

**Bank “National Factoring Company”
(CJSC)
Financial Statements**

Year ended 31 December 2010

Together with Independent Auditors' Report

Independent auditors' report

To the Shareholders and Board of Directors of Bank "National Factoring Company" (CJSC) –

We have audited the accompanying financial statements of Bank "National Factoring Company" (CJSC), which comprise the statement of financial position as of 31 December 2010, statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

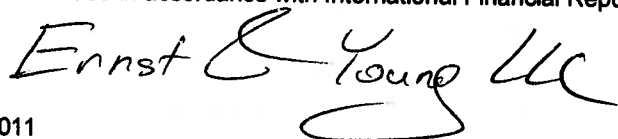
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank "National Factoring Company" (CJSC) as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



29 April 2011

Statement of financial position**As of 31 December 2010***(Thousands of Russian Rubles)*

	Notes	2010	2009
Assets			
Cash and cash equivalents	5	340,219	523,083
Trading securities	6	—	22,541
Amounts due from credit institutions	7	945,301	525,949
Factoring advances and loans	8	5,852,966	3,962,081
Current income tax asset		9,262	21,071
Deferred income tax asset	9	3,424	1,380
Other assets	10	79,710	103,559
Total assets		7,230,882	5,159,664
Liabilities			
Amounts due to the Central Bank		—	507,069
Amounts due to credit institutions	11	3,729,709	1,438,672
Debt securities issued	12	276,468	40,913
Settlements with clients on factoring		42,374	59,434
Current accounts of customers	14	51,613	—
Time deposits of customers	13	397,036	266,047
Borrowed funds from foreign financial institutions	8	—	214,378
Other liabilities	10	59,933	57,791
Total liabilities		4,557,133	2,584,304
Equity			
Share capital	15	1,456,000	1,456,000
Retained earnings		1,217,749	1,119,360
Total equity		2,673,749	2,575,360
Total equity and liabilities		7,230,882	5,159,664

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

Roman V. Ogonkov



Chairman of the Management Board

Alexey G. Bryndin



Chief Accountant

29 April 2011



The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

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Statement of comprehensive income**For the year ended 31 December 2010***(Thousands of Russian Rubles)*

	Notes	2010	2009
Interest income			
Factoring advances	17	878,021	1,052,434
Loans		118,534	138,019
Due from credit institutions		58,597	76,163
Trading securities		8,922	10,234
		1,064,074	1,276,850
Interest expense			
Amounts due to credit institutions		(116,802)	(304,732)
Debt securities issued		(42,863)	(123,772)
Deposits		(36,684)	(7,911)
Other		(1,499)	(32,171)
		(197,848)	(468,586)
Net interest income		866,226	808,264
Allowance for loan impairment	8	(110,453)	(176,176)
Net interest income after allowance for loan impairment		755,773	632,088
Net fee and commission expense	18	(3,707)	(5,741)
Net gains from trading securities		2,504	29,489
Net gains/(losses) from foreign currencies:			
- dealing		13,383	2,549
- translation differences		(17,291)	(19,113)
Other income/(expense)	18	4,032	(11,393)
Non-interest expense		(1,079)	(4,209)
Personnel expenses	19	(395,879)	(335,849)
Other operating expenses	19	(175,977)	(174,161)
Depreciation		(4,610)	(4,742)
Non-interest expense		(576,466)	(514,752)
Profit before income tax expense		178,228	113,127
Income tax expense	9	(54,839)	(36,812)
Profit for the year		123,389	76,315
Other comprehensive income		-	-
Total comprehensive income for the year		123,389	76,315

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

Statement of changes in equity**For the year ended 31 December 2010***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
31 December 2008		1,456,000	1,043,045	2,499,045
Total comprehensive income for the year		–	76,315	76,315
31 December 2009		1,456,000	1,119,360	2,575,360
Total comprehensive income for the year		–	123,389	123,389
Dividends to shareholders of the Bank		–	(25,000)	(25,000)
31 December 2010	15	1,456,000	1,217,749	2,673,749

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

Statement of cash flows**For the year ended 31 December 2010***(Thousands of Russian Rubles)*

	<i>Notes</i>	2010	2009
Cash flows from operating activities			
Interest received, fees and commissions received		1,066,845	1,332,475
Interest, fees and commissions paid		(193,092)	(508,692)
Gains less losses from trading securities		2,504	7,493
Realised gains less losses from dealing in foreign currencies		13,383	2,549
Other income/expense received		4,591	(10,371)
Personnel expenses paid		(353,756)	(292,793)
Other operating expenses paid		(174,529)	(174,158)
Cash flows from operating activities before changes in operating assets and liabilities		365,946	356,503
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		22,541	153,705
Amounts due from credit institutions		(461,075)	3,785
Factoring advances and loans		(1,952,384)	2,118,943
Other assets		(12,852)	27,683
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to Central Bank and Government		(500,000)	(1,020,000)
Amounts due to credit institutions		2,235,823	(1,046,967)
Settlements with clients on factoring		(7,957)	(49,895)
Current accounts of customers		51,613	-
Time deposits of customers		131,035	260,000
Promissory notes issued		35,000	-
Other liabilities		(215,555)	185,673
Net cash flows from operating activities before income tax		(307,865)	989,430
Income tax paid		(44,550)	(17,732)
Net cash from/(used in) operating activities		(352,415)	971,698
Cash flows from investing activities			
Disposal of subsidiary, net of cash acquired		(1,632)	-
Purchase of property and equipment		(8,915)	(2,549)
Proceeds from sale of property and equipment		1,602	898
Net cash from/(used in) investing activities		(8,945)	(1,651)
Cash flows from financing activities			
Proceeds from bonds issued		232,000	-
Redemption of bonds issued		(35,248)	(2,264,387)
Dividends paid to shareholders of the Bank		(25,000)	-
Net cash from/(used in) financing activities		171,752	(2,264,387)
Effect of exchange rates changes on cash and cash equivalents		6,744	24,891
Net decrease in cash and cash equivalents		(182,864)	(1,269,449)
Cash and cash equivalents, beginning		523,083	1,792,532
Cash and cash equivalents, ending	5	340,219	523,083

The accompanying notes on pages 5 to 30 are an integral part of these financial statements.

(Thousands of Russian Rubles)

1. Principal activities

Bank "National Factoring Company" (CJSC) (the "Bank") was formed in 2003 as a limited liability company under the laws of the Russian Federation. On 21 December 2006 the Bank registered with the CBR the change in its legal form from limited liability company to closed joint stock company (CJSC). The Bank operates under a banking license issued by the Central Bank of Russia ("CBR") in December 2006.

As of 31 December, the following shareholders owned the outstanding shares.

Shareholder	2010, %	2009, %
Salerna LLC	50.00007	50.00000
Centerryboproduct LLC	49.99993	50.00000
Total	100.00000	100.00000

The Bank is ultimately controlled by Mr Nickolai Tsvetkov.

The Bank's core operations are factoring services, including financing transactions against cash cession and other transactions with trade receivables of business entities in the Russian Federation and abroad. The Bank acts as a factor for Russian and foreign legal entities and as an import factor for foreign factoring companies. The Bank is a member of Factors Chain International (FCI), International Factors Group (IFG) – special professional associations of the global factoring market, as well as EEFA (East European Factoring Association) and Association of Factoring Companies. The Bank is one of the leaders in the Russian factoring market.

As of 31 December 2009 the Bank had a 100% owned subsidiary (NFC-Premium). As of 15 March 2010 the Bank sold the subsidiary (Note 18). As of 31 December 2010 the Bank had not owned any subsidiaries.

The Bank's main office is located in Moscow and it has 20 operating outlets in the Russian Federation. The Bank's registered legal address is 14 Kozhevnikeskaya Street, Moscow, Russia, 115114. The Bank had an average of 337 employees during 2010 (2009 – 363) and 393 employees as of 31 December 2010 (2009 – 377).

2. Basis of preparation

General

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

The Bank is required to maintain its records and prepare its financial statements for regulatory purposes in Russian Rubles in accordance with Russian accounting and banking legislation and related instructions ("RAL"). These financial statements are based on the Bank's RAL books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation between RAL and IFRS is presented later in this note.

The financial statements have been prepared under the historical cost convention. These financial statements are presented in thousands of Russian Rubles ("RUB"), unless otherwise indicated.

Reconciliation of RAL and IFRS equity and profit for the year

Equity and profit for the year are reconciled between RAL and IFRS as follows:

	2010		2009	
	Equity	Profit for the year	Equity	Profit for the year
Russian Accounting Legislation (combined)	2,520,782	137,672	2,417,550	74,614
Capitalisation of distribution from funds	152,700	–	152,700	–
Effect of disposal/consolidation of subsidiaries	–	(11,598)	–	(1,022)
Effect of accrued interest	(21,858)	14,961	(36,824)	(18,163)
Impairment of financial assets	173,807	20,862	152,944	63,712
Accrual of additional compensation benefit	(152,700)	(40,222)	(112,478)	(41,273)
Fair value re-measurement of securities	–	–	2,704	20,776
Deferred tax	3,424	1,504	1,380	(19,775)
Other	(2,406)	210	(2,616)	(2,554)
International Financial Reporting Standards	2,673,749	123,389	2,575,360	76,315

(Thousands of Russian Rubles)

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

IAS 24 Related party disclosures (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. These amendments did not have any impact on the Bank.

IFRS 3 Business Combinations (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively.

IFRIC 17 Distribution of Non-Cash Assets to Owners

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Bank's financial statements.

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Bank, except IAS 7 Statement of Cash Flows: explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

Basis of consolidation

Basis of consolidation from 1 January 2010

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance. If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- ▶ Losses incurred by the Bank were attributed to the non-controlling interests until the balance reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interests had a binding obligation to cover these.
- ▶ Upon loss of control, the Bank accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Financial assets

Initial recognition

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

Date of recognition

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

'Day 1' profit

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

Factoring advances, loans and receivables

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

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents consist of amounts due from the CBR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Promissory notes

Promissory notes purchased are included in trading securities, or in amounts due from credit institutions or in loans to customers, depending on their substance and are accounted for in accordance with the accounting policies for these categories of assets.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central bank, amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

Leases

Operating - Bank as lessee

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions, factoring advances and loans to customers

For amounts due from credit institutions, factoring advances and loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Renegotiated loans and factoring advances

Where possible, the Bank seeks to restructure loans and factoring advance. This may involve extending the payment arrangements and the agreement of new loan conditions. The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan, factoring advance has been changed the old loan, factoring advance is derecognised and the new loan, factoring advance is recognised.
- ▶ If the loan, factoring advance restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- ▶ If the loan, factoring advance restructuring is due to the financial difficulties of the borrower and the loan, factoring advance is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan, factoring advance is not impaired after restructuring the Bank recalculates the effective interest rate.

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, which are connected to factoring operations of the Bank. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

Taxation

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

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

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

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

	<u>Years</u>
Furniture and fixtures	2-5
Computers and office equipment	5
Motor vehicles	4

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

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

Provisions

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

Retirement and other employee benefit obligations

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

The part of management stimulation program represents advances granted to top management. The transaction effectively represents long-term employee benefits with advance payments. The Bank amortizes these advances under the straight line method over the vesting period.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Segment reporting

During 2010 and 2009 the Bank operated in one operating segment, and as a result it was exempt from the scope of IFRS 8 *Operating Segments*.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2010 and 31 December 2009, were 30.4769 Rubles and 30.2442 Rubles to 1 USD, respectively.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendments to IAS 32 Financial instruments: Presentation: Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 9 Financial Instruments

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Bank's financial statements.

Improvements to IFRSs

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Bank, as described below.

- ▶ *IFRS 3 Business combinations:* limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Bank applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on financial statements of the Bank.
- ▶ *IFRS 7 Financial instruments: Disclosures:* introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- ▶ *IAS 34 Interim Financial Reporting:* adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Bank.
- ▶ Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Bank now evaluates the impact of the adoption of these amendments.

Amendments to IFRS 7 Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Bank expects that these amendments will have no impact on the Bank's financial position.

*(Thousands of Russian Rubles)***4. Significant accounting judgments and estimates****Estimation uncertainty**

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

Allowance for loan and factoring advances impairment

The Bank regularly reviews its loans, factoring advances and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans, factoring advances or receivables to reflect current circumstances.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2010</u>	<u>2009</u>
Current accounts with the Central Bank	306,772	101,485
Current accounts with other credit institutions	32,882	33,980
Time deposits with credit institutions up to 90 days	–	386,329
Other	565	1,289
Cash and cash equivalents	<u>340,219</u>	<u>523,083</u>

The Bank didn't have non-cash transactions during 2010 and 2009.

6. Trading securities

As of 31 December 2009, trading securities owned comprise corporate bonds, issued by a related party with maturity on 21 July 2011 and coupon rate 12.99%.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2010</u>	<u>2009</u>
Obligatory reserve with the Central Bank	7,404	35,886
Time deposits and loans for more than 90 days	703,240	490,063
Promissory notes	234,657	–
Amounts due from credit institutions	<u>945,301</u>	<u>525,949</u>

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As of 31 December 2010, loans were placed with three Russian banks (31 December 2009: two) maturing within the period from less than 1 month to 8 months and with interest rates in RUR 7% and in USD 3.75% - 4.75%.

As of 31 December 2010, the Bank had unquoted promissory notes of a Russian bank with interest rate in EUR – 5.48%.

(Thousands of Russian Rubles)

8. Factoring advances and loans

Factoring advances and loans comprise:

	<u>2010</u>	<u>2009</u>
Factoring advances with recourse	3,557,655	2,601,136
Factoring advances without recourse	1,633,355	1,474,369
Loans to customers	1,273,425	623,889
	<u>6,464,435</u>	<u>4,699,394</u>
Less – Clients counter-claims	(5,823)	(16,115)
	<u>6,458,612</u>	<u>4,683,279</u>
Less – Allowance for impairment	(605,646)	(721,198)
Factoring advances and loans	<u>5,852,966</u>	<u>3,962,081</u>

As of 31 December 2009 the amount of factoring advances and loans contains the receivables which were sold to Coface Finanz GmbH (Germany). The Bank has entered into receivables purchase agreement with Coface Finanz GmbH (Germany). As of 31 December 2009, the Bank sold the receivables in total amount RUR 167,104 to Coface Finanz GmbH. The Bank has determined that all the risks and rewards of these factoring advances have been retained. Therefore the Bank continued to recognize these factoring advances with a corresponding liability. As of 31 December 2009 the liabilities under the receivables purchase agreement with Coface Finanz GmbH (Germany) are presented in these financial statements as "Borrowed funds from foreign financial institutions" in total amount RUR 214,378 (including accrued interests RUR 593) and the amount of unused financing of borrowed funds from foreign financial institutions was RUR 46,828. During 2010 year the Bank closed all operations with Coface Finanz GmbH.

Allowance for impairment of factoring advances and loans

A reconciliation of the allowance for impairment of factoring advances and loans by class is as follows:

	<i>Factoring advances with recourse 2010</i>	<i>Factoring advances without recourse 2010</i>	<i>Loans to customers</i>	<i>Total 2010</i>
At 1 January 2010	477,052	244,146	–	721,198
Charge for the year	59,022	38,957	12,474	110,453
Amounts written off	(170,441)	(55,564)	–	(226,005)
At 31 December 2010	<u>365,633</u>	<u>227,539</u>	<u>12,474</u>	<u>605,646</u>
Individual impairment	344,044	221,233	9,302	574,579
Collective impairment	21,589	6,306	3,172	31,067
	<u>365,633</u>	<u>227,539</u>	<u>12,474</u>	<u>605,646</u>
Gross amount of factoring advances and loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>476,595</u>	<u>288,099</u>	<u>9,302</u>	<u>773,996</u>
	<i>Factoring advances with recourse 2009</i>	<i>Factoring advances without recourse 2009</i>	<i>Loans to customers</i>	<i>Total 2009</i>
At 1 January 2009	388,121	229,105	–	617,226
Charge for the year	148,899	27,277	–	176,176
Amounts written off	(59,968)	(12,236)	–	(72,204)
At 31 December 2009	<u>477,052</u>	<u>244,146</u>	<u>–</u>	<u>721,198</u>
Individual impairment	462,480	240,150	–	702,630
Collective impairment	14,572	3,996	–	18,568
	<u>477,052</u>	<u>244,146</u>	<u>–</u>	<u>721,198</u>
Gross amount of factoring advances and loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<u>621,462</u>	<u>322,898</u>	<u>–</u>	<u>944,360</u>

(Thousands of Russian Rubles)

8. Factoring advances and loans (continued)

Individually impaired factoring advances and loans

Interest income accrued on factoring advances and loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2010, comprised RUB 23,217 (2009 – RUB 23,934).

In accordance with the CBR requirements, factoring advances and loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court. During the year, ended 31 December 2010 loans and factoring advances in amount of RUB 226,005 were written off.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ Guarantee agreements,
- ▶ Accounts receivable.

As of 31 December 2010 the loan portfolio contains the loan to related party which was secured by cash EUR deposit with total amount 199,411 RUB.

Concentration of factoring advances and loans to customers

As of 31 December 2010, the Bank had a concentration of factoring advances and loans represented by RUB 3,356,214 due from the ten largest third party entities (52% of gross loan portfolio) (2009 – RUB 2,528,802 or 54%). An allowance of RUB 14,777 (2009 – RUB 166,205) was recognised against these loans, factoring advances.

Loans, factoring advances are made principally within Russia in the following industry sectors:

	<u>2010</u>	<u>2009</u>
Production and wholesale of food and beverages	1,847,808	1,346,765
Trading enterprises	1,369,839	1,222,678
Construction and finishing materials	887,593	879,662
Agriculture	646,850	–
Investment and finance	600,178	592,043
Services	355,721	23,860
Production and wholesale of computers and consumer electronics	273,980	259,329
Individuals	76,182	32,377
Metallurgy and manufacturing	31,493	53,222
Chemistry and oil	31,141	17,548
Other	337,827	255,795
	<u>6,458,612</u>	<u>4,683,279</u>

9. Taxation

The corporate income tax expense comprises:

	<u>2010</u>	<u>2009</u>
Current tax charge	56,343	17,135
Prior period tax	–	(98)
Deferred tax charge/(credit) – origination and reversal of temporary differences	(1,504)	19,775
Income tax expense	<u>54,839</u>	<u>36,812</u>

The Bank did not have deferred tax related to items charged or credited to other comprehensive income during the year.

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2010 and 2009. The tax rate for interest income on state securities was 15% for Federal taxes.

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

(Thousands of Russian Rubles)

9. Taxation (continued)

	<u>2010</u>	<u>2009</u>
Profit before tax	178,228	113,127
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	35,646	22,625
Non-deductible expenditures:	19,193	14,285
Prior period tax	-	(98)
Income tax expense	54,839	36,812

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

	<u>2008</u>	<i>Origination and reversal of temporary differences In the income statement</i>	<u>2009</u>	<i>Origination and reversal of temporary differences In the income statement</i>	<i>Effect from disposal of the subsidiary</i>	<u>2010</u>
Tax effect of deductible temporary differences						
Trading securities	3,614	(3,614)	-	-	-	-
Factoring advances and loans	19,206	(17,774)	1,432	(1,432)	-	-
Other assets	657	(657)	-	-	-	-
Other liabilities	471	39	510	3,549	-	4,059
Deferred tax asset	23,948	(22,006)	1,942	2,117	-	4,059
Tax effect of taxable temporary differences						
Trading securities	-	540	540	-	(540)	-
Factoring advances and loans	-	-	-	629	-	629
Amounts due to credit institutions	173	(173)	-	-	-	-
Debt securities issued	2,620	(2,598)	22	(16)	-	6
Deferred tax liability	2,793	(2,231)	562	613	(540)	635
Deferred tax liability/(asset)	(21,155)	19,755	(1,380)	(1,504)	(540)	(3,424)

10. Other assets and liabilities

Other assets comprise:

	<u>2010</u>	<u>2009</u>
Prepayments	42,726	37,957
Prepaid operating tax	22,210	14,642
Property and equipment, net	14,307	10,158
Intangible assets, net	467	580
Advances to employees	-	40,222
Other assets	79,710	103,559

Other liabilities comprise:

	<u>2010</u>	<u>2009</u>
Operating tax payable	36,150	36,949
Accrued additional compensation and employee benefit	21,807	19,906
Other	1,976	936
Other liabilities	59,933	57,791

11. Amounts due to credit institutions

As of 31 December 2010, amounts due to credit institutions comprise loans from five Russian Banks (31 December 2009: two), maturing within the period from less than 1 month to 11 months and with interest rates in RUR 3.75%-7.75%, in EUR 2.25%, in USD 2.80%-3.25%.

*(Thousands of Russian Rubles)***12. Debt securities issued**

Debt securities issued consisted of the following:

	<u>2010</u>	<u>2009</u>
Promissory notes	35,077	–
Bonds	241,391	40,913
Debt securities issued	<u>276,468</u>	<u>40,913</u>

Promissory notes issued by the Bank have maturity of 1 year and interest rate of 10%.

As of 31 December 2010 the outstanding amount of Bonds issued was RUB 241,391 (2009 – 40,913) with interest rate of 11.5%. The Bank issued bonds on 29 April 2008, with maturity of three years and coupon interest rate of 13.0%. Nominal value of the bonds was RUB 2,000,000. As of 31 December 2009 year 1,960,250 bonds were bought back by the Bank at the nominal value RUB 1,000. During 2010 year the Bank placed back on the market part of bonds.

13. Time deposits of customers

As of 31 December 2010, time deposits of customers comprise time deposits of five Russian legal entities and one legal entity from other foreign country (31 December 2009: three Russian legal entities), maturing within the period from 1 months to 1 year and with interest rates in RUR 5.5%-10%, in EUR – 4.03%.

14. Current accounts

At 31 December 2010, current accounts comprise RUB current accounts with the one Russian legal entity (Related party), (2009 – nil).

15. Equity

Shares outstanding, issued and fully paid were represented by 1,456,000 ordinary shares with nominal value RUB 1,000 each as of 31 December 2010 and 2009. The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles. At the Shareholders' Meeting on 18 May 2010, the Bank declared dividends in respect of the year ended 31 December 2009, totalling RUB 25,000 on ordinary shares (Rubles 17,1703296703 per share), which were paid during 2010 year.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with RAL. The Bank had approximately RUB 136,656 of undistributed and unreserved earnings as of 31 December 2010 (2009 – RUB 74,683).

Statutory general reserve

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

16. Commitments and contingencies**Operating environment**

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Bank and its counterparties, which could affect the Bank's financial position, results of operations and business prospects.

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Bank's borrowers' ability to repay the amounts due to the Bank. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Bank has reflected revised estimates of expected future cash flows in its impairment assessment.

*(Thousands of Russian Rubles)***16. Commitments and contingencies (continued)****Operating environment (continued)**

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

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

Taxation

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

As of 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Commitments and contingencies

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

	<u>2010</u>	<u>2009</u>
Credit related commitments		
Undrawn loan commitments	89,712	565
Guarantees	583,005	348,825
	<u>672,717</u>	<u>349,390</u>
Operating lease commitments		
Not later than 1 year	44,815	114,332
Later than 1 year but not later than 5 years	6,313	119,000
	<u>51,128</u>	<u>233,332</u>
Commitments and contingencies	<u>723,845</u>	<u>582,722</u>

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Russia at present.

17. Interest income from factoring operations

Interest income from factoring operations comprise the following types:

	<u>2010</u>	<u>2009</u>
Financing income	524,244	679,055
Service premium	243,238	270,375
Risk premium	110,539	103,004
Interest income from factoring advances	<u>878,021</u>	<u>1,052,434</u>

*(Thousands of Russian Rubles)***18. Fee, commission and other income/expense**

Net fee and commission expense comprises the following:

	<u>2010</u>	<u>2009</u>
Commission paid to CBR	(754)	(2,659)
Other	(2,953)	(3,082)
Total commission expense	<u>(3,707)</u>	<u>(5,741)</u>

Other income/ (expense) comprises the following:

	<u>2010</u>	<u>2009</u>
Gains/(losses) from operations with bonds issued	6,475	(2,104)
Disposal of the subsidiary	(2,160)	-
Losses from sale of factoring advances	(968)	(10,093)
Other income	685	804
Total other income/(expenses)	<u>4,032</u>	<u>(11,393)</u>

As of 15 March 2010 the Bank sold 100% owned subsidiary "NFC-Premium" LLC (the Company). At the date of disposal the subsidiary had net assets in amount of RUB 12,098. The Bank received cash from disposal of subsidiary in amount of RUB 9,938.

19. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>2010</u>	<u>2009</u>
Salaries and bonuses	(317,890)	(255,295)
Social security costs	(37,767)	(36,925)
Deferred employee benefit expense	(40,222)	(43,629)
Personnel expenses	<u>(395,879)</u>	<u>(335,849)</u>
Occupancy and rent	(63,798)	(81,147)
Charity	(21,488)	-
Legal and consultancy	(18,268)	(18,018)
Marketing and advertising	(15,104)	(16,499)
Business travel and related	(13,035)	(10,607)
Communications	(11,336)	(12,835)
Repair and maintenance of property and equipment	(8,131)	(7,997)
Operating taxes	(6,301)	(7,037)
Information technology	(4,052)	(4,233)
Office supplies	(1,839)	(2,132)
Periodicals subscription	(1,642)	(1,610)
Security	(1,243)	(1,814)
Transport and delivery	(961)	(1,007)
Personnel training	(914)	(693)
Other	(7,865)	(8,532)
Other operating expenses	<u>(175,977)</u>	<u>(174,161)</u>

20. Risk management**Introduction**

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

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

(Thousands of Russian Rubles)

20. Risk management (continued)

Introduction (continued)

Goals and objectives of risk management system:

- ▶ Protection of shareholders' interests by securing proper level of the Bank financial strength, by arranging monitoring system, which is in line with nature and size of the Bank's operations as well as optimization of risks in all areas of activities.
- ▶ Determination of priorities in the Bank's risk management. Defining maximum allowable risk values (risk appetite) adopted by the Bank.
- ▶ Maintaining the Bank's aggregate risk level within the limits of value of the risk appetite determined in the Risk Management Policy.
- ▶ Establishing efficient risk management in the Bank, increasing the Bank's investment attractiveness both for Russian and foreign investors.
- ▶ Securing uniform approaches to risk management within the entire Bank.

Definition of key areas the risk management in the Bank:

- ▶ Identification of the Bank's risks.
- ▶ Determining risk management methods.
- ▶ Direct risk management by means of risk management divisions.
- ▶ Securing independence of risk management divisions from business divisions.
- ▶ Information support for all risk management divisions and the Bank's Internal Audit department.

Main principles of establishing the risk management system

Changeover to an integrated uniform approach within the entire Bank to establishing risk management procedure, first of all with regard to identifying all substantial risks, development of methods and procedures for their evaluation, monitoring and reduction (prevention) with the purpose of ensuring the required growth rate of the Bank's business value.

Risk management provides for implementation of the uniform methods for evaluation of risks taken by the Bank's business units.

Risk management system has been developed with due account for legislative acts and regulatory documents of the Central Bank of Russia, which are in force or under consideration. Approaches to risk control and risk management within the Bank are based on recommendations and usage of the world best practices.

Day-to-day risk management in the Bank is performed by the following divisions within the scope of their authorities:

- ▶ The Bank's divisions generating risks, including business units (Sales divisions, Client operations divisions), Treasury, Back office.
- ▶ Special-purpose risk management divisions, whose main tasks are risk management, including Department of Underwriting, All-Corporate Risk Monitoring Department, Financial Risks Analysis Department.
- ▶ Other divisions of the Bank, whose activities may limit and/or eliminate risks taken by the Bank, including Receivables Management Department, Legal Department, Internal Audit etc.

Organization of Bank's risk management system

Bank's day-to-day risk management system is a centralized hierarchic management system, which provides for risk management with regard to separate types of risk irrespective of types of activities (performed by business units), which generate these risks, consisting of the following levels:

Risk management strategy is determined by the Board of directors by approving Risk management strategy (including determination of risk appetite), and the Chairman of the Management Board is responsible for implementation of the approved strategy.

Tactic risk management is performed by Bank's collegiate bodies within the scope of their authorities, including:

- ▶ Risk Management Committee – takes decisions on methodological issues of risk management as well as working conditions in specific industry sectors or decisions on non-typical conditions of factoring services rendered to Clients. Inter alia, Risk management committee is entitled to take decisions on issues being within the competence of Risk Monitoring Committee and Underwriting Committee, since Risk Management Committee is a collegiate body of a higher level than Risk Monitoring Committee and Underwriting Committee. Decisions taken by Risk Management Committee may not be cancelled/amended by Risk Monitoring Committee and Underwriting Committee.

(Thousands of Russian Rubles)

20. Risk management (continued)

Introduction (continued)

- ▶ Risk Monitoring Committee takes decisions on selection of clients, conditions of their servicing as well as termination, renewal or continuation of their servicing on the former or amended terms based on the results of planned or unplanned monitoring.
- ▶ Underwriting Committee takes decisions on large amounts of limits set on Debtors.
- ▶ Asset-Liability Management Committee takes decisions on assuming and regulating credit risks, which are not related to factoring operations.

Day-to-day risk management is performed (within the scope of authorities) by Risk management divisions and other divisions of the Bank under their competence.

Risk management procedure:

- ▶ Identification — detection of risks;
- ▶ Assessment — evaluation of risk in accordance with the methods accepted by the Bank. Assessment is performed by the Bank's relevant collegiate bodies, business units, risk management divisions and other divisions of the Bank within the scope of their competence;
- ▶ Restriction/management — is performed in accordance with the methods accepted by the Bank. Risk restriction/management is performed by the Bank's relevant collegiate bodies, business units, risk management divisions and other divisions of the Bank within the scope of their competence;
- ▶ Monitoring — control of the current risk level is performed by risk management divisions, internal audit, collegiate bodies and business units within the scope of their competence.

Methods applied in risk management:

- ▶ Regulation of operations – development of procedures;
- ▶ Setting-up limits on operations, counterparties, issuers, losses etc.;
- ▶ Diversification of operations;
- ▶ Estimation of adequate loan loss allowance;
- ▶ Control of established procedures and restrictions;
- ▶ Development of scenarios regarding the Bank's risk management in emergency situations.

Specific methods for management of every single type of risk, which is crucial to the Bank, are determined in methods, principles and normative acts regulating the relevant risk management.

Credit risk

Credit risk is a risk of incurring losses by the Bank resulted from non-fulfilment by Bank's clients and counterparties of their contractual obligations. The Bank manages credit risk by setting maximum level of risk, which the Bank is willing to accept with regard to certain counterparties, concentration of risk by regions or industry sectors as well as by means of monitoring observation of the risk limits set and collateral quality.

The Bank developed a procedure for monitoring of credit quality to ensure early detection of possible changes in counterparties' credit standing and value of collateral. Limits on counterparties are determined based on credit risk rating system, which assigns a credit rating to each counterparty. Ratings are revised on a regular basis. The amount of collateral is estimated on a continuing basis within the framework of special developed procedures (verification, collation and administration of the assigned collateral) taking into account specific character of factoring operations and established international factoring practices. Procedure of credit quality monitoring allows the Bank to estimate the amount of potential losses pertaining to risks, which it may suffer, and take the appropriate measures.

Specific features of credit risk management in factoring operations

In performing factoring operations the Bank pays substantial attention not only to evaluation of credit risk on clients, but also performs certain procedures on evaluation of credit risk pertaining to each debtor submitted to factoring operations. The Bank considers these procedures as an important source of additional security and protection of credit quality. Activities on evaluation and management of clients' and debtors' risks in the Bank are strictly separated within certain divisions of risk management system.

(Thousands of Russian Rubles)

20. Risk management (continued)**Credit risk (continued)***Credit-related commitments risks*

The Bank makes available to its customers guarantees which may require that the Bank make payments on behalf of debtors. Such payments are collected from debtors based on the contract terms. They expose the Bank to similar risks to loans, factoring advances and these are mitigated by the same control processes and policies. The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum exposure 2010</i>	<i>Maximum exposure 2009</i>
Cash and cash equivalents	5	340,219	523,083
Trading securities	6	–	22,541
Amounts due from credit institutions	7	945,301	525,949
Factoring advances and loans	8	5,852,966	3,962,081
Other assets	10	42,726	37,957
		7,181,212	5,071,611
Financial commitments and contingencies	16	672,717	349,390
Total credit risk exposure		7,853,929	5,421,001

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

	<i>Notes</i>	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired 2010</i>	<i>Total 2010</i>
		<i>High grade 2010</i>	<i>Standard grade 2010</i>	<i>Sub-standard grade 2010</i>		
Amounts due from credit institutions	7	945,301	–	–	–	945,301
Factoring advances and loans	8					
Factoring advances with recourse		772,777	2,255,856	51,546	477,476	3,557,655
Factoring advances without recourse		137,139	1,196,086	4,416	289,891	1,627,532
Loans to customers		15,971	1,244,552	3,600	9,302	1,273,425
		925,887	4,696,494	59,562	776,669	6,458,612
Total		1,871,188	4,696,494	59,562	776,669	7,403,913

	<i>Notes</i>	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired 2009</i>	<i>Total 2009</i>
		<i>High grade 2009</i>	<i>Standard grade 2009</i>	<i>Sub-standard grade 2009</i>		
Amounts due from credit institutions	7	525,949	–	–	–	525,949
Factoring advances and loans	8					
Factoring advances with recourse		414,741	1,541,025	23,190	622,181	2,601,137
Factoring advances without recourse		254,575	877,343	–	326,335	1,458,253
Loans to customers		60,504	557,285	5,009	1,091	623,889
		729,820	2,975,653	28,199	949,607	4,683,279
Total		1,255,769	2,975,653	28,199	949,607	5,209,228

*(Thousands of Russian Rubles)***20. Risk management (continued)****Credit risk (continued)**

Past due loans to customers, factoring advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans, factoring advances per class of financial assets

	<i>Less than 30 days 2010</i>	<i>31 to 90 days 2010</i>	<i>More than 90 days 2010</i>	<i>Total 2010</i>
Factoring advances and loans				
Factoring advances with recourse	881	–	–	881
Factoring advances without recourse	1,792	–	–	1,792
Total	2,673	–	–	2,673
	<i>Less than 30 days 2009</i>	<i>31 to 90 days 2009</i>	<i>More than 90 days 2009</i>	<i>Total 2009</i>
Factoring advances and loans				
Factoring advances with recourse	718	–	–	718
Factoring advances without recourse	3,439	–	–	3,439
Loans to customers	–	–	1,091	1,091
Total	4,157	–	1,091	5,248

See Note 8 for more detailed information with respect to the allowance for impairment of factoring advances and loans to customers.

Carrying amount per class of financial assets whose terms have been renegotiated

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

The Bank usually doesn't change conditions of the factoring contract with clients and doesn't conclude agreements on change of term of recourse. Factoring activity does not provide such conditions.

As of 31 December 2010 renegotiated financial assets include loans to individuals in amount of RUB 3,600 (2009-RUB 3,109).

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan, factoring advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Russian Rubles)

20. Risk management (continued)**Credit risk (continued)***Collectively assessed allowances*

Allowances are assessed collectively for losses on loans to customers, factoring advances that are not individually significant and for individually significant loans, factoring advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy. The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2010				2009			
	Russia	OECD	CIS and other foreign countries	Total	Russia	OECD	CIS and other foreign countries	Total
Assets								
Cash and cash equivalents	340,219	–	–	340,219	523,083	–	–	523,083
Trading securities	–	–	–	–	22,541	–	–	22,541
Amounts due from credit institutions	945,301	–	–	945,301	525,949	–	–	525,949
Factoring advances and loans	5,783,653	507	68,806	5,852,966	3,935,744	340	25,997	3,962,081
Other assets	91,607	789	–	92,396	126,010	–	–	126,010
	7,160,780	1,296	68,806	7,230,882	5,133,327	340	25,997	5,159,664
Liabilities								
Amounts due to Central Bank	–	–	–	–	507,069	–	–	507,069
Amounts due to credit institutions	3,729,709	–	–	3,729,709	1,438,672	–	–	1,438,672
Debt securities issued	276,468	–	–	276,468	40,913	–	–	40,913
Settlements with clients on factoring	42,179	–	195	42,374	59,404	6	24	59,434
Time deposits of customers	366,762	–	30,274	397,036	266,047	–	–	266,047
Current accounts of customers	51,613	–	–	51,613	–	–	–	–
Borrowed funds from foreign financial institutions	–	–	–	–	–	214,378	–	214,378
Other liabilities	59,933	–	–	59,933	57,644	147	–	57,791
	4,526,664	–	30,469	4,557,133	2,369,749	214,531	24	2,584,304
Net balance sheet position	2,634,116	1,296	38,337	2,673,749	2,763,578	(214,191)	25,973	2,575,360
Net off-balance sheet position	723,845	–	–	723,845	582,722	–	–	582,722

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. The Bank manages and controls liquidity risk by the following measures:

- ▶ Analysis of assets and liabilities by maturity;
- ▶ Control over the compliance with CBR obligatory ratios requirements on a daily basis;
- ▶ Performance of interbank transactions for the purpose of reducing the liquidity position or investment of available liquid resources.

The general purposes of the long term liquidity policy are the expansion of duration and reduction of cost of funds attracted.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs. The main part of Factoring advances and loans by contractual maturity relates to group "3 months to 1 year", but practically the factoring advances are redeemed before maturity date and have average term of return near 60 days, it provides a sufficient reserves of liquidity.

(Thousands of Russian Rubles)

20. Risk management (continued)**Liquidity risk and funding management (continued)***Analysis of financial liabilities by remaining contractual maturities*

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Financial liabilities As of 31 December 2010	On demand	Less than 1 months	1 to 3 months	3 to 12 months	Total
Amounts due to credit institutions	–	1,041,407	2,026,234	725,332	3,792,973
Debt securities issued	–	–	–	289,084	289,084
Settlements with clients on factoring	–	42,374	–	–	42,374
Time deposits of customers	–	680	122,434	282,046	405,160
Current accounts of customers	51,613	–	–	–	51,613
Total undiscounted financial liabilities	51,613	1,084,461	2,148,668	1,296,462	4,581,204

Financial liabilities As of 31 December 2009	On demand	Less than 1 months	1 to 3 months	3 to 12 months	Total
Amounts due to Central Bank	–	–	514,959	–	514,959
Amounts due to credit institutions	–	772,337	674,355	–	1,446,692
Debt securities issued	–	–	–	43,474	43,474
Settlements with clients on factoring	–	59,434	–	–	59,434
Time deposits of customers	–	124,537	144,676	–	269,213
Borrowed funds from foreign financial institutions	46,828	593	869	171,464	219,754
Total undiscounted financial liabilities	46,828	956,901	1,334,859	214,938	2,553,526

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
2010	626,189	59,369	31,974	6,313	723,845
2009	359,023	20,576	84,123	119,000	582,722

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

(Thousands of Russian Rubles)

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

<i>Currency</i>	<i>Increase in basis points 2010</i>	<i>Sensitivity of net interest income 2010</i>
EUR	+100	(1,987)

<i>Currency</i>	<i>Decrease in basis points 2010</i>	<i>Sensitivity of net interest income 2010</i>
EUR	-25	497

<i>Currency</i>	<i>Increase in basis points 2009</i>	<i>Sensitivity of net interest income 2009</i>
RUR	+600	1,613
EUR	+100	(2,138)

<i>Currency</i>	<i>Decrease in basis points 2009</i>	<i>Sensitivity of net interest income 2009</i>
RUR	-200	(538)
EUR	-25	534

The Bank has financial commitments with floating interest rate. These financial commitments are not hedged by appropriate assets, because the main part of the Bank's assets has short maturity period, so the Bank has a possibility to proactively manage its interest rate risk. Factoring agreements concluded with clients contain a provision about unilateral interest rate changes by the Bank.

The Bank's average effective interest rates for financial instruments, measured at amortized cost, at 31 December follow.

	2010			2009		
	<i>Rubles</i>	<i>USD</i>	<i>Other foreign currencies</i>	<i>Rubles</i>	<i>USD</i>	<i>Other foreign currencies</i>
Cash and cash equivalents	-	-	-	3.1%	-	4.0%
Amounts due from credit institutions	7.0%	4.0%	5.8%	-	4.9%	5.9%
Factoring advances	21.5%	17.0%	14.9%	29.8%	23.6%	31.3%
Loans to customers	11.4%	7.1%	-	15.1%	9.3%	-
Amounts due to Central Bank	-	-	-	12.0%	-	-
Amounts due to credit institutions	6.3%	3.2%	2.3%	8.1%	2.7%	3.0%
Debt securities issued	13.8%	-	-	14.5%	-	-
Borrowed funds from foreign financial institutions	-	-	-	-	-	3.4%

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Rouble, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

(Thousands of Russian Rubles)

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

Currency	Change in currency rate in % 2010	Effect on profit before tax 2010	Change in currency rate in % 2009	Effect on profit before tax 2009
USD	11.05%	5,696	14.8%	2,538
USD	-11.05%	-5,696	-14.8%	(2,538)
EUR	8.90%	2,133	14.0%	1,226
EUR	-8.90%	-2,133	-14.0%	(1,226)

Operational risk

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

21. Fair values of financial instruments*Fair value of financial assets and liabilities not carried at fair value*

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2010	Fair value 2010	Unrecognised gain/(loss) 2010	Carrying value 2009	Fair value 2009	Unrecognised gain/(loss) 2009
Financial assets						
Cash and Cash equivalents	340,219	340,219	–	523,083	523,083	–
Amounts due from credit institutions	945,301	948,231	2,930	525,949	524,415	(1,534)
Factoring advances and loans	5,852,966	5,845,727	(7,239)	3,962,081	3,957,040	(5,041)
Other assets	64,936	64,936	–	92,821	86,638	(6,183)
	7,203,422	7,199,113	(4,309)	5,103,934	5,091,176	(12,758)
Financial liabilities						
Amounts due to Central Bank	–	–	–	507,069	507,069	–
Amounts due to credit institutions	3,729,709	3,729,709	–	1,438,672	1,438,654	18
Debt securities issued	276,468	279,909	(3,441)	40,913	41,718	(805)
Current accounts of customers	51,613	51,613	–	–	–	–
Settlements with clients on factoring	42,374	42,374	–	59,434	59,434	–
Time deposits of customers	397,036	397,488	(452)	266,047	266,047	–
Borrowed funds from foreign financial institutions	–	–	–	214,378	214,378	–
Other liabilities	59,933	59,933	–	57,791	57,791	–
	4,557,133	4,561,026	(3,893)	2,318,257	2,319,044	(787)
Total unrecognised charge in unrecognised gain value			(8,202)			(13,545)

As of 31 December 2010 the Bank has borrowed funds from Russian bank for development in accordance with Government SME Lending Support Program. The interest rate on these funds is 7.5%.

As of 31 December 2010 the Bank has loans to individuals (employees of the Bank). These loans carry low credit risk and therefore have lower interest rate than loans to individuals on the market.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

(Thousands of Russian Rubles)

21. Fair value of financial instruments (continued)*Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

22. Related party disclosures

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

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

	2010		2009	
	<i>Entities under common control (Financial Corporation Uralsib)</i>	<i>Key management personnel</i>	<i>Entities under common control (Financial Corporation Uralsib)</i>	<i>Key management personnel</i>
Cash and cash equivalents	24,208	-	20,722	-
Interest income on amounts due to credit institutions	-	-	3,688	-
Trading securities	-	-	22,541	-
Loans at 1 January	864,309	5,104	960,000	1,785
Loans issued during the year	6,510,757	158,666	7,395,432	8,617
Loans repaid during the year	(6,477,811)	(109,107)	(7,502,511)	(5,298)
Loans at 31 December, gross	897,254	54,663	852,921	5,104
Less: allowance for impairment at 31 December	(7,468)	-	(2,741)	-
Factoring advances and loans at 31 December, net	889,786	-	850,180	5,104
Undrawn loan commitment	89,712	-	-	565
Interest income on factoring advances and loans	106,864	4,019	136,739	613
Impairment of interest earning assets	(4,727)	-	(2,741)	-
Other assets	62	-	62	40,222
Amounts due to credit institutions	2,625,476	-	1,408,672	-
Interest expense on amounts due to credit institutions	78,639	-	138,559	-
Time deposits at 1 January	-	-	-	-
Time deposits received during the year	653,235	-	1,291	-
Time deposits repaid during the year	453,824	-	1,291	-
Time deposits	199,411	-	-	-
Interest expense on time deposits	(6,451)	-	(41)	-
Net gains/losses from trading securities	-	-	6,232	-
Net gains/losses from foreign currencies dealing	(247)	-	(2,943)	-
Salaries and employment benefits	-	(86,320)	-	(69,404)
Administrative and operating expenses	(18,169)	-	(17,309)	-

(Thousands of Russian Rubles)

23. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBR in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2010 and 2009, the Bank's capital adequacy ratio on this basis was as follows:

	<u>2010</u>	<u>2009</u>
Main capital	2,382,945	2,339,922
Additional capital	117,779	55,528
Less: deductions from capital	(467)	(1,080)
Total capital	<u>2,500,257</u>	<u>2,394,370</u>
Risk weighted assets	<u>9,197,159</u>	<u>6,183,774</u>
Capital adequacy ratio	27.19%	38.7%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2010 and 2009, comprised:

	<u>2010</u>	<u>2009</u>
Tier 1 capital	2,673,749	2,575,360
Tier 2 capital	-	-
Total capital	<u>2,673,749</u>	<u>2,575,360</u>
Risk weighted assets	<u>6,749,393</u>	<u>4,644,905</u>
Tier 1 capital ratio	39.61%	55.4%
Total capital ratio	39.61%	55.4%

24. Events after the reporting period

As of 28 February 2011 the Shareholders of the Bank made the decision to increase share capital to RUB 2,000,000 by issuing new 544,000 ordinary shares with nominal value RUB 1,000.

As of 15 April 2011 the Bank issued bonds in amount of RUB 2,000,000 with maturity of three years and coupon interest rate of 10%.

As of 15 April 2011 the Board of Directors of the Bank proposed dividends in respect of the year ended 31 December 2010, totalling RUB 61,880 (Rubles 42,50 per share).