in) operating activities	4 719	(215)

In millions of Russian Rubles	2011	2010
<b>Cash flows from investing activities</b>		
Acquisition of investment securities available for sale	(762)	(1 589)
Proceeds from disposal of investment securities available for sale	1 491	876
Acquisition of premises, equipment and intangible assets	(442)	(511)
Proceeds from disposal of premises, equipment and intangible assets	15	8
Proceeds from disposal of non-current assets held for sale	38	63
Proceeds from disposal of investment properties	181	7
Dividend income received	3	2
<b>Net cash from/(used in) investing activities</b>	<b>524</b>	<b>(1 144)</b>
<b>Cash flows from financing activities</b>		
Receipt of funding from international financial institution	-	407
Repayment of subordinated loans	(226)	(395)
Receipt of subordinated loans	-	91
Dividends paid	(14)	(14)
<b>Net cash from financing activities</b>	<b>(240)</b>	<b>89</b>
Effect of exchange rate changes on cash and cash equivalents	601	(680)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5 604</b>	<b>(1 950)</b>
Cash and cash equivalents at the beginning of the year	32 151	34 101
<b>Cash and cash equivalents at the end of the year</b>	<b>37 755</b>	<b>32 151</b>

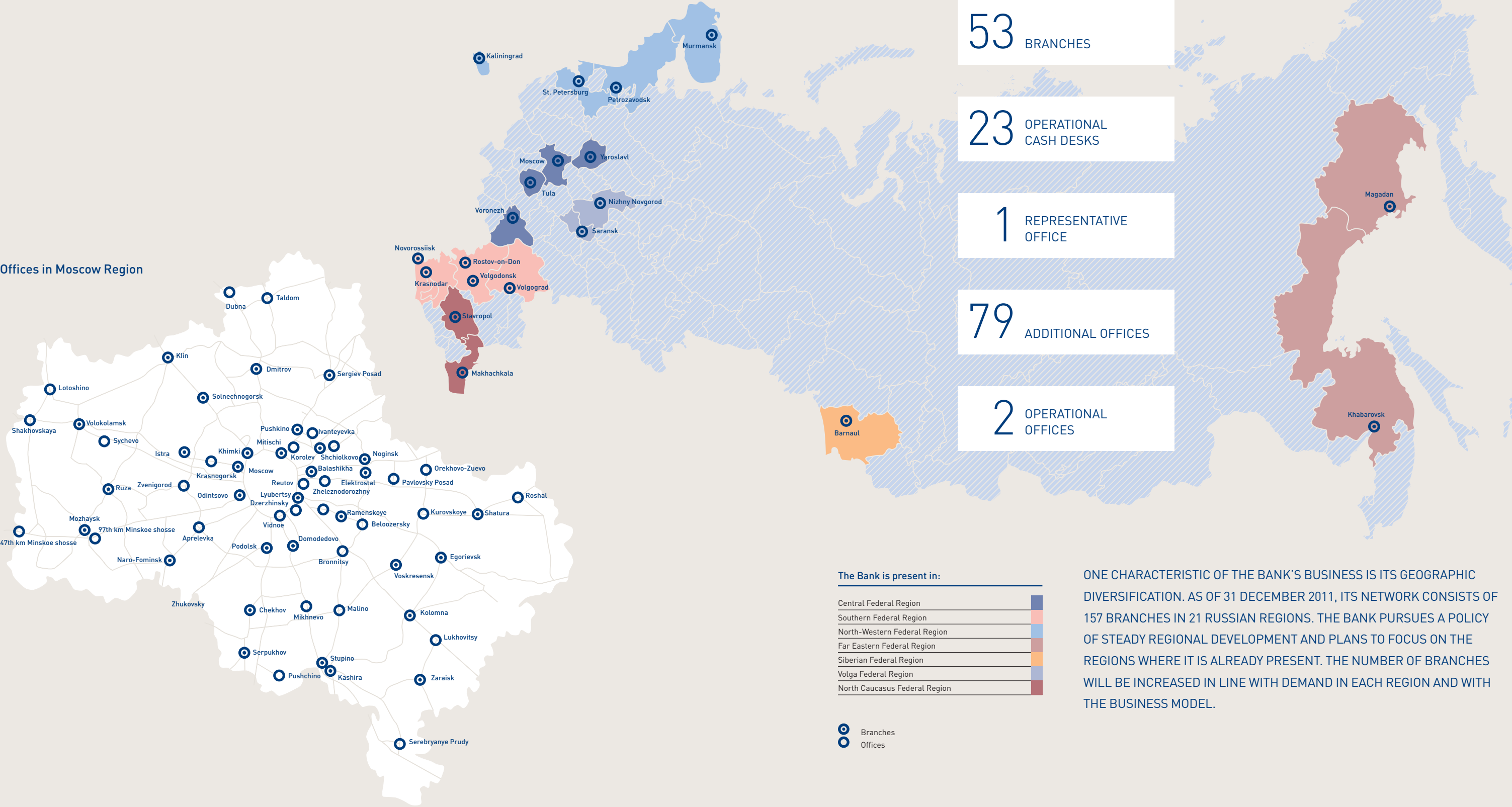
### Basis for preparation

These summary consolidated financial statements of Bank Vozrozhdenie and its subsidiary (the "Group") have been prepared by extraction, without any modification, of the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows from the consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from Bank Vozrozhdenie upon request at Luchnikov pereulok, 7/4 bld. 1, 101990, Moscow, Russian Federation.

The consolidated financial statements, from which the summary consolidated financial statements have been derived, are available from Bank Vozrozhdenie upon request.

# Branches in Russia



## Offices of Vozrozhdenie Bank

### Offices of Moscow City

#### Central Branch

7/4, bldg. 1, Luchnikov Per., GSP,  
Moscow, 101990

**Ms. Natalia V. Barkhotkina**

#### Operational Cash Desk:

2, bldg. 1, Novovladykinsky Proezd,  
Moscow, 127106

#### Ilyinsky

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17 December 2002

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**Sectoral Code for Tax Status (KPP):** 775001001

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