

Bank “National Factoring Company” (CJSC)

Financial Statements

Year ended December 31, 2006

Together with Report of Independent Auditors

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Bank "National Factoring Company" (Closed Joint Stock Company) -

We have audited the accompanying financial statements of Bank "National Factoring Company" (Closed Joint Stock Company), which comprise the balance sheet as of December 31, 2006, and the statement of income, statement of changes in equity and net assets attributable to participants, and statement 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 the Bank as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 21, which discloses significant transactions with related parties, in particular with respect to financing operations.

February 22, 2007

Ernst & Young Vnesheaudit

BALANCE SHEET**As of December 31, 2006***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
Assets			
Cash and cash equivalents	5	654,909	875,243
Trading securities	6	20,711	20,694
Amounts due from credit institutions	7	230,650	287,690
Factoring advances and loans	8	5,987,526	4,370,939
Tax assets	9	6,659	9,496
Other assets	11	47,387	32,867
Total assets		<u>6,947,842</u>	<u>5,596,929</u>
Liabilities			
Amounts due to credit institutions	12	3,644,468	3,621,521
Derivative financial liabilities	13	23,176	–
Debt securities issued	14	1,008,974	–
Settlements with clients on factoring		107,987	77,886
Time deposits of clients		–	30,930
Tax liabilities	9	8,317	7,453
Other liabilities	11	28,859	34,931
Total liabilities excluding net assets attributable to participants		<u>4,821,781</u>	<u>3,772,721</u>
Net assets attributable to participants			
Statutory fund		–	1,456,000
Accumulated partners' funds		–	368,208
Total net assets attributable to participants	15	<u>–</u>	<u>1,824,208</u>
Total liabilities including net assets attributable to participants		<u>4,821,781</u>	<u>5,596,929</u>
Equity			
Share capital		1,456,000	–
Retained earnings		670,061	–
Total equity	15	<u>2,126,061</u>	<u>–</u>
Total equity and liabilities		<u>6,947,842</u>	<u>5,596,929</u>

Signed on behalf of the Management Board of the Bank

Mikhail I. Treyvish

Chairman of Management Board

Dmitry A. Karpushin

Chief Accountant

February 22, 2007

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

STATEMENT OF INCOME**For the year ended December 31, 2006***(Thousands of Russian Rubles)*

	<i>Notes</i>	<i>2006</i>	<i>2005</i>
Interest income			
Factoring	17	985,123	878,138
Due from credit institutions		27,341	1,032
Loans		13,643	470
Debt securities		1,283	1,801
		1,027,390	881,441
Interest expense			
Due to credit institutions		160,057	69,572
Debt securities issued		66,129	–
Deposits		534	7,319
Other		–	12
		226,720	76,903
Net interest income		800,670	804,538
Impairment of interest earning assets	10	72,817	84,928
Net interest income after impairment		727,853	719,610
Fee and commission income less expense		(2,033)	(597)
Gains less losses from trading securities		19	404
Translation gains less losses from foreign currency		28,734	(280)
Foreign exchange gains less losses		(25,121)	(584)
Other income		596	384
Non interest income (loss)		2,195	(673)
Salaries and employment benefits	18	196,092	153,076
Administrative and operating expenses	18	128,726	83,866
Depreciation		2,647	967
Non interest expense		327,465	237,909
Income before income tax expense		402,583	481,028
Income tax expense	9	100,730	115,134
Net income		301,853	365,894

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY AND NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

For the year ended December 31, 2006

(Thousands of Russian Rubles)

	<i>Notes</i>	<i>Share capital</i>	<i>Retained earnings</i>	<i>Statutory fund</i>	<i>Accumulated partners' funds</i>	<i>Total</i>
December 31, 2004		–	–	1,456,000	2,314	1,458,314
Net income		–	–	–	365,894	365,894
December 31, 2005		–	–	1,456,000	368,208	1,824,208
Issuance of shares in connection with legal reorganization	15	1,456,000	368,208	(1,456,000)	(368,208)	–
Net income		–	301,853	–	–	301,853
December 31, 2006	15	1,456,000	670,061	–	–	2,126,061

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS**For the year ended December 31, 2006***(Thousands of Russian Rubles)*

	<i>Note</i>	<i>2006</i>	<i>2005</i>
Cash flows from operating activities			
Interest, fees and commissions received		993,080	853,980
Interest, fees and commissions paid		(236,924)	(68,536)
Gains less losses from trading securities		–	(126)
Realized gains less losses in foreign currencies		(1,945)	(584)
Other operating income		596	384
Salaries and employment benefits		(200,183)	(144,071)
Administrative and operating expenses		(128,726)	(84,868)
Cash flows from operating activities before changes in operating assets and liabilities		425,898	556,179
Net (increase) decrease in operating assets			
Trading securities		–	(19,956)
Amounts due from credit institutions		56,709	(231,891)
Factoring advances		(1,652,196)	(1,622,837)
Other assets		(8,685)	(25,083)
Net increase (decrease) in operating liabilities			
Settlements with clients on factoring		30,441	34,376
Time deposits of clients		(30,944)	(673,102)
Other liabilities		(1,981)	9,781
Net cash flows used in operating activities before income taxes		(1,180,758)	(1,972,533)
Corporate income tax paid		(98,687)	(115,843)
Net cash flows used in operating activities		(1,279,445)	(2,088,376)
Cash flows from investing activities			
Purchases of property and equipment		(8,471)	(3,891)
Net cash flows used in investing activities		(8,471)	(3,891)
Cash flows from financing activities			
Amounts due to credit institutions		67,509	2,123,869
Debt securities issued		1,000,000	(1,011)
Net cash flows from financing activities		1,067,509	2,122,858
Exchange rate changes effect on cash and cash equivalents		73	–
Net change in cash and cash equivalents		(220,334)	30,591
Cash and cash equivalents, beginning		875,243	844,652
Cash and cash equivalents, ending	5	654,909	875,243

The accompanying notes on pages 5 to 22 are an integral part of these financial statements.

(Thousands of Russian Rubles)

1. Principal activities

Bank “National Factoring Company” (Closed Joint Stock Company) (the “Bank”) was formed in 2003 as a limited liability company under the laws of the Russian Federation. The Bank operates under a banking licence issued by the Central Bank of Russia (“CBR”) on March 2004. In November 2005 the CBR reissued the license, and this license gives the Bank a right to perform operations with legal entities (including credit institutions).

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. The Bank is one of the leaders in the Russian factoring market.

As of December 21, 2006, the Bank registered with the CBR the change in its legal form from limited liability company to closed joint stock company (CJSC). That change results in recognizing accumulated earnings and share capital as equity in these financial statements instead of liability (partners' funds) as in previous years.

As of December 31, the following shareholders (partners) owned the outstanding shares (stakes):

Shareholder / partner	2006 %	2005 %
Salerna LLC	50.0	50.0
Centerryboproduct LLC	50.0	50.0
Total	100.0	100.0

The Bank is ultimately controlled by Mr. Nickolai Tsvetkov.

The Bank's main office is located in Moscow and it has 18 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 246 employees during 2006 (2005 – 175) and 286 employees as of December 31, 2006 (2005 – 210).

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 except as disclosed in the accounting policies below. For example, trading securities and derivative financial instruments have been measured at fair value.

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 “Financial Instruments: Recognition and Measurement”: Financial Guarantees, effective for annual periods beginning on or after 1 January 2006. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under the amended IAS 39, financial guarantee contracts are recognized initially at fair value and subsequently remeasured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 “Revenue”.

The adoption of the above pronouncement did not have a significant impact on the Bank's financial statements.

(Thousands of Russian Rubles)

2. Basis of preparation (continued)**IFRSs and IFRIC interpretations not yet effective**

The Bank has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures";
 Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
 IFRIC 8 "Scope of IFRS 2";
 IFRIC 9 "Reassessment of Embedded Derivatives";
 IFRIC 10 "Interim Financial Reporting and Impairment";
 IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions";
 IFRIC 12 "Service Concession Arrangements"

The Bank expects that the adoption of the pronouncements listed above will have no significant impact on the Bank's financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the financial statements to evaluate the significance of the Bank's financial instruments, the nature and extent of risks arising from those financial instruments, and the Bank's objectives, policies and processes for managing capital.

Reconciliation of RAL and IFRS equity and net profit for the year

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

	2006		2005	
	<i>Equity</i>	<i>Net profit</i>	<i>Net assets attributable to participants</i>	<i>Net profit</i>
Russian Accounting Legislation	2,042,537	304,917	1,737,394	261,339
Impairment of financial assets and other provisions	21,605	(40,566)	62,171	114,076
Deferred taxation	6,659	14,112	(7,453)	(20,017)
Derivatives	(23,176)	(23,176)	–	–
Effect of accrued interest	91,695	42,482	49,213	18,499
Accrual of additional compensation benefits	(13,009)	4,091	(17,100)	(9,005)
Other	(250)	(7)	(17)	1,002
International Financial Reporting Standards	2,126,061	301,853	1,824,208	365,894

3. Summary of accounting policies**Financial assets**

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.

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.

Financial assets at fair value through profit or loss

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

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. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in 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 balance sheet 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.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, 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.

Derivative financial instruments

In the normal course of business, the Bank enters into forward contracts in foreign exchange markets. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of income as gains less losses from trading securities or gains less losses from foreign currencies dealing, depending on the nature of the instrument.

Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative.

Borrowings

Borrowings, which include amounts due to credit institutions, amounts due to customers and debt securities issued, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of 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 balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of 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.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Allowances for impairment of financial assets

The Bank assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the impairment loss is recognised in the statement of income.

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 the foreclosure is probable.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When an asset is uncollectible, it is written off against the related allowance for impairment. Such assets are written off after all necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the charge for impairment of financial assets in the statement of income.

Derecognition of financial assets and liabilities

Financial assets

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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 income.

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 balance sheet date.

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

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment in value. 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>
Computers and office equipment	3-7
Motor vehicles	3-5

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.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

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 post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, 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 balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Contingencies

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

Income and expense recognition

Interest income and expense are recognised on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related direct costs) and recognised as an adjustment to the effective yield of the loans. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided.

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 balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as translation gains less losses from foreign currency. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in foreign exchange gains less losses. The official CBR exchange rates at December 31, 2006 and 2005, were 26.33 Rubles and 28.78 Rubles to 1 USD, respectively.

(Thousands of Russian Rubles)

4. Significant accounting judgements and estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of factoring advances, loans and receivables

The Bank regularly reviews its factoring advances, loans and receivables to assess impairment. The Bank uses its experienced judgement 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 judgement to adjust observable data for a group of factoring advances, loans or receivables to reflect current circumstances.

Salaries and employment benefits

Amount of annual bonus accrued represents estimated total bonus fund, and the actual amount will be calculated individually for each employee basing on his performance, therefore in total it could differ from the cumulative estimate made by the management in these financial statements.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2006</u>	<u>2005</u>
Current account with the Central Bank	251,757	445,369
Current accounts with other credit institutions	202,938	199,788
Time deposits with credit institutions up to 90 days	200,214	230,086
Cash and cash equivalents	<u>654,909</u>	<u>875,243</u>

As of December 31, 2006, the Bank placed RUB 200,000 (2005 – RUB 30,000) as a deposit in RUB with a Russian bank and received RUB 200,000 (2005 – RUB 30,000) as a RUB deposit from the same bank's subsidiary (see Note 12).

6. Trading securities

Trading securities owned comprise Russian State bonds (OFZ) with coupon rate of 6.3% and maturity in 2008.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2006</u>	<u>2005</u>
Obligatory reserve with the Central Bank	230,650	170,557
Time deposits for more than 90 days	–	117,133
Amounts due from credit institutions	<u>230,650</u>	<u>287,690</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.

*(Thousands of Russian Rubles)***8. Factoring advances and loans**

Factoring advances and loans comprise:

	<u>2006</u>	<u>2005</u>
Factoring advances with recourse	5,019,153	4,484,757
Factoring advances without recourse	1,160,383	55,709
Loans to customers	67,348	–
	<u>6,246,884</u>	<u>4,540,466</u>
Less – Clients counter-claims	(19,872)	(2,858)
Less – Allowance for impairment	(239,486)	(166,669)
Factoring advances and loans to customers	<u>5,987,526</u>	<u>4,370,939</u>

As of December 31, 2006, the Bank had a concentration of factoring advances and loans represented by RUB 2,528,502 due from the ten largest third party entities (40% of gross loan portfolio) (2005 – RUB 1,302,417, or 29%). An allowance of RUB 20,396 (2005 – RUB 3,904) was recognised against these advances and loans.

Factoring advances and loans are made principally within Russia in the following industry sectors:

	<u>2006</u>	<u>2005</u>
Production and wholesale of food and beverages	1,743,001	2,196,199
Production and wholesale of computers and consumer electronics	1,719,342	991,119
Other trading enterprises	1,337,392	524,773
Construction and finishing materials	526,125	397,890
Chemistry and oil	272,831	99,746
Metallurgy and manufacturing	128,950	159,374
Investment and finance	103,498	–
Other	415,745	171,365
	<u>6,246,884</u>	<u>4,540,466</u>

This industry analysis was made in relation to industry of a client for both factoring with and without recourse.

9. Taxation

The corporate income tax expense comprises:

	<u>2006</u>	<u>2005</u>
Current tax expense	114,842	95,117
Deferred tax expense (benefit)	(14,112)	20,017
Income tax expense	<u>100,730</u>	<u>115,134</u>

Russian legal entities must file individual tax declarations. The tax rate on income other than on state securities was 24% for 2005 and 2004. The tax rate for interest income on state securities was 15% for Federal taxes.

Tax assets and liabilities consist of the following:

	<u>2006</u>	<u>2005</u>
Current tax assets	–	9,496
Deferred tax assets	6,659	–
Current tax liabilities	8,317	–
Deferred tax liabilities	–	7,453

*(Thousands of Russian Rubles)***9. Taxation (continued)**

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:

	<i>2006</i>	<i>2005</i>
Income before taxation	402,583	481,028
Statutory tax rate	24%	24%
Theoretical income tax expense at statutory rate	96,620	115,447
State securities income taxed at different rate	(115)	(56)
Non-deductible expenditures and other non-temporary differences	4,225	(257)
Income tax expense	100,730	115,134

Deferred tax assets and liabilities comprise:

	<i>2006</i>	<i>2005</i>
Tax effect of deductible temporary differences		
Factoring advances	5,654	–
Derivatives	5,562	–
Deferred tax assets	11,216	–
Tax effect of taxable temporary differences		
Factoring advances	–	6,484
Borrowings	4,557	969
Deferred tax liabilities	4,557	7,453
Deferred tax liability (asset)	(6,659)	7,453

10. Allowances for impairment and provisions

The movements in allowances for impairment of interest earning assets were as follows:

	<i>Factoring advances and loans</i>
December 31, 2004	81,741
Charge	84,928
December 31, 2005	166,669
Charge	72,817
December 31, 2006	239,486

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. In accordance with the Russian legislation, loans and factoring advances may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

11. Other assets and liabilities

Other assets comprise:

	<i>2006</i>	<i>2005</i>
Prepayments	33,895	26,015
Property and equipment, net	10,590	4,759
Prepaid operating taxes	2,864	2,088
Intangible assets, net	38	5
Other assets	47,387	32,867

(Thousands of Russian Rubles)

11. Other assets and liabilities (continued)

Other liabilities comprise:

	<u>2006</u>	<u>2005</u>
Operating taxes payable	15,849	17,825
Accrued additional compensation and other employee benefits	13,010	17,106
Other liabilities	<u>28,859</u>	<u>34,931</u>

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2006</u>	<u>2005</u>
Current accounts	–	1,267
Time deposits and loans	3,644,468	3,620,254
Amounts due to credit institutions	<u>3,644,468</u>	<u>3,621,521</u>

As disclosed in Note 21, the Bank has significant concentration of borrowings from a related party Bank Uralsib.

As disclosed in Note 5, the Bank attracted RUB 200,000 (2005 – RUB 30,000) as a deposit in RUB from a Russian bank and placed RUB 200,000 (2005 – RUB 30,000) as a RUB deposit with the same bank's subsidiary.

13. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. The outstanding deals with derivative financial instruments are as follows:

	<u>2006</u>			<u>2005</u>		
	<i>Notional principal</i>	<i>Fair values</i>		<i>Notional principal</i>	<i>Fair value</i>	
		<i>Asset</i>	<i>(Liability)</i>		<i>Asset</i>	<i>(Liability)</i>
Foreign exchange contracts						
Forwards – domestic	<u>1,260,711</u>	–	<u>(23,176)</u>	–	–	–

14. Debt securities issued

Debt securities issued represent RUB bonds issued by the Bank on May 4, 2006, with maturity of three years and coupon interest rate of 9.8%. Nominal value of bonds is RUB 1,000,000.

15. Equity

On July 20, 2006, the Bank's members' approved the reorganization of the Bank into a closed joint-stock company. The reorganization was registered with the CBR on December 21, 2006 and executed through the issuance of ordinary shares with nominal value of Ruble 1,000 per share, to existing shareholders. The total number of authorised ordinary shares are 1,456,000.

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. 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 141,888 of undistributed and unreserved earnings as of December 31, 2006. As of the date of issue of these financial statement the shareholders of the Bank have not declared any dividend payments.

(Thousands of Russian Rubles)

15. Equity (continued)

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

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, 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.

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. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome. 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 December 31, 2006, management believes that its interpretation of the relevant legislation is appropriate and that its interpretation of the relevant legislation is appropriate and that it is probable that the Bank's tax, currency and customs positions will be sustained.

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.

Financial commitments and contingencies

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

	<u>2006</u>	<u>2005</u>
Non-cancellable operating lease commitments		
Not later than 1 year	56,040	39,605
Later than 1 year	59,478	34,176
Financial commitments and contingencies	<u><u>115,518</u></u>	<u><u>73,781</u></u>

*(Thousands of Russian Rubles)***17. Interest income from factoring operations**

Interest income from factoring operations comprise the following types:

	<i>2006</i>	<i>2005</i>
Financing	637,420	563,474
Service premium	317,444	312,607
Risk premium	30,259	2,057
Interest income from factoring operations	985,123	878,138

18. Salaries and other operating expenses

Salaries and benefits, and other operating expenses comprise:

	<i>2006</i>	<i>2005</i>
Salaries and additional compensation payments	172,154	134,909
Social security costs	23,938	18,167
Salaries and employment benefits	196,092	153,076
Occupancy and rent	67,497	33,704
Equipment support and maintenance	12,307	20,002
Business development	19,414	12,479
Marketing and advertising	8,942	10,012
Communications	6,648	2,515
Professional services	3,265	2,129
Operating taxes	1,813	226
Other	8,840	2,799
Administrative and operating expenses	128,726	83,866

19. Financial risk management

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent in the Bank's operations are those related to credit exposures, liquidity, and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Such risks are monitored on a continuing basis and are subject to an annual or more frequent review.

The exposure to any one borrower including banks, clients and debtors is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Risk Management Committee and Management Board that meet at least once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is additionally mitigated in part by obtaining collateral and corporate and personal guarantees.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the credit risk as well.

*(Thousands of Russian Rubles)***19. Financial risk management (continued)****Geographical concentration**

The geographical concentration of banking assets and liabilities follows.

	2006				2005			
	<i>Russia</i>	<i>OECD</i>	<i>CIS and other foreign banks</i>	<i>Total</i>	<i>Russia</i>	<i>OECD</i>	<i>CIS and other foreign banks</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	654,909	–	–	654,909	875,243	–	–	875,243
Trading securities	20,711	–	–	20,711	20,694	–	–	20,694
Amounts due from credit institutions	230,650	–	–	230,650	287,690	–	–	287,690
Factoring advances and loans	5,957,556	–	29,970	5,987,526	4,264,063	14,111	92,765	4,370,939
Tax assets	6,659	–	–	6,659	9,496	–	–	9,496
Other assets	47,387	–	–	47,387	32,867	–	–	32,867
	6,917,872	–	29,970	6,947,842	5,490,053	14,111	92,765	5,596,929
Liabilities:								
Due to credit institutions	2,624,875	1,019,593	–	3,644,468	3,551,188	70,333	–	3,621,521
Derivative financial liabilities	23,176	–	–	23,176	77,886	–	–	77,886
Settlements with clients on factoring	107,987	–	–	107,987	–	–	–	–
Time deposits of clients	–	–	–	–	30,930	–	–	30,930
Debt securities issued	1,008,974	–	–	1,008,974	–	–	–	–
Tax liabilities	8,317	–	–	8,317	7,453	–	–	7,453
Other liabilities	28,859	–	–	28,859	34,931	–	–	34,931
	3,802,188	1,019,593	–	4,821,781	3,702,388	70,333	–	3,772,721
Net balance sheet position	3,115,684	(1,019,593)	29,970	2,126,061	1,787,665	(56,222)	92,765	1,824,208

Currency risk

Currency risk is a risk that a financial instrument will change its value due to changes in currency exchange rates. Bank's financial position and cash flows are affected by fluctuations of foreign currency exchange rates.

The Risk Management Committee executes general control over the currency risks and sets limits on currency transactions performed by departments of the Bank. The Treasury and Electronic Settlement Department projects and analyzes open balance sheet and off-balance currency positions of the Bank.

(Thousands of Russian Rubles)

19. Financial risk management (continued)**Currency risk (continued)**

The Bank's exposure to foreign currency exchange rate risk follows.

	2006					2005				
	Rubles	USD	EUR	Other	Total	Rubles	USD	EUR	Other	Total
Assets:										
Cash and cash equivalents	652,134	1,899	768	108	654,909	874,116	893	185	49	875,243
Trading securities	20,711	–	–	–	20,711	20,694	–	–	–	20,694
Amounts due from credit institutions	230,650	–	–	–	230,650	200,912	86,778	–	–	287,690
Factoring advances and loans	5,932,580	28,182	26,764	–	5,987,526	4,270,961	96,132	3,846	–	4,370,939
Tax assets	6,659	–	–	–	6,659	9,496	–	–	–	9,496
Other assets	47,259	128	–	–	47,387	32,690	177	–	–	32,867
	6,889,993	30,209	27,532	108	6,947,842	5,408,869	183,980	4,031	49	5,596,929
Liabilities:										
Due to credit institutions	2,318,629	1,308,480	17,359	–	3,644,468	3,403,082	216,730	1,709	–	3,621,521
Derivative financial liabilities	23,176	–	–	–	23,176	–	–	–	–	–
Settlements with clients on factoring	107,907	79	1	–	107,987	77,568	318	–	–	77,886
Time deposits of clients	–	–	–	–	–	30,930	–	–	–	30,930
Debt securities issued	1,008,974	–	–	–	1,008,974	–	–	–	–	–
Tax liabilities	8,317	–	–	–	8,317	7,453	–	–	–	7,453
Other liabilities	28,859	–	–	–	28,859	34,931	–	–	–	34,931
	3,495,862	1,308,559	17,360	–	4,821,781	3,553,964	217,048	1,709	–	3,772,721
Net balance sheet position	3,394,131	(1,278,350)	10,172	108	2,126,061	1,854,905	(33,068)	2,322	49	1,824,208
Net off balance sheet position	(1,260,711)	1,260,711	–	–	–	–	–	–	–	–

Liquidity risk

Liquidity risk is a risk of encountering difficulties regarding receipt of funds required to return deposits and settle liabilities related to financial instruments when they mature.

The Bank's Risk Management Committee executes general control over the liquidity risks. The Treasury and Electronic Settlement Department is responsible for the day-to-day control. The respective liquidity risk management actions of the Bank include the following activities:

- daily liquidity projections;
- placement of funds in relation to terms of raised funds balances;
- on an ongoing basis, analysis of clients' cash flows in order to identify seasonal and other trends;
- stress-testing to analyze potential implications in case of adverse events.

(Thousands of Russian Rubles)

19. Financial risk management (continued)**Interest rate risk**

The interest rate risk is related to changes in value of financial instruments driven by changes of interest rates. Asset and liability maturities, as well as the potential for replacement of interest liabilities at acceptable cost at maturity are important factors for assessment of the Bank's liquidity and level of dependence on changes in interest rates.

Risk Management Committee and Credit Committee within their authorities control interest rate risk by setting allowed ranges of interest rates and tariffs in respect to raised and placed funds.

The table below summarises the Bank's exposure to interest rate risk as of December 31, 2006. Included in the table are the Bank's monetary assets and liabilities at carrying amounts, classified by the earlier of contractual repricing or maturity dates.

	2006						Total
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Overdue	No defined maturity	
Assets:							
Cash and cash equivalents	200,214	–	–	–	–	–	200,214
Trading securities	–	–	–	20,711	–	–	20,711
Factoring advances and loans	226,793	2,143,719	3,600,136	–	16,878	–	5,987,526
	427,007	2,143,719	3,600,136	20,711	16,878	–	6,208,451
Liabilities:							
Due to credit institutions	1,103,761	2,161,527	379,180	–	–	–	3,644,468
Debt securities issued	–	–	–	1,008,974	–	–	1,008,974
	1,103,761	2,161,527	379,180	1,008,974	–	–	4,653,442
Total interest sensitivity gap	(676,754)	(17,808)	3,220,956	(988,263)	16,878	–	1,555,009

As at December 31, 2005, the Bank's analysis of monetary assets and liabilities by the earlier of contractual repricing or maturity dates did not differ significantly from the analysis by contractual maturity dates.

The Bank's average effective interest rates for monetary financial instruments at December 31 follow.

	2006			2005		
	Rubles	USD	Other foreign currencies	Rubles	USD	Other foreign currencies
Cash and cash equivalents, time deposits	6.5%	–	–	6.8%	–	–
Trading securities	6.3%	–	–	6.3%	–	–
Amounts due from credit institutions	0.0%	–	–	9.0%	4.0%	–
Factoring advances	22.0%	21.4%	15.9%	21.0%	20.3%	17.5%
Due to credit institutions	7.9%	7.3%	4.5%	4.8%	3.8%	3.5%
Time deposits of clients	–	–	–	10.0%	–	–
Debt securities issued	10.5%	–	–	–	–	–

20. Fair values of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Russian Rubles)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial assets</i>				
Amounts due from credit institutions	230,650	230,650	287,690	287,690
Factoring advances and loans	5,987,526	5,987,526	4,370,939	4,370,939
<i>Financial liabilities</i>				
Due to credit institutions	3,644,468	3,644,468	3,621,521	3,621,521
Debt securities issued	1,008,974	1,008,974	–	–
Settlements with clients on factoring	107,987	107,987	77,886	77,886
Time deposits of clients	–	–	30,930	30,930

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

Amounts due from credit institutions and factoring advances

For assets maturing within three months, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term assets, the interest rates applicable reflect market rates and, consequently, the fair value approximates the carrying amounts.

Amounts due to credit institutions and settlements with clients on factoring

For balances maturing within three months the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

Market values have been used to determine the fair value of debt securities traded on an active market. For other debt securities, the fair value was estimated as the present value of estimated future cash flows discounted at the year-end market rates.

21. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, 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.

(Thousands of Russian Rubles)

21. Related party transactions (continued)

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

	2006		2005	
	<i>Entities under common control (Financial Corporation Uralsib LLC)</i>	<i>Key management personnel</i>	<i>Entities under common control (Financial Corporation Uralsib LLC)</i>	<i>Key management personnel</i>
Cash and cash equivalents	108,444	–	133,220	–
Factoring advances outstanding at January 1	36,036	–	–	–
Loans issued during the year	534,330	–	36,036	–
Factoring advances repaid during the year	452,198	–	–	–
Factoring advances and loans outstanding at December 31, gross	118,168	–	36,036	–
Less: allowance for impairment at December 31	(1,099)	–	(461)	–
Factoring advances outstanding at December 31, net	117,069	–	35,575	–
Interest income on factoring advances and loans	8,905	–	36	–
Impairment of interest earning assets	638	–	461	–
Amounts due to credit institutions	1,220,994	–	2,774,051	–
Interest expense	33,055	–	59,955	–
Salaries and employment benefits	–	29,556	–	8,831

Financing from Bank Uralsib in form of amounts owed to credit institutions in some periods during 2006 was close to zero.

Terms and Conditions of Transactions with Related Parties

Transactions with related parties are provided on market conditions in accordance with the set tariff schedule. Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

22. Capital adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of December 31, 2006, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of December 31, 2006 was 25.4%. This ratio exceeded the minimum ratio of 8% recommended by the Basle Accord.

23. Subsequent events

On January 31, 2007, the Board of Directors approved an issue of credit links notes with total nominal value of RUB 1,000,000 and maturity May 12, 2009.