





Six years ago we discovered a new star within the universe of the Russian economy — Factoring. But later it was established that the star was in fact a huge planet, attracting good luck and prosperity. Last year we launched a number of satellites around the planet, which made life on the planet more secure, comfortable and efficient: National Factoring Company was granted an international credit rating, became the first Russian company to offer an electronic factoring service and introduced a brand new product line. In Russia factoring has quickly become a key ingredient in the every day activities of a vast number of growing businesses. We are very pleased that partly thanks to NFC's efforts, factoring is becoming a strong and independent industry for the home economy, and is turning into a new business 'galaxy'. Stronger clients, highly competent staff and the respect of our competitors, prove that the work we love and devote ourselves to, is the right way to success. As such, we can anticipate the discovery of even more new stars.

Mikhail Treyvish
Chairman of the Board
NFC LLC

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РОЖДЕНИЕ СВЕРХНОВОЙ ДЛЯ КОСМОСА

ВСПЫШКА СВЕРХНОВОЙ – ЗНАЧИТЕЛЬНОЕ ДАЖЕ ПО КОСМИЧЕСКИМ МЕРКАМ СОБЫТИЕ. ЭТО ОЧЕНЬ РЕДКОЕ ЯВЛЕНИЕ, ЗА ПОСЛЕДНЕЕ ТЫСЯЧЕЛЕТИЕ В НАШЕЙ ГАЛАКТИКЕ ПОЯВИЛИСЬ ЛИШЬ ТРИ СВЕРХНОВЫЕ, В 1054, 1572 И 1604 ГОДАХ. СВЕРХНОВАЯ В МОМЕНТ ВСПЫШКИ СВЕТИТ ЯРЧЕ СОТЕН ТЫСЯЧ ЗВЕЗД И ЗАТМЕВАЕТ ЦЕЛЮЮ ГАЛАКТИКУ. ВЕРОЯТНО, НАША СОЛНЕЧНАЯ СИСТЕМА ПОЯВИЛАСЬ БЛАГОДАРЯ ВСПЫШКЕ СВЕРХНОВОЙ

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В ЭКОНОМИКЕ
СТРАНЫ

FACTORIZING IN THE RUSSIAN ECONOMY

ACCORDING TO THE PRELIMINARY ESTIMATES BY THE FEDERAL STATE STATISTICS SERVICE, THE 2005 GDP WAS EXPECTED TO BE US\$774 BILLION, WHICH CORRESPONDS TO ITS GROWTH BY 6.4%. THIS INDICATOR IS HIGHER THAN THE INITIAL OFFICIAL FORECASTS (5.9%), BUT LOWER THAN THE 2004 RESULTS (7.2%)¹.

The higher economy growth rate in comparison with the forecasts contributed to an additional increase not only in the value of exports, but also in household incomes, trade and capital investments.

The factoring market growth rate, although a little slower against the background of the general economic slowdown, still remained quite high. In 2005, the factoring market volume was estimated at US\$5.5–5.7 billion, which corresponds to 80–90% annual growth. The share of factoring services in GDP increased by 0.4% in comparison with the previous year and reached 0.9%².

The increase in the share of factoring services in GDP in 2005 is explained, first of all, by the faster growth in the consumer sector: 12% growth in comparison with the previous year.

In spite of a slight industrial production slowdown in the past year, sustainable growth in the industries traditionally prone to use factoring services (chemicals, food, electrical equipment, and construction materials industries) still continued.

The chemical production index in 2005 amounted to 102.6%. The positive trend was due to an increase in domestic consumption and growth in exports. Suppliers of household chemicals, perfumes and cosmetics accounted for a significant part of the NFC client portfolio (26%). The 2005 turnover related to this industry's companies, as well as to other suppliers of nonfood goods, almost reached US\$404 million.

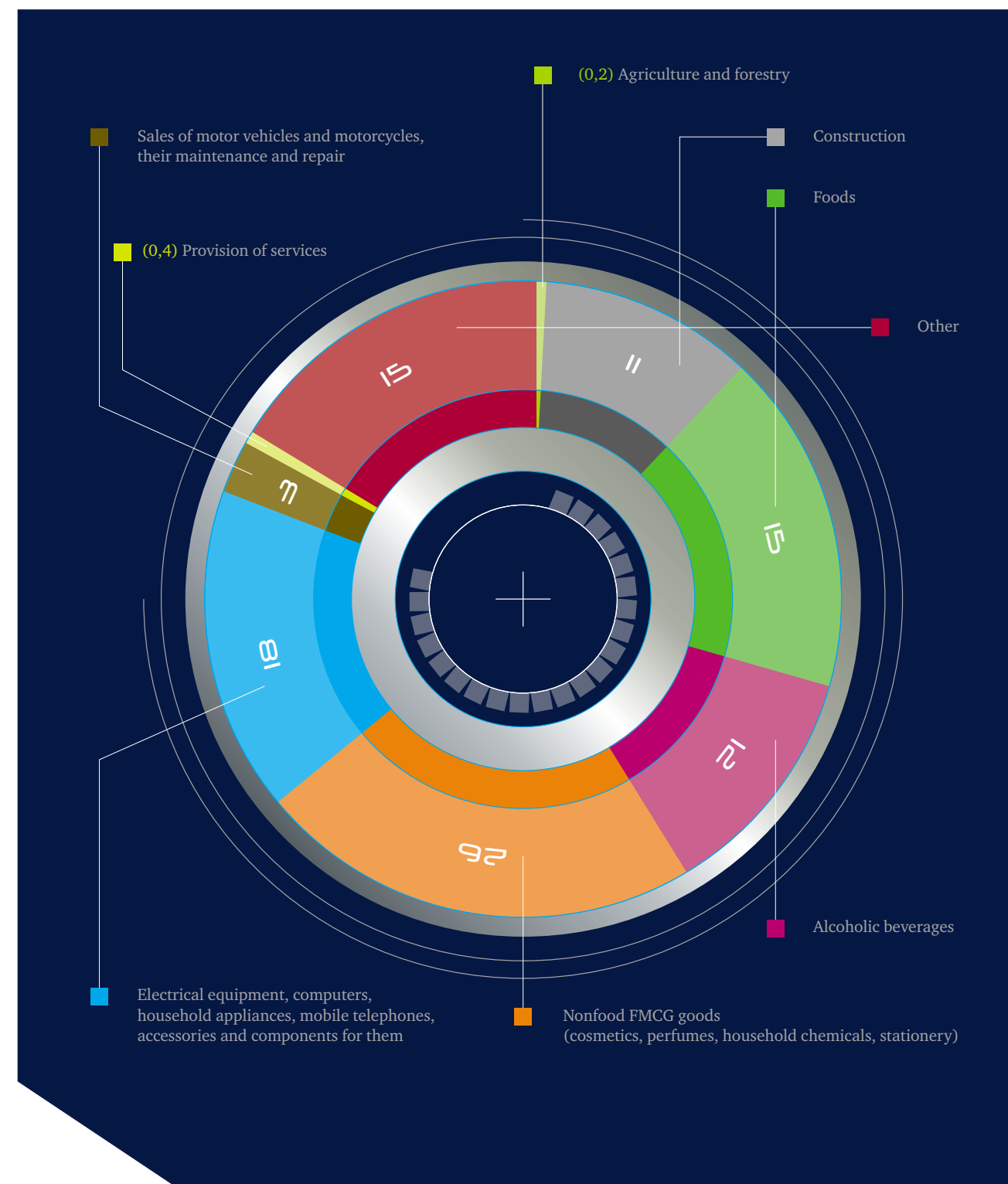
The food production index, including production of drinks and tobacco,

grew by 4.4% compared with 2004, which can be explained by higher demand for foods under conditions of growing household incomes, by improved customs regulation and fish industry management, as well as by secure supply of raw materials to the industry. During the reporting period, NFC provided services to about 200 suppliers of foods and alcoholic beverages, with the related total turnover exceeding US\$432 million.

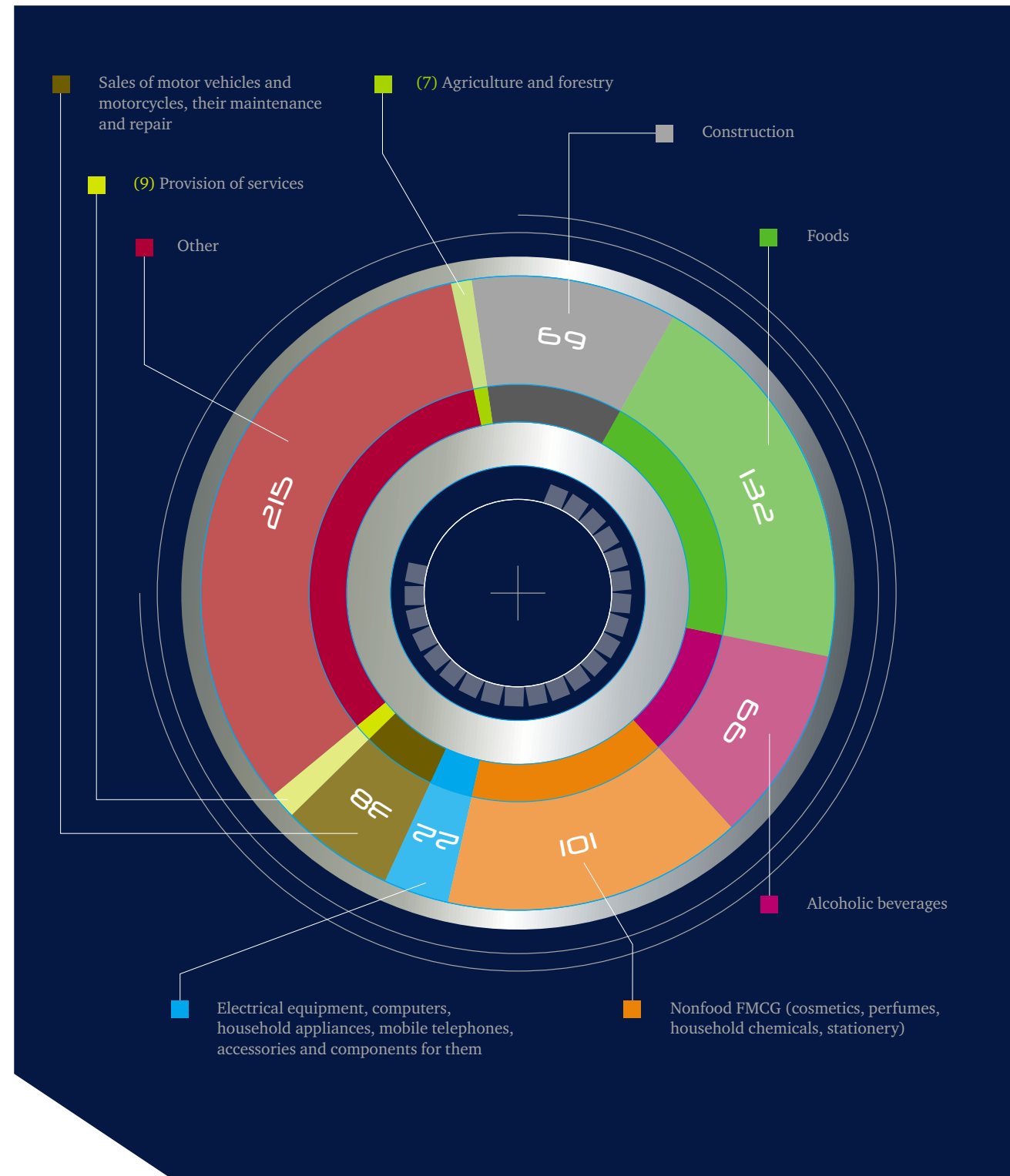
¹ Hereinafter, data from the MEDT report «On the Results of the Social and Economic Development of the Russian Federation for 2005 and Economic Policy Objectives of the Government of the Russian Federation for 2006» are used when reference is made to macroeconomic indicators of the Russian economy.

² Expert RA «Russian Factoring Market in 2005»

NFC CLIENTS BY INDUSTRY, % OF TURNOVER.



NFC CLIENTS BY GROUP OF GOODS AND SERVICES
(NUMBER OF COMPANIES)



The production of electrical, electronic, and optical equipment grew by 20.7% compared with 2004. TV-set production grew by 45.1% due, among other things, to the development of joint ventures and consumer lending systems. The preceding period witnessed significant growth in factoring turnover related to electrical equipment suppliers that had become NFC clients a year earlier. Last year this industry's companies accounted for US\$285 million of NFC's turnover.

Growth in the construction industry continued to have a positive impact upon the economy growth trend in 2005. In general, according to the 2005 results, an increase in the production of gross added value in construction is estimated at 9.7%, which could not but result in higher demand for factoring services on the part of companies producing construction materials. The volume of services for these companies in the total turnover of NFC amounted to US\$167 million.

As at the end of November 2005, trade receivables increased by US\$44.5 billion (23.7%) on a year-on-year basis to reach US\$232.4 billion on 1 December.

Growth in receivables is an indication of wider interest to trade credits, showed by Russian business entities.

NOWADAYS, THE OPPORTUNITY FOR A COMPANY TO SELL GOODS WITH DEFERRED PAYMENTS IS A PRECONDITION OF ITS COMPETITIVENESS AND PROSPECTIVE GROWTH.

1.2

PROSPECTS FOR DEVELOPMENT OF FACTORING IN RUSSIA.

THE VOLUME OF THE TOTAL RUSSIAN FACTORING MARKET IS ESTIMATED AT 0.9% OF RUSSIA'S GDP. SINCE 1999, THE AVERAGE ANNUAL GROWTH RATE OF THE DOMESTIC MARKET'S FACTORING TURNOVER EXCEEDED 100%. COMMERCIAL BANKS, WHICH DID NOT TAKE SERIOUSLY THE IDEA OF DEVELOPING FACTORING SERVICES AT FIRST, HAVE BEEN RECENTLY VERY ACTIVE IN THE IMPLEMENTATION OF THEIR OWN FACTORING PROGRAMS. FOR INSTANCE, IN 2005 FINANCIAL FACTORING SERVICES WERE OFFERED BY MORE THAN 110 BANKS³.

Three main groups of factoring service providers were active in the Russian market in 2005: commercial banks, factoring companies with banking licenses, factoring companies without banking licenses. Besides, a new category of factors appeared: factoring partnerships, i. e. partnerships between universal banks providing finances and factoring companies providing technologies and additional services.

Last year, a considerable number of factoring service providers took an

interest in geographic business diversification. In 2005, the regional factoring market was still lagging behind the Moscow market; NFC, possessing the widest and most developed sales network of 18 branch offices was the only exception.

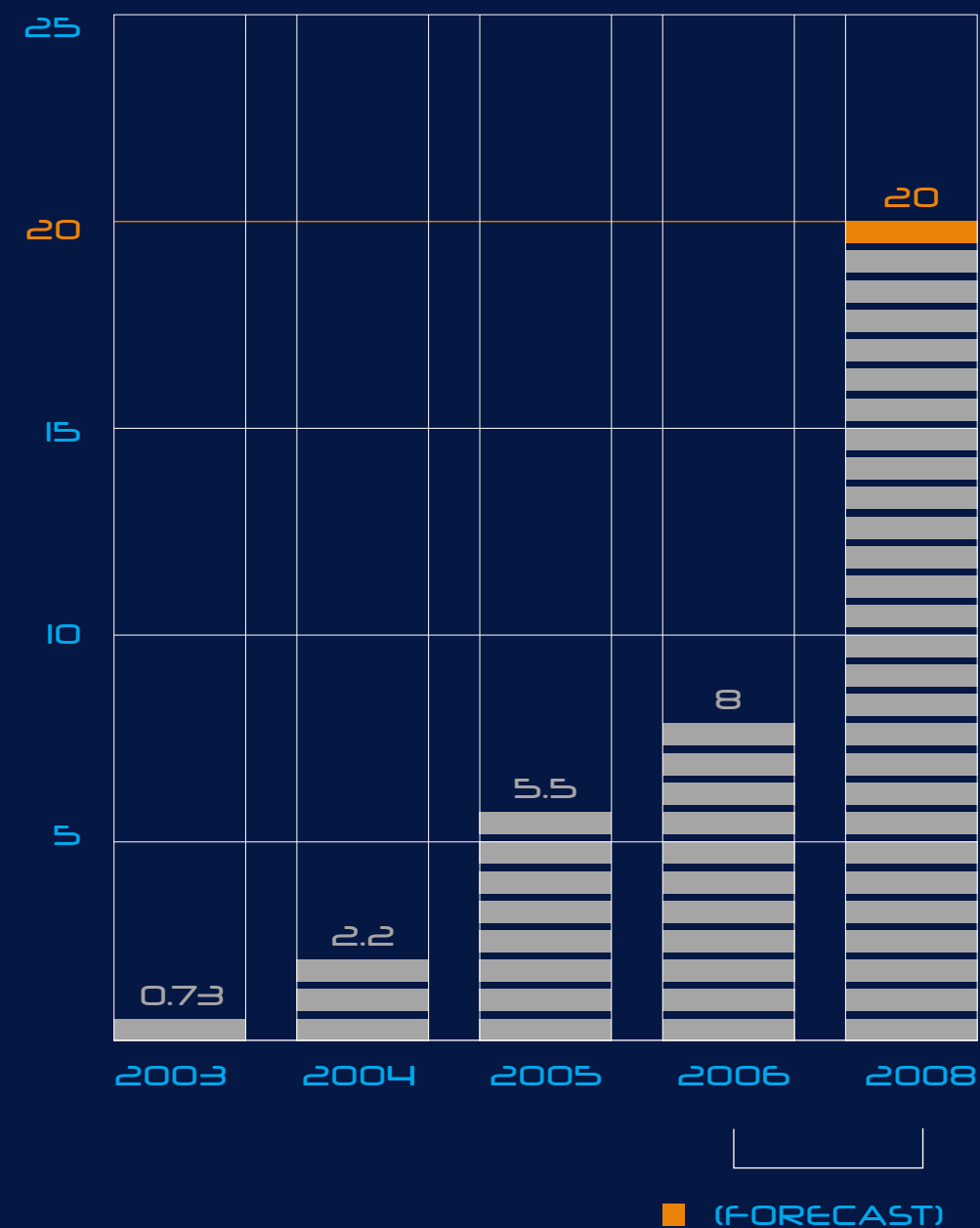
According to various expert estimates, by 2008 the volume of the Russian factoring service market may exceed US\$20 billion or 3% of GDP, which is comparable to the markets of certain European countries. Growth in the Russian factoring industry is facili-

tated by fast growth in the consumer sector of the Russian economy, by a high potential of Russian regions, by liberal laws governing the factoring sector, as well as by presence of such a strong and innovative leader as National Factoring Company.

³ Expert RA «Russian Factoring Market in 2005»



TURNOVER OF THE RUSSIAN FACTORING MARKET
(BILLIONS US\$)



In 2005, financing directly provided by factors to their clients amounted to US\$4.6–4.8 billion, which is a 110-120% increase compared with the previous year. Alongside with that, the growth rate of the volume of assigned receivables slowed down to a certain extent. Simultaneously with a certain «cooldown» in the market toward factoring as a way to finance current assets only, 2005 witnessed a higher demand for outside resources for the development of companies' sales, i. e. outsourcing. This tendency is present not only in Russia. Outsourcing is one of the most widely used solutions for a multitude of problems. According to a research of the Outsourcing Institute, USA, the outsourcing of business processes is a briskly developing method for the optimization of company ac-

tivities. Many Russian companies outsource some functions in the ordinary course of business too. Outsourcing is used for accounting, recruiting, legal support for transactions, document management, etc. High demand for outsourced services fostering efficient business development contributes to the creation of new proposals in this sphere of professional services.

Therefore, upgrading of the currently available set of factoring activities with due account for rapidly growing demand for outsourcing ensures future growth in the industry. Provision of services different from the financing, including services related to risk coverage, professional management of accounts receivable, as well as collector services, can provide a basis for a new proposal to the market.

In 2005, National Factoring Company, which had historically been the main driving force of Russian factoring, developed a new offer to the market designed to meet the basic requirements of companies actively increasing the sales of their products. NFC initiated the conversion of factoring from purely financial services into an industry designed for providing the end user with the needed tools for ensuring sales growth and business development: Commercial Factoring.

The geographical spread of the Company's business allows it to mobilize resources for the implementation of such an ambitious task in all key regions of Russia, thus ensuring equal opportunities for development of clients' trade and production companies, irrespective of their proximity to Moscow.

DUE TO SUCCESSFUL REORIENTATION OF CONSUMERS FROM THE PURCHASE OF «PLEDGE-FREE FINANCING» TO THE WIDE USE OF RISK MANAGEMENT OUTSOURCING COMBINED WITH THE SAME FINANCING, COMMERCIAL FACTORING CAN BECOME AN IRREPLACEABLE TOOL FOR ENSURING THE EFFICIENT FUNCTIONING BOTH OF INDIVIDUAL COMPANIES AND OF THE ENTIRE RUSSIAN ECONOMY IN THE NEAR FUTURE.

1.3

COMMERCIAL FACTORING AS A NEW INDUSTRY OF THE RUSSIAN ECONOMY.

UNLIKE TRADITIONAL FINANCIAL BUSINESSES, FACTORING IS A PRINCIPALLY NEW AND INNOVATIVE INDUSTRY MEETING THE 21ST CENTURY SUPPLIERS' REQUIREMENTS WITH THE UTMOST ACCURACY: BUILDING OF A PROFITABLE BUSINESS IN A BUYER-DOMINATED HIGHLY COMPETITIVE ENVIRONMENT.

The purpose of the «Commercial Factoring» package of services offered to the Russian market by National Factoring Company in 2005 is to speed up sales growth and reduce exposure to losses due to a lack of resources needed to maintain a fast rate of business development. Commercial Factoring solves the main problem of a business: sales growth by penetrating into new markets due to providing the widest possible range of buyers with the best terms and conditions for purchasing goods.

The package of activities proposed by NFC is designed to solve a set of support problems facing any growing business, for example: better payment conditions offered to buyers, including the opportunity to have deferred payments starting with the first deliveries; aggregation of time, material and professional resources needed for sales growth; improved security of business. Solving the above problems with the help of factoring, trade and production companies get an opportunity to concentrate all resources on the key tasks of business development: formation of the product mix, quality control, and search for buyers. In most cases, commercial factoring services are provided under terms of assignment of the client's accounts receivable and are paid for only out of sales proceeds.

When developing this package of services, NFC strived to create a «turn-key» professional system of sales support that could be used by Russian companies at any time where necessary. This system is based on the methods and practice of the management of accounts receivable and risk assessment developed and successfully tested by the Company during eight years of its operations. NFC is simultaneously the developer and user of the offered services.

The Commercial Factoring product mix offered by NFC in 2005 consisted

of services related to credit risk coverage («Factoring-Guarant»), services related to the expert review and management of accounts receivable (Factoring-Signal), and services related to financing of deliveries with deferred payments (Factoring-Finance).

Factoring-Signal

This is a package of activities related to the expert review and management of accounts receivable. The client is offered a whole set of tools, including investigations of the business reputation of a company and its owners, title documents, contract base, field audits, etc. On the basis of expert review, National Factoring Company recommends to the client the permissible limits of delivery to a specific debtor.

Professional expert review significantly reduces risks associated with the beginning of work with a new buyer.

The management of accounts receivable involves systematic actions of NFC aiming to ensure timely payments.

The proposed system of activities is a new approach to company risk management: outsourcing of risk management. Factoring-Signal provides an opportunity to make use of services of an experienced company instead of a hired risk management personnel. The outsourcing allows a client to regularly check their debtors all over the country without leaving their office, to replace fixed costs with a variable factor fee and solve the problem of shortage of professional risk managers.

Factoring-Guarant

National Factoring Company undertakes a guarantee commitment with respect to the client's debtors in case of a delivery with deferred payments. These services are protection against losses in case debtors fail to pay for deliveries: if a debtor has not paid within a specified period after the payment deadline, NFC repays the debt to the client.

Factoring-Guarant is a powerful tool for enhancing a company's competitiveness, offering an opportunity to work under deferred payment terms with any number of new and old customers. Covering its credit risks at the account of factoring, a company can afford an aggressive sale policy when entering into new markets and deliveries to new customers in the amounts adequate to their demand.

Factoring-Finance

These services are designed for financing clients under assignment of accounts receivable. This is a flexible and convenient tool which allows solving the problem of insufficient current assets: the sum of factoring financing increases with growth of the client's sales volume, each new delivery is financed by the factor automatically within the limits previously established on the basis of the clients' requests. Factoring-Finance provides companies with a high mobility in approach for management of cash and goods flows, since absence of the period of waiting for the needed financial resources allows them to promptly replenish their inventories and finance the development programs.

Combining Factoring-Finance with other elements of the product mix, a NFC client ensures for itself a sustainable inflow of various resources on the basis of which the client may discover limitless horizons for expansion of its business in the near future.

САМЫЕ ЯРКИЕ ЗВЕЗДЫ

КАК ИЗВЕСТНО, НАГРЕВАЕМЫЙ МЕТАЛЛ СНАЧАЛА НАЧИНАЕТ СВЕТИТЬСЯ КРАСНЫМ СВЕТОМ, ПОТОМ ЖЕЛТЫМ И, НАКОНЕЦ, БЕЛЫМ ПРИ УВЕЛИЧЕНИИ ТЕМПЕРАТУРЫ. ТАКЖЕ И СО ЗВЕЗДАМИ. КРАСНЫЕ – САМЫЕ ХОЛОДНЫЕ, А БЕЛЫЕ ИЛИ ДАЖЕ ГОЛУБЫЕ – САМЫЕ ГОРЯЧИЕ. ЯРКОСТЬ ЗВЕЗДЫ ЗАВИСИТ ОТ ЕЕ МАССЫ – ЧЕМ ЗВЕЗДА ТЯЖЕЛЕЕ, ТЕМ СВЕТИМОСТЬ БОЛЬШЕ. ЕСТЬ ЗВЕЗДЫ, КОТОРЫЕ ЯРЧЕ НАШЕГО СОЛНЦА В ДЕСЯТКИ, СОТНИ, ТЫСЯЧИ И ДАЖЕ МИЛЛИОНЫ РАЗ.

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СТРАТЕГИЯ
И КОНКУРЕНТНЫЕ
ПРЕИМУЩЕСТВА

2.1 NFC-DEVELOPMENT STRATEGY

2005 became the next stage in the implementation of NFC's strategic plan: to build up the most innovative and most dynamically developing factoring company in the world.

Extensive growth in NFC's business required its name to be harmonized with the role of a generally recognized «locomotive» of the Russian factoring industry that the Company had played over several years.

In 2005, NFC URALSIB-NIKoil was re-named as National Factoring Company.

The separation of factoring business from the structure of URALSIB Financial Corporation was followed by rebranding as the next step toward the implementation of the corporate long-term strategy. In the process of creating a new brand, NFC pursues the long-term policy based on the following principles:

Desire to follow successful world practices — the world's most successful companies have developed independent of banks

Ensuring a high speed of decision making — the Company is a dynamic mechanism focusing on achievement of the specific final result: provision

of high-class professional factoring services to customers. The Company's management is free of daily solving numerous administrative issues related to conflict of interest among different divisions of multi-profile banks

Improvement of the Company's reliability for clients — the narrow specialization guarantees that priority is given to the long-term development of purely commercial factoring, but not of any other product offered by universal commercial banks

Concentration of highly professional specialists in the same company — NFC's team is composed of specialists with many years of experience in factoring. The Company has created a training infrastructure enabling its specialists to regularly improve their factoring skills

Continuous expansion and renovation of the product mix — achievement of maximum synergy between financial and non-financial services within one company

Partnerships with various financial groups and banks of Russia — NFC strives to expand cooperation with commercial banks, providing addition-

al income to banks and professional factoring services to their customers

While implementing this strategic plan, NFC achieved results determining its leadership not only in the domestic market, but also in Eastern European countries. With turnover of US\$1.6 billion in 2005, NFC became a leader among non-network factoring companies in Eastern Europe.

In the reporting period, the income of factoring business, under the management of NFC team, more than doubled and amounted to US\$30.2 million. The base of actively working clients grew with a factor of one and a half — up to 659 companies.

In late 2005, NFC received from Standard & Poor's a credit rating: long-term «B-» and short-term «C» (the outlook is stable) and «ruBBB» (Russian scale).

⁴ Excl. VAT

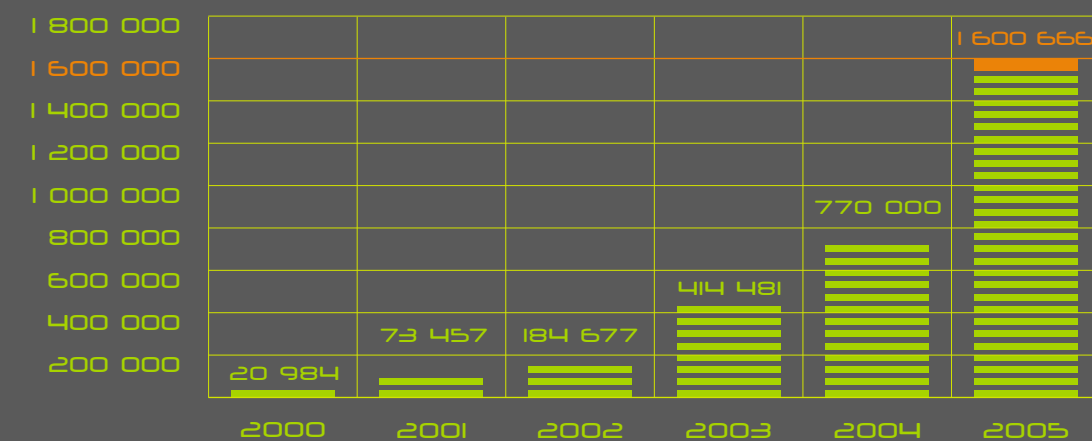
⁵ (Diagram 5 «Income») Except where otherwise specifically indicated, financial indicators for NFC's factoring business for 2000–2004 include indicators for clients of NIKoil IBG Bank (URALSIB since 2005)

THE 2005 RESULTS CONFIRM THE CORRECTNESS OF THE SELECTED BUSINESS DEVELOPMENT STRATEGY. THE POLICY OF CONCENTRATION OF EFFORTS AND RESOURCES IN THE MOST PROMISING BUSINESS AREAS FORMS A BASIS FOR SUCCESS IN THE CASE OF MOST OUTSTANDING COMPANIES IN THE WORLD.

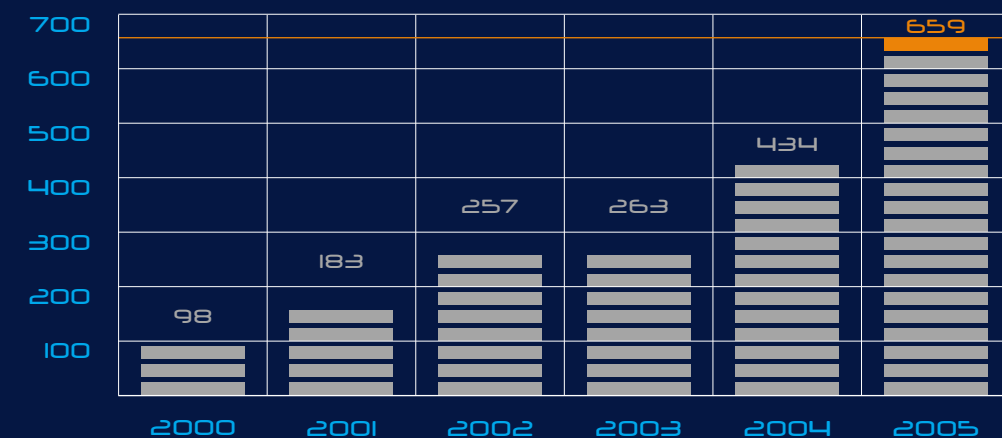
INCOME (THOUSANDS US\$)



TURNOVER (THOUSANDS US\$)



ACTIVE CLIENTS



2.2 NFC-LEADERSHIP

IN 2005 NATIONAL FACTORING COMPANY REMAINED THE LEADER IN THE RUSSIAN FACTORING MARKET, ITS SHARE IN THE VOLUME OF ASSIGNED RECEIVABLES AMOUNTED TO 30%.

The year results demonstrated an increase in the number of active clients by more than 50%, making the whole number over 650 companies. The number of debtors increased by 66% to 27.4 thousand companies. Annual turnover per client grew by more than 78%.

In spite of a certain slowdown in the Russian factoring industry, the Company managed to retain this indicator at 100% a year. Currently, NFC remains one of the most dynamic companies in Russia. Last year's business growth

was due to the following competitive advantages:

Specialization — NFC team is devoted to the idea of building an outstanding factoring company of international class

Permanently updated list of services — NFC uses creative approach for business development and is in constant search for new ideas contributing to improvement of the factoring services

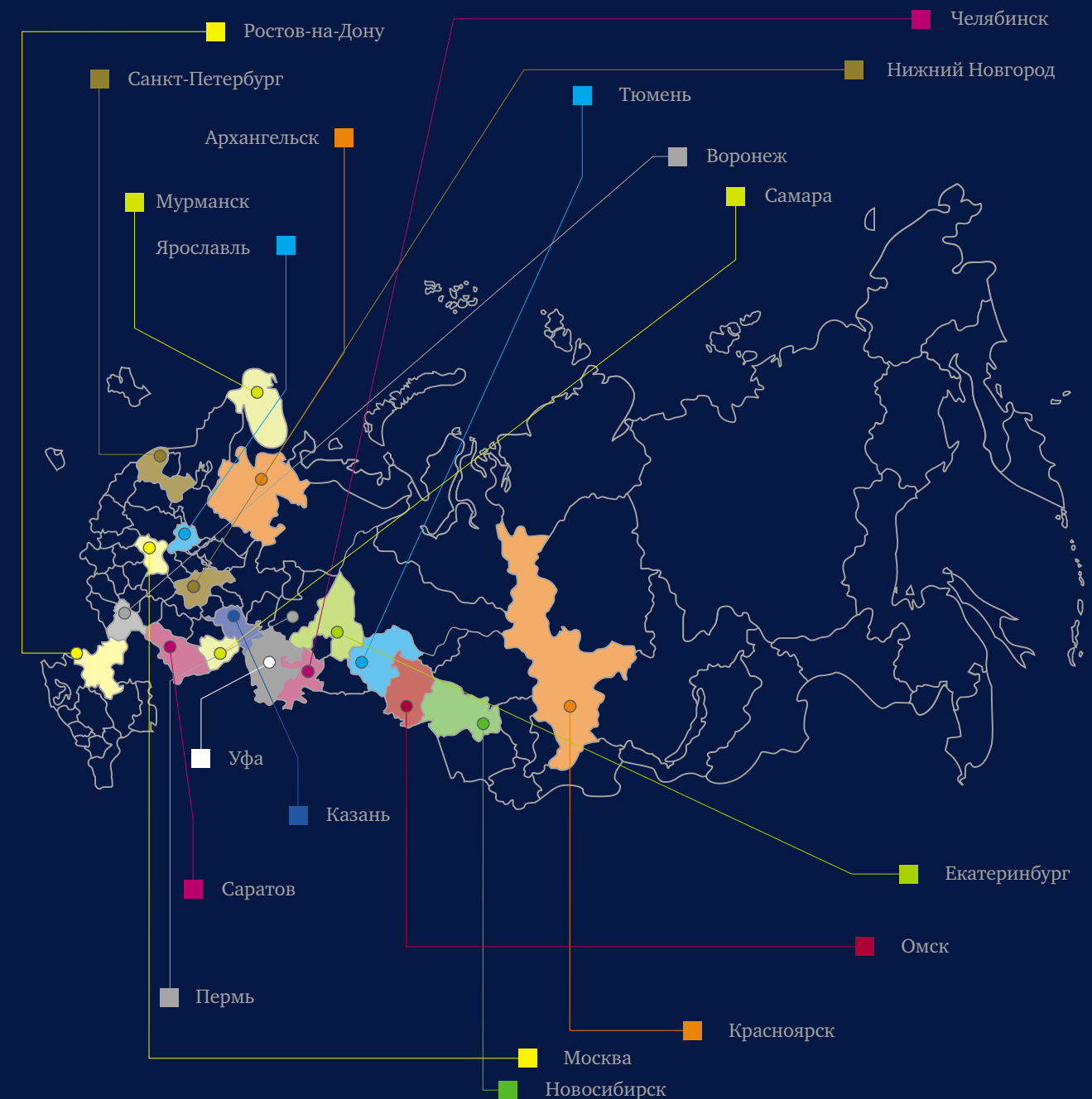
Experience — NFC managers are the pioneers of the factoring business in

Russia as, more than 10 years ago, they initiated the creation of the industry

High level of technologies — NFC is a developer of the software for automation of all of the main business processes, which is unique for Russia. The permanently upgraded information system corresponds to the world's highest standards

Geographically diversified business — NFC's factoring services are offered in 19 key regions of Russia

НФК ЯВЛЯЕТСЯ НАИБОЛЕЕ ГЕОГРАФИЧЕСКИ ДИВЕРСИФИЦИРОВАННОЙ ФАКТОРИНГОВОЙ СЕТЬЮ В РОССИИ.



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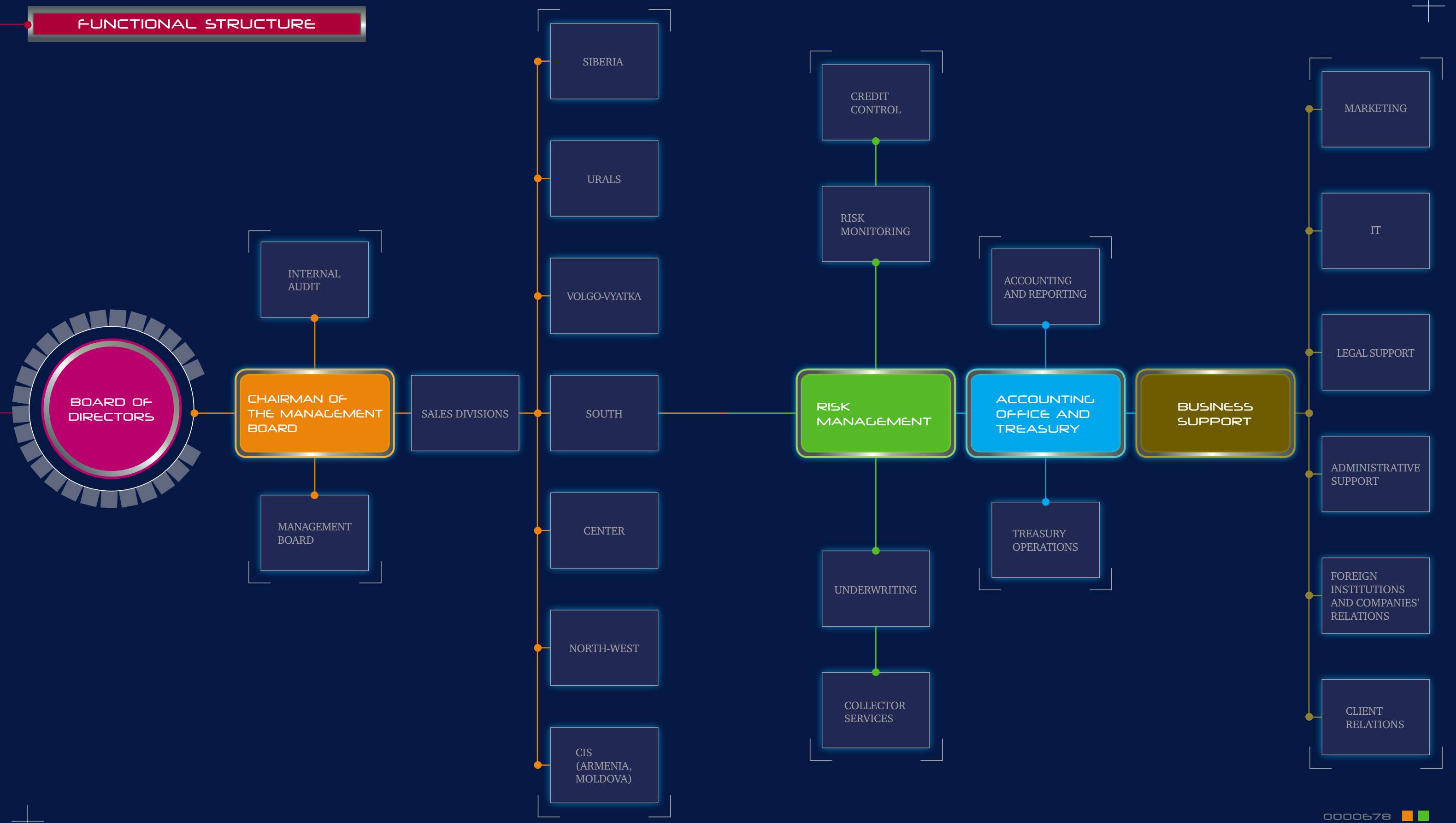
ТОНКАЯ СТРУКТУРА КОЛЕЦ САТУРНА

ШИРОКОЕ, СОВЕРШЕННО ПЛОСКОЕ КОЛЬЦО ОКРУЖАЕТ ЭКВАТОР САТУРНА, КАК ШЛЯПУ - ЕЕ ПОЛЯ. В ЛУЧШИЕ ТЕЛЕСКОПЫ ВИДНО, ЧТО НА САМОМ ДЕЛЕ ВОКРУГ ПЛАНЕТЫ ВРАЩАЕТСЯ МНОЖЕСТВО ВЛОЖЕННЫХ ДРУГ В ДРУГА КОЛЕЦ, РАЗДЕЛЕННЫХ ТОНКИМИ ПРОМЕЖУТКАМИ. КАЖДОЕ КОЛЬЦО СОСТОИТ ИЗ ЧАСТИЦ И ГЛЫБ, ДВИЖУЩИХСЯ ПО СВОИМ СОБСТВЕННЫМ ОРБИТАМ ВОКРУГ САТУРНА, КАК НЕЗАВИСИМЫЕ СПУТНИКИ. НО ЗА СЧЕТ ТОНКИХ ГРАВИТАЦИОННЫХ ВЗАИМОДЕЙСТВИЙ ОНИ ОБРАЗУЮТ ИДЕАЛЬНУЮ СЛОЖНО ОРГАНИЗОВАННУЮ КОЛЬЦЕВУЮ СТРУКТУРУ.

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КОРПОРАТИВНОЕ
РАЗВИТИЕ

FUNCTIONAL STRUCTURE



3.1 SALES

SALES THROUGH BRANCH OFFICES LOCATED IN 18 KEY REGIONS OF RUSSIA, AS WELL AS THROUGH THE HEAD OFFICE IN MOSCOW, ARE THE MAIN DRIVING FORCE OF THE NFC BUSINESS.

Strengthening of NFC positions in the regional markets continued in 2005. The number of new working clients attracted in the regions, in Moscow and the Moscow region amounted to 363 companies. Their share in NFC's total turnover amounted to 17% reaching almost US\$262 million. Revenues from this group of clients exceeded US\$4 million or 16% of the Company's gross income.

Last year was characterized by improved professional competence of regional managers and, consequently, by the strengthening of self-sustaining capability of some branch offices. Branch offices in Yekaterinburg and Kazan, as well as the Moscow sales department, became the most dynamic sales divisions of the Company in 2005.

Siberia Region

Three branch offices of NFC in Novosibirsk, Omsk and Krasnoyarsk operated in the Siberian Federal District in 2005. In the reporting period, the Novosibirsk branch office concluded the first

direct export factoring contract in the history of factoring behind the Urals. One of the largest domestic perfume networks — Parfum with sales branches all over Russia — also became a client of NFC.

Urals Region

In the Urals Federal District, the Company operates through its branch offices in Yekaterinburg, Ufa, Perm, Tyumen and Chelyabinsk. Last year, the five Urals branch offices provided services to 185 clients, and their share in the total income of NFC reached 17%. The branch office in Yekaterinburg is the leading local sales division. The first client to receive services under the Factoring-Guarant scheme in the reporting year was from Yekaterinburg.

Volgo-Vyatka Region

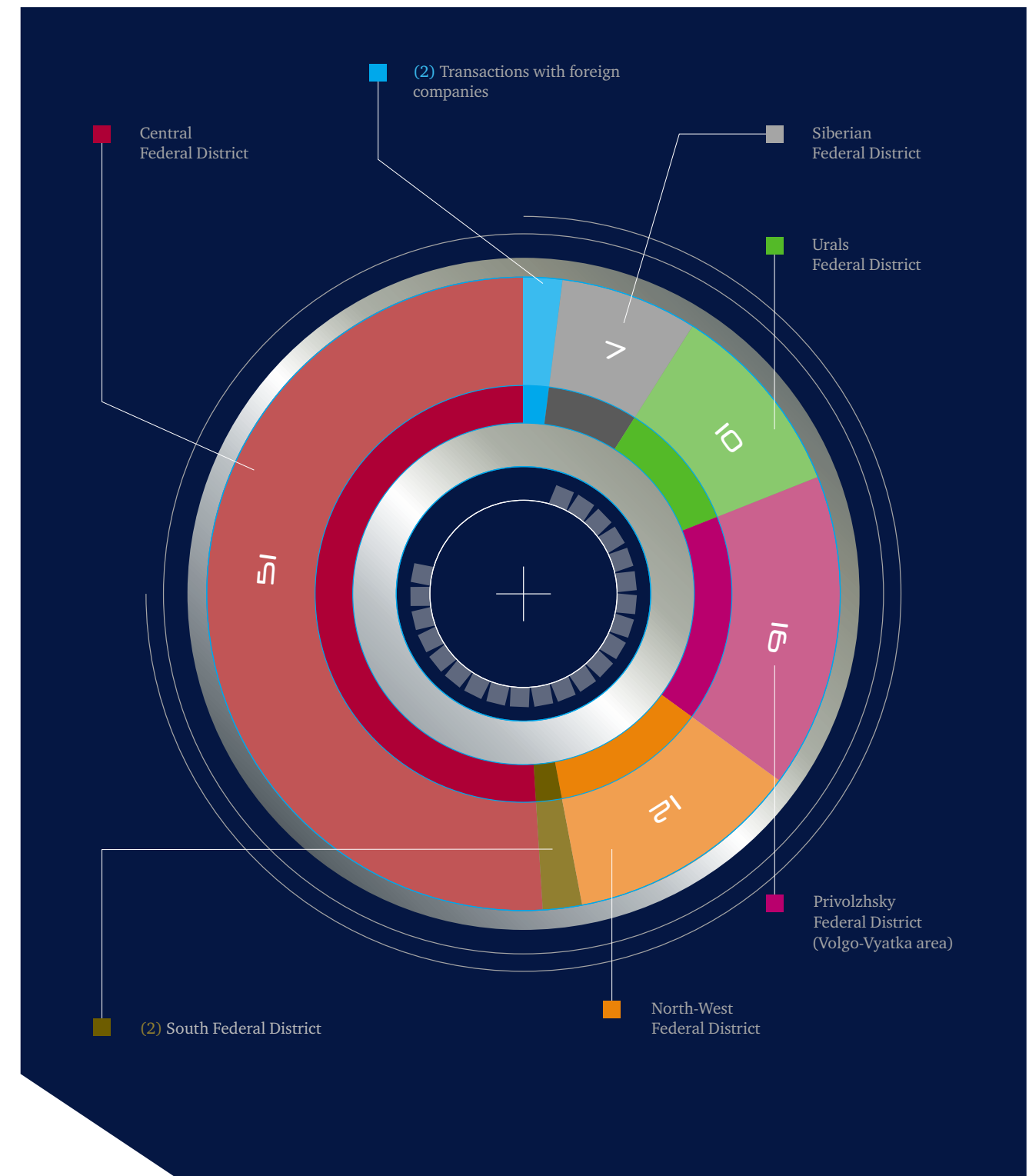
In the Volgo-Vyatka Region, NFC operates through branch offices in Kazan, Samara and Nizhni Novgorod. Active work aimed at business expansion through attraction of clients from the

so called satellite towns of federal centers is carried out in this region. In 2005, the Kazan branch office of NFC arranged several promotional actions in Naberezhnye Chelny, including publications in the mass media and education workshops. As a result, the geography of the Company's business expanded to include one more city.

North-West Region

Operations in this region started in August 2000 with the opening of a sales point in St. Petersburg; in 2004 the Company opened a branch office in Murmansk and in 2005 Archangelsk branch office. In the reporting period, the NFC branch offices successfully re-oriented the sales process to the sale of new services. For instance, at the end of the year, NFC signed several agreements for Factoring-Guarant services.

DISTRIBUTION OF FACTORING TRANSACTIONS BY REGION (VOLUMES OF TRANSACTIONS).



North-West Region

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South Region

The year 2005 was characterized by growing competition in this region. In

spite of increased activity of competitors, NFC branch offices in Saratov, Rostov and Voronezh managed not only to retain their current clients, but also to contribute to expansion of the Company's client base due to beginning to provide services to enterprises from the industries which are new for factoring: suppliers of oil products and agricultural goods.

Moscow and Moscow Region

In the reporting year, Moscow was the leader in sales of the Company's new products: Factoring-Guarant and Factoring-Signal. Suppliers of foods,

household appliances and electronics were traditional factoring consumers in Moscow and the Region. In 2005, more clients were attracted from the furniture industry, which had not been a very active factoring consumer. Moscow sales managers also came to a new regional industry segment, having started working with a large shoe company supplying shoes under the Ralf Ringer trademark. The Company also started dealing with an international giant of the cosmetics industry — Beiersdorf, which is the exclusive distributor of such brands as Nivea, Florena, la prairie, Hansaplast.

CURRENTLY, THE NFC REGIONAL NETWORK IS THE LARGEST AND THE MOST TECHNOLOGICALLY ADVANCED FACTORING NETWORK IN RUSSIA. BY 2008, THE COMPANY PLANS TO INCREASE THE NUMBER OF ITS BRANCH OFFICES TO 25-30.

Agency Sales

The creation of a full-scale agent network is a key element in the NFC's national strategy of sales. The Company is in constant search for its potential agents capable of attracting clients from among banks, insurance companies, accounting and auditing firms, etc. During 2005, the number of agents operating under contracts with NFC grew by 65% and amounted to 68, including 14 banks.

Cooperation with Commercial Banks

In 2005 NFC actively developed relations with partner banks. The cooperation focused on two areas: loan raising and Syndicate Factoring financing (provided by the Company's partners, while factoring services are provided by NFC).

In the context of creating a system for independent financing of business, NFC cooperates with several

Russian and foreign banks. Among NFC's foreign partner banks in 2005 were Standard Bank Plc and Raiffeisen Bank. NFC, together with leaders in the Russian banking market, started to prepare new ambitious projects in the reporting year.

Syndicate Factoring (provision of factoring services with participation of partner banks) is the second important area for developing interbank relations. This project is unique in the Russian market and is an efficient way for expansion of NFC's business on account of clients of its partner banks; this also allows the partner banks to use factoring to diversify their product mix, better meet the constantly growing requirements of their corporate clients and earn income through joint operations with NFC. Additional advantages for partner banks under this joint project are an opportunity of not only offering NFC's factoring services

to their clients, but also participating in their financing and document management within the frameworks of factoring. Thus, NFC partners increase profitability of operations with clients with a more efficient risk management system. Since NFC, due to its niche specialization, is not a competitor for traditional banks, the Company sees great prospects for the development of partner relations with banks under Syndicate Factoring schemes.

NFC, together with URALSIB Financial Corporation, is implementing a partner program aimed at provision of factoring services to small business enterprises. In the context of this cooperation, National Factoring Company provides a technological and methodological base for the development of factoring services within a product mix of a financial corporation.

PROGRAMS OF NFC'S PARTNERSHIP WITH OTHER COMMERCIAL BANKS ARE DEVELOPED ON A MUTUALLY BENEFICIAL BASIS. DUE TO COOPERATION WITH NFC, COMMERCIAL BANKS HAVE THE FOLLOWING ADVANTAGES:

- ADDITIONAL SOURCE OF INCOME IN THE FORM OF AGENCY FEE,
- SIGNIFICANT GROWTH IN TURNOVER IN THEIR CLIENTS' ACCOUNTS,
- OPPORTUNITY FOR REFINANCING FACTORING COMPANY: ADDITIONAL AND REGULAR INTEREST INCOME,
- IMPROVEMENT OF FINANCIAL STATUS AND CREDITWORTHINESS OF THEIR OWN CLIENTS,
- WIDENING OF OPPORTUNITIES FOR LENDING,
- EXPANSION OF THE PRODUCT MIX WITHOUT ANY EXPENSES AND RISKS INHERENT TO INDEPENDENT CREATION OF THE BUSINESS WHICH IS A NON-CORE BUSINESS FOR COMMERCIAL BANKS.

3.2 CLIENT RELATIONS

IN 2005 THE AVERAGE VOLUME OF PROVIDED FINANCING PER ONE CLIENT GREW BY ALMOST 80%. THIS INDICATOR SHOWS NOT ONLY AN INCREASE IN NFC CLIENTS' SALES, BUT ALSO THEIR RECOGNITION OF FACTORING BENEFITS FOR A DYNAMIC DEVELOPMENT OF BUSINESS.

An NFC client relations manager is responsible for coordination of work with each client, including document management, compliance with regulatory requirements, issue of guarantees under the Factoring-Guarant scheme and payment of the financing in case of Factoring-Finance.

On average, a client relations manager performs up to 12 thousand operations a month. More than 370 thousand invoices were financed in 2005, which is a two-fold increase compared with the previous period.

In its work with clients, NFC follows the personal approach principle. Last year, a system of assistants for client relations managers was introduced by

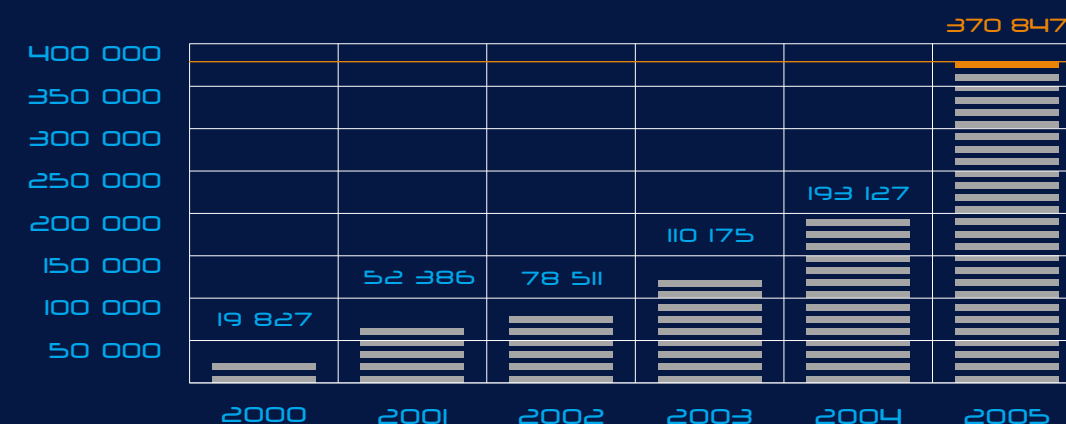
the Company. Due to introduction of this system, a part of the technical load related to document registration was removed from the client relations managers. This allowed more time for direct communication with clients, development of relations and monitoring of the implementation of their proposals related to service quality improvement.

In 2005 NFC put into operation an Electronic Data Interchange (EDI) system — Electronic Factoring (EF) — which is unique for Russia. Due to implementation of this system, the Company's clients can significantly cut the costs related to document delivery to the factor office, reduce the time in waiting for signatures of remote debt-

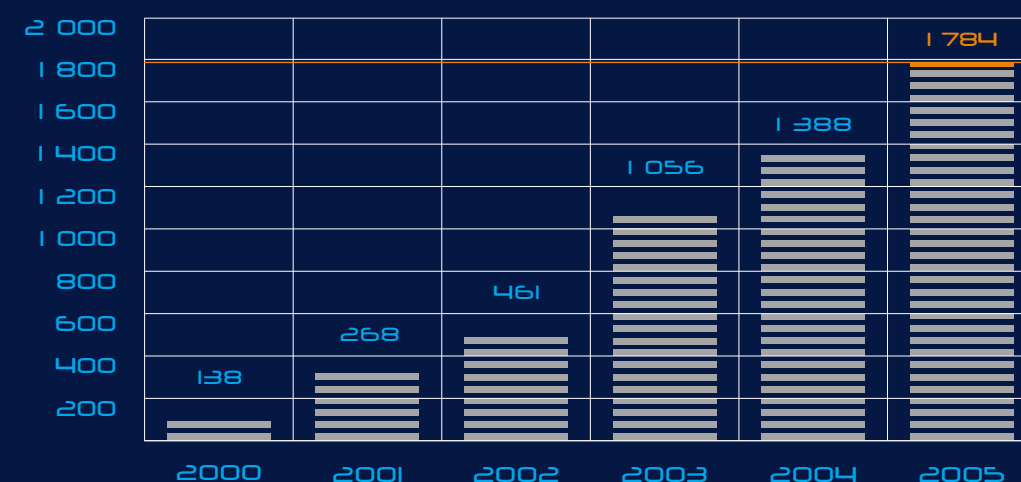
ors, and, if needed, shorten the procedure of obtaining the financing. The system processes all the documents needed for the work: shipping documents, notifications of a new debtor, credit notes, direct payments. EF has a multi-level system of protection against unauthorized access, thus guaranteeing data security for each operation.

Preservation of the client base, introduction of a new product mix for current clients for the purpose of increasing profitability, as well as further improvement of the factoring service quality, were the main objectives for the Company's client relations department in the reporting period.

INVOICES FACTORED



AVERAGE ANNUAL VOLUME OF FINANCING PROVIDED TO CLIENTS AGAINST ASSIGNMENT OF RECEIVABLE (THOUSANDS US\$)



3.3

INTERNATIONAL ACTIVITY

NATIONAL FACTORING COMPANY IS A FULL-FLEDGED MEMBER OF TWO LEADING GLOBAL FACTORING ASSOCIATIONS: INTERNATIONAL FACTORS GROUP SINCE 1999 AND FACTORS CHAIN INTERNATIONAL SINCE 2004. IN THE CONTEXT OF PARTICIPATION IN THESE ASSOCIATIONS, NFC IMPLEMENTS CLIENT SERVICE SCHEMES BASED ON TWO-FACTOR IMPORT AND EXPORT FACTORING. THE TOTAL TURNOVER OF THE INTERNATIONAL FACTORING TRANSACTIONS EXCEEDED US\$20 MILLION.

Import Factoring

During 2005, turnover of the two-factor import factoring grew by 58% compared with 2004 and exceeded US\$10 million. The income growth rate almost reached 32%.

When NFC became a member of the second international association, the number of requests for export factoring services in the Russian Federation increased greatly. The number of requests for establishment of limits was more than two-fold higher on a year-on-year basis and exceeded 250. The total sum of the limits established under two-factor import transactions was about US\$24 million.

Traditionally NFC has partners in the USA, Western and Eastern Europe, Baltic and CIS countries. Besides, the Company has recently obtained new correspondents in Asia and South America, including such countries as Brazil, Mexico, Japan, and India. By the end of 2005, NFC established relations with around 20 correspondents.

Export Factoring

The volume of NFC export operations in 2005 grew by 62%, exceeding US\$14 million in absolute terms. An ever increasing share in the total volume of export transactions belongs to operations with participation of partners in IFG and FCI. The share of two-factor export transactions grew from 25% in 2004 to 77% in 2005.

In 2005, NFC continued active development of export factoring (financing of export deliveries and coverage of related risks.) Specifically, NFC's factoring services covered deliveries to such countries as Germany, Austria, France, UK, Japan, Poland, Hungary, Latvia, Lithuania, Estonia, Ukraine, Kazakhstan, and Belarus.

Income from various products of export factoring, including direct export factoring and two-factor export transactions grew by 60%.

Development of International Relations

Last year, the Company continued to participate in international factoring associations. For instance, in April 2005, NFC and Factors Chain International held the conference «Efficient Mechanisms for Export Sales Growth» in Moscow. The conference included speeches delivered by heads of the world's leading factoring companies concerning the use of factoring for export transactions. The conference was attended by about a hundred exporters from various regions of Russia.

A month later, East European Chapter of IF-Group, whose president is Chairman of the Management Board of NFC Mikhail Treyvish, held the workshop «First Steps in Factoring Business». The idea of organizing the workshop was supported by local leaders in factoring. Representatives of Russian and foreign factoring companies, including companies from Kazakhstan, Ukraine, Moldova and Slovenia, participated in the workshop.

In October, 2005 the International Factors Group presented the Chairman of the Management Board of NFC Mikhail Treyvish with the «Feather in the cap» award for contribution to the development of the factoring industry. The award with such a symbolic name is granted to the most outstanding representatives of the global factoring industry.

Representatives of NFC also took part in the work of the Legal and Marketing Committees of IFG.

In November, a regular annual conference of the East European Factoring Association (EEFA), which was, as usual, organized with a strong support of NFC and its partner — the leading factoring company at the Balkan peninsula — PRVI Factor, was held in Ljubljana, the capital of Slovenia. The President of EEFA Mikhail Treyvish emphasized the fact, that the annual growth of the number of delegates, participating in the conference, dem-

onstrates the recognition of the Association's contribution into development of factoring on the territories of the CIS countries. In 2005, more than 80 delegates from 24 countries participated in the conference.

⁶ International Factors Group (IFG) is the first international factoring association existing since 1960. The association's work focuses on organization of international factoring operations for various companies all over the world. The association has 78 members in 59 countries. Currently, IFG is starting the process of transformation into a global trade association, including development of the Eastern European and Asian directions of its activity, attracting partners and sponsors in the process of this work. (www.ifgroup.com)

Factors Chain International (FCI) is a global network comprising 212 factoring companies from 61 countries, designed to contribute to growth in international trade through development of factoring and other financial instruments used in international trade. FCI helps its members achieve competitive advantage in international trade finance services. It is an open chain, encouraging quality factoring companies to join its ranks. As an open chain, FCI will view competition as a stimulus for superior service to exporters. (www.factors-chain.com).

⁷ The East European Factoring Association was established in 2001 for the purpose of promoting regional factoring development of protecting the interests of Eastern European factoring companies

3.4 RISK MANAGEMENT

IN ACCORDANCE WITH THE COMMON WORLD PRACTICE OF RISK MANAGEMENT, NFC SINGLES OUT TWO TYPES OF RISKS IN THE WORK WITH COUNTERPARTIES: CLIENT RISK – UNFAIR PRACTICES AND FRAUDULENCE, AND RISK OF DEBTOR – CREDIT RISK.

In 2005 the Company started upgrading the existing risk management system with a view to creating a multi-level system of protection against the above risks. The system under implementation will allow us to diagnose above mentioned risks at the stage of their inception, as well as to improve efficiency of credit risk's assessment for every new client as well as a debtor..

A dedicated Risk Monitoring Service (RMS) was organized by NFC in 2005 with the aim of managing client risks and running verification and monitoring.

Verification is a package of measures to identify invalid accounts receivable and other aspects preventing the bona fide fulfillment by the parties of their contractual obligations.

Monitoring means a number of activities designed to identify counterparty risks at the initial stages. Within its framework, the Risk Monitoring Service should look for confirmation of the validity of account receivables. Monitoring is carried out on a regular basis and on a random basis.

Management of debtor credit risk, when carrying out the financing of the client and providing a number of additional services for the client, is performed with the help of information collection systems, followed by establishment of credit limits by professional underwriters. The system for collection of information, related to the client and its debtors, calls for checking of the business reputation of companies, for checking of affiliation

between the client and the debtor, as well as for analysis of the financial status of the client's business. Underwriting allows NFC to assess the debtors and establish credit limits within the personal limits of individual underwriters. The underwriting system is built on the basis of the principles of clear-cut professional specialization and independence of its participants.

In 2005, within the package of activities related to Factoring-Signal, National Factoring Company offered to consumers a number of the above algorithms and techniques developed and used by the Company to minimize internal risks.

TIME PERIODS FOR ESTABLISHMENT OF CREDIT LIMITS FOR DEBTORS

CREDIT LIMIT	WORKING DAYS
Below US\$10 thousand	3
From US\$10 thousand to US\$50 thousand	4
From US\$50 thousand to US\$150 thousand	5
From US\$150 thousand to US\$500 thousand	10
From US\$500 thousand	15

3.5 INFORMATION TECHNOLOGY

FACTORING SERVICES ARE A HIGH-TECH BUSINESS. TO ENSURE THE FAILURE-FREE AND HIGH-QUALITY PROVISION OF SERVICES, A FACTOR SHOULD HAVE A PACKAGE OF INFORMATION SYSTEMS, ENSURING AUTOMATION OF ALL MAIN BUSINESS PROCESSES.

Otherwise, it is impossible to render high-quality services to a large number of clients. NFC started development of the System for Automation of Factoring Operations (SAFO NIK Factor) as early as 1999, being at that time a division of NIKoil Financial Corporation. SAFO NIK Factor is a powerful, flexible and scalable information system automating all main business processes.

The IT Department is currently responsible for the support and upgrading of the system. All systems created and used by NFC are protected by copyright.

In 2005, the IT Dept started the pilot operation of the Electronic Factoring System using electronic digital signatures (EDS) of the client and the debtor.

The product provides the client with an opportunity to use electronic copies of original documents containing the

needed EDS while receiving any factoring services.

Besides, the Company developed and implemented a Management Accounting Module and a Risk Management Module.

So, by the end of 2005, SAFO NIK Factor comprised several functional modules:

- Operations Module — the main part of the system, responsible for processing of the original documents and execution of all of the main operations
- Accounting Module — integration with the Automotive Banking System (ABS), formation of entries
- Management Accounting Module — automation of the Management Accounting of the Company
- Risk Management Module — daily monitoring of a great number of indicators for all the clients

• CRM-Module — client relations management from the first contact

• Analytical Module — provides great analytical capabilities

• Support of Branch Offices
One of the main tasks solved by the Department in 2005 the was developing software for the upgraded product mix.

The statistics show that SAFO NIK Factor daily processes more than 10,000 operations. The system serves as the platform for special software modules providing NFC clients with all the necessary real-time information: “e-Factoring”.

SAFO NIK FACTOR IS CONSTANTLY UPGRADED. NEW MODULES ARE IMPLEMENTED, FUNCTIONAL CAPABILITIES OF EXISTING MODULES ARE IMPROVED. IN 2005, THE SYSTEM WAS UPGRADED AND UPDATED MORE THAN 320 TIMES.

БЛИЖЕ К СОЛНЦУ

У КОМЕТ ПРЯВЛЯЕТСЯ ХВОСТ, ТОЛЬКО КОГДА ОНИ ПРИБЛИЖАЮТСЯ К СОЛНЦУ. ЭТО ПРОИСХОДИТ ЗА СЧЕТ ИСПАРЕНИЯ ЛЬДА ИЗ КОТОРОГО СОСТОИТ ЯДРО КОМЕТЫ. ХВОСТЫ КОМЕТ ОТКЛОНЯЮТСЯ ИЗ-ЗА СОЛНЕЧНОГО ВЕТРА И РАСТЯГИВАЮТСЯ НА МНОГИЕ МИЛЛИОНЫ КИЛОМЕТРОВ. БЛАГОДАРЯ РЕЗОНАНСНОЙ ФЛУОРИСЦЕНЦИИ КОМЕТЫ ХОРОШО ВИДНО ДАЖЕ НЕВООРУЖЕННЫМ ГЛАЗОМ.

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ДЛЯ ОБЩЕСТВА

For People

Working in such a highly intellectual and technologically sophisticated business as factoring, NFC pays attention first of all to the professional level of its employees. The number of Russian professionals in factoring is not sufficient, and NFC is following the policy of training the specialists within the Company and at its own account. Every year, three advanced training workshops are organized for the personnel of the Moscow office and regional branch offices — Meeting of Client Relations Managers, Meeting of Credit Controllers, Meeting of Branch

Office Directors — as well as regular trainings for sales managers. The agenda of these events includes trainings, analysis of the results of work of corresponding divisions and discussion of plans of their development in future. NFC personnel regularly participates in workshops organized by international factoring associations and also works as trainees at the world's leading factoring companies. The Company also subsidizes learning of English by its personnel. As of the end of 2005, more than three hundred employees were engaged in the factoring busi-

ness of NFC. The number of employees working for regional branch offices amounted to 91. NFC payments for social security of the personnel include subsidies of the programs of voluntary medical insurance, subsidy at the birth of a child, additional payments to the child home care allowance, additional payments to the temporary disability allowance, etc. In 2005 the sum of social payments and expenses for the professional training of the Company's personnel amounted to almost US\$260 thousand.

For the Business Community

In the late 1990s, the very notion «factoring» was viewed by the Russian market as something exotic. The services for financing of current assets were seen by the potential consumers just as an opportunity to get «easy» money without a collateral. Commercial banks, possessing the needed resources, were not striving to offer factoring both because of the labor- and capital intensive nature of its implementation, and because of their conservatism.

From the approval of decision to establish the Factoring Services Department within NIKoil IBG Bank (URAL-SIB since the summer of 2005) until now, NFC managers have always found it very important to form market-based knowledge about factoring as a mechanism capable of bringing Russian enterprises to a qualitatively higher level of development. During years of their work in factoring, specialists of NFC have participated in over a thousand

educational events, written dozens of articles and publications aimed at the expansion of knowledge of Russian entrepreneurs about the most advanced and efficient mechanisms of sales.

As a result of these efforts by NFC, factoring not only was accepted by the market, but also became an irreplaceable element of the day-to-day business of some domestic enterprises.

DURING YEARS OF JOINT WORK – FIRST, WITH NIKOIL AND, THEN, WITH NATIONAL FACTORING COMPANY – DOZENS OF CLIENT ENTERPRISES HAVE MANAGED TO TURN FROM LOCAL COMPANIES INTO REGIONAL COMPANIES AND, AS REGIONAL COMPANIES, TO ENTER NEW MARKETS. MANY COMPANIES THAT APPROACHED US JUST SEVERAL YEARS AGO AT THEIR START-UP STAGE HAVE TODAY BECOME WELL-KNOWN SECTOR LEADERS. PROVIDING RESOURCES FOR RAISING THE PROFITABILITY AND COMPETITIVENESS OF THE BUSINESSES OF INDIVIDUAL PARTICIPANTS OF THE RUSSIAN MARKET, NFC CONTRIBUTES TO DEVELOPMENT OF THE RUSSIAN ECONOMY AS A WHOLE

For the Country

At the threshold of a new millennium, factoring became an independent and fast growing sector of the world economy. According to FCI data, turnover of the world factoring market grew from 296 billion euros in 1998 to 1,199 billion euros in 2005.

Extensive development of international trade needs a convenient and effective system of settlements among various entities of the world economy. Trade on the basis of open account terms, with the minimum degree of credit risk, has become a widely accepted business practice for global trading and manufacturing companies. In this connection, factoring providing

domestic companies with the needed resources allows Russian business to enter quite smoothly into the international market of goods and services. Factoring significantly increases the competitiveness of Russian exporters, and for many companies it often plays the part of a guide in their first export deals. NFC provides Russian enterprises with the opportunity to offer their products on competitive terms and conditions, contributing to integration of Russian business into the world trade environment.

All over the world factoring is considered to be a high-tech and intellectual business, volumes of annual invest-

ments into development and upgrading of factoring software for execution of factoring operations exceed hundreds of thousands of dollars. The very fact that a company, not inferior by its technological equipment and the range of services to the leading world factors, is operating in Russia, is improving the image of our country in world business community. From its very first steps in factoring, NFC's team has strived to adapt to the Russian realities the world's most advanced experience and use the world's most efficient factoring practices, thus avoiding mistakes made earlier by more mature markets.

MORE THAN 7 YEARS OF THE COMPANY'S CONSISTENT WORK AIMED AT CREATING A NEW ADVANCED INDUSTRY OF THE RUSSIAN ECONOMY HAVE BROUGHT ABOUT THE RESULTS: RUSSIAN FACTORING ENJOYS A HIGH REPUTATION IN THE INTERNATIONAL FACTORING COMMUNITY. THE RUSSIAN FACTORING COMPANY – NFC – IS A LEADER IN THE CENTRAL AND EASTERN EUROPEAN MARKET. THE COMPANY IS NOT ONLY EQUAL TO THE MARKET PLAYERS IN TERMS OF ITS QUALITY OF SERVICES AND ITS INNOVATIVE APPROACH TO BUSINESS, BUT ALSO LEAVES BEHIND MANY OF THEM.

FINANCIAL STATEMENTS 2005

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

REPORT OF INDEPENDENT AUDITORS

TO THE PARTICIPANTS AND BOARD OF DIRECTORS OF BANK «NATIONAL FACTORING COMPANY» (LIMITED LIABILITY COMPANY) – WE HAVE AUDITED THE ACCOMPANYING BALANCE SHEET OF BANK «NATIONAL FACTORING COMPANY» (LIMITED LIABILITY COMPANY) (THE «BANK») AS OF DECEMBER 31, 2005, AND THE RELATED STATEMENTS OF INCOME, CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS, AND CASH FLOWS FOR THE YEAR THEN ENDED. THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE BANK'S MANAGEMENT. OUR RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE FINANCIAL STATEMENTS BASED ON OUR AUDIT. THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004, WERE AUDITED BY OTHER AUDITORS WHOSE REPORT DATED JUNE 30, 2005, INCLUDED AN EXPLANATORY PARAGRAPH WITH RESPECT TO SIGNIFICANT TRANSACTIONS WITH RELATED PARTIES.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the ac-

counting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2005, and the results of its operations

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 19, which discloses significant transactions with related parties, in particular with respect to financing operations.

15 февраля 2006 года

(Thousands of Russian Rubles)

STATEMENTS OF INCOME

	NOTES	2005	2004
INTEREST INCOME			
Factoring	5	878 138	129 564
Debt securities		1 801	—
Due from credit institutions		1 032	912
Loans		470	19 794
		881 441	150 270
INTEREST EXPENSE			
Due to credit institutions		69 572	6 559
Deposits		7 319	2 107
Other		12	9
		76 903	8 675
NET INTEREST INCOME		804 538	141 595
Impairment of interest earning assets	6	84 928	81 741
NET INTEREST INCOME AFTER IMPAIRMENT		719 610	59 854
Fee and commission income less expense		(597)	(46)
Gains less losses from trading securities		404	—
Translation gains less losses from foreign currency		(280)	(5)
Foreign exchange gains less losses		(584)	(1)
Other income		384	73
NON INTEREST INCOME (LOSS)		(673)	21
Salaries and employment benefits	7	153 076	38 319
Administrative and operating expenses	7	83 866	18 006
Depreciation		967	213
NON INTEREST EXPENSE		237 909	56 538
INCOME BEFORE INCOME TAX EXPENSE		481 028	3 337
Income tax expense	8	115 134	1 122
NET INCOME		365 894	2 215

The accompanying notes on pages 46 to 65 are an integral part of these financial statements.

(Thousands of Russian Rubles)

BALANCE SHEETS

	NOTES	2005	2004
ASSETS			
Cash and cash equivalents	9	875 243	844 652
Trading securities	10	20 694	—
Amounts due from credit institutions	11	287 690	55 251
Factoring advances	12	4 370 939	2 806 576
Tax assets	8	9 496	12 564
Other assets	13	32 867	4 861
TOTAL ASSETS		5 596 929	3 723 904
LIABILITIES			
Amounts due to credit institutions	14	3 621 521	1 487 167
Settlements with clients on factoring		77 886	43 510
Time deposits of clients		30 930	705 553
Tax liabilities	8	7 453	11 230
Other liabilities	13	34 931	18 130
TOTAL LIABILITIES EXCLUDING NET ASSETS ATTRIBUTABLE TO PARTICIPANTS		3 772 721	2 265 590
NET ASSETS ATTRIBUTABLE TO PARTICIPANTS			
Statutory fund		1 456 000	1 456 000
Retained earnings		368 208	2 314
TOTAL NET ASSETS ATTRIBUTABLE TO PARTICIPANTS	15	1 824 208	1 458 314
TOTAL LIABILITIES		5 596 929	3 723 904
SIGNED ON BEHALF OF THE BOARD OF DIRECTORS			
Mikhail I. Treyvish			Chairman of Management Board
Dmitry A. Karpushin			Chief Accountant
FEBRUARY 15, 2006			

The accompanying notes on pages 46 to 65 are an integral part of these financial statements.

(Thousands of Russian Rubles)

STATEMENTS OF CASH FLOW

	NOTES	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest, fees and commissions received		853 980	115 811
Interest, fees and commissions paid		(68 536)	(4 976)
Gains less losses from trading securities		(126)	—
Realized gains less losses in foreign currencies		(584)	(1)
Other operating income		384	73
Salaries and employment benefits		(144 071)	(30 224)
Administrative and operating expenses		(84 868)	(16 914)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		556 179	63 769
NET (INCREASE) DECREASE IN OPERATING ASSETS			
Trading securities		(19 956)	—
Amounts due from credit institutions		(231 891)	(55 251)
Factoring advances		(1 622 837)	(2 854 015)
Other assets		(25 083)	(3 020)
NET INCREASE (DECREASE) IN OPERATING LIABILITIES			
Settlements with clients on factoring		34 376	43 510
Time deposits of clients		(673 102)	703 699
Other liabilities		9 781	8 050
NET CASH FLOWS USED IN OPERATING ACTIVITIES BEFORE INCOME TAXES		(1 972 533)	(2 093 258)
Corporate income tax paid		(115 843)	(2 456)
NET CASH FLOWS USED IN OPERATING ACTIVITIES		(2 088 376)	(2 095 714)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(3 891)	(2 055)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(3 891)	(2 055)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts due to credit institutions		2 123 869	1 485 276
Debt securities issued		(1 011)	1 011
Participants funds contributed		—	1 000 000
NET CASH FLOWS FROM FINANCING ACTIVITIES		2 122 858	2 486 287
NET CHANGE IN CASH AND CASH EQUIVALENTS		30 591	388 518
CASH AND CASH EQUIVALENTS, BEGINNING		844 652	456 134
CASH AND CASH EQUIVALENTS, ENDING	9	875 243	844 652

The accompanying notes on pages 46 to 65 are an integral part of these financial statements.

(Thousands of Russian Rubles)

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

	NOTES	STATUTORY FUND	RETAINED EARNINGS	NET ASSETS ATTRIBUTABLE TO PARTICIPANTS
DECEMBER 31, 2003		456 000	99	456 099
Contribution from participants		1 000 000	—	1 000 000
Net income		—	2 215	2 215
DECEMBER 31, 2004		1 456 000	2 314	1 458 314
Net income		—	365 894	365 894
DECEMBER 31, 2005	15	1 456 000	368 208	1 824 208

The accompanying notes on pages 46 to 65 are an integral part of these financial statements.

(Thousands of Russian Rubles)

NOTE 1 – PRINCIPAL ACTIVITIES

Bank «National Factoring Company» (Limited Liability Company) (the «Bank») was established in 2003 as a limited liability company under the laws of the Russian Federation. The Bank possesses a banking license from the Central Bank of Russia (the «CBR») granted in March 2004. 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 en-

ties 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 the leader in the Russian factoring market.

The Bank is a member of a holding headed by Limited Liability Partnership «Limited Liability Company «Financial Corporation NIKoil» and Company»

(the «Group»), involved in delivering financial and banking services in Russia and other CIS countries.

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 56 Profsoyuznaya Street, Moscow 117420. The Bank had an average of 175 employees during 2005 (2004–45) and 210 employees as of December 31, 2005 (2004–85).

NOTE 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.

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 that the Bank has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards: IAS 10 (revised) «Events after the Balance Sheet Date»; IAS 16 (revised) «Property, Plant and Equipment»; IAS 17 (revised) «Leases»; IAS 24 (revised) «Related Party Disclosures»; and IAS 39 (revised) «Financial Instruments: Recognition and Measurement».

The principal effects of these changes in policies are discussed below. IAS 39 «Financial Instruments: Recognition and Measurement» (amended 2004)

Financial Assets and Liabilities at Fair Value through Profit or Loss

A new category of financial instruments has been introduced, «Financial assets and liabilities at fair value through profit or loss». This category includes trading financial assets and liabilities as well as any financial assets and liabilities designated into this category at initial recognition. These assets and liabilities are measured at fair value with recognition of gains or losses on re-measurement to fair value in net income or loss.

(Thousands of Russian Rubles)

NOTE 2 – BASIS OF PREPARATION (CONTINUED)

Reconciliation of RAL and IFRS Net Assets Attributable to Participants and Net Income

Net assets attributable to participants and net income are reconciled between RAL and IFRS as follows:

	2005		2004	
	Net assets attributable to participants	Net income	Net assets attributable to participants	Net income
RUSSIAN ACCOUNTING LEGISLATION	1 737 394	261 339	1 476 199	20 100
Impairment of financial assets and other provisions	62 171	114 076	(51 905)	(51 905)
Deferred taxation	(7 453)	(20 017)	12 564	12 564
Effect of accrued interest	49 213	18 499	30 714	30 714
Accrual of additional compensation benefits	(17 100)	(9 005)	(8 095)	(8 095)
Other	(17)	1 002	(1 163)	(1 163)
INTERNATIONAL FINANCIAL REPORTING STANDARDS	1 824 208	365 894	1 458 314	2 215

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:

IAS 19 (amended 2004) «Employee Benefits»; IAS 21 (amended 2005) «The Effects of Changes in Foreign Exchange Rates»; IAS 39 (amended 2005) «Financial Instruments: Recognition and Measurement»; IFRS 7 «Financial Instruments: Disclosures»;

IFRIC 4 «Determining whether an Arrangement contains a Lease».

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.

NOTE 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 after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

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 investments held for trading are recognised in income.

Loans, Factoring Advances and Receivables

Loans, factoring advances 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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 due from credit institutions that mature within three months of the date of origination and are free from contractual encumbrances.

Borrowings

All borrowings 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 net income or loss when the liabilities are derecognised as well as through the amortisation process.

Leases**Operating — Bank as Lessee**

The Bank presents assets subject to operating leases in the balance sheets according to the nature of the asset.

Lease income from operating leases is recognized in statement of income on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

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 shall be reduced through use of an allowance account. The amount of the loss shall be 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

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 a loan is uncollectible, is it written off against the related allowance for loan impairment. Such loans 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 amount of allowance for loan impairment 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.

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.

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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.

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 less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation of assets under construction and those not placed in service commences from the date the assets are placed into service. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	YEARS
Computers and office equipment	3 - 7
Motor vehicles	3 - 5

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down. Impairment is recognized in the respective period and is included in administrative and operating expenses. Costs related to repairs and renewals are charged when incurred and included in administrative and operating expenses, unless they qualify for capitalization.

Provisions

Provisions are recognized 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 obligation can be made.

Retirement and Other 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.

Statutory Fund

Statutory fund is recognized at cost. Distributions are recognized in net assets attributable to participants as a reduction in the period in which they are declared. Distributions that are declared after the balance sheet date are treated as a subsequent event under IAS 10 «Events After the Balance Sheet Date» and disclosed accordingly.

NOTE 3 – SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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 recognized on an accrual basis calculated using the effective interest method.

Loan origination and other fees for loans issued or received and factoring advances are deferred or accrued (together with related direct costs) and recognized as an adjustment to the effective yield of the instruments.

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 rate 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 recognized in the statement of income as gains less loss-

es 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 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 certain transaction 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, 2005 and 2004, were 28.78 Rubles and 27.75 Rubles to 1 USD, respectively.

(Thousands of Russian Rubles)

NOTE 4 – SIGNIFICANT ACCOUNTING JUDGMENTS 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 Loans, Factoring Advances and Receivables

The Bank regularly reviews its 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 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 cor-

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

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 possi-

ble 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 at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

NOTE 5 – INTEREST INCOME FROM FACTORING OPERATIONS

Interest income from factoring operations comprise the following types:

	2005	2004
Financing	563 474	78 670
Service premium	312 607	50 894
Risk premium	2 057	—
INTEREST INCOME FROM FACTORING OPERATIONS	878 138	129 564

(Thousands of Russian Rubles)

NOTE 6 – ALLOWANCES FOR IMPAIRMENT

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

	FACTORING ADVANCES
DECEMBER 31, 2003	—
Charge	81 741
DECEMBER 31, 2004	81 741
Charge	84 928
DECEMBER 31, 2005	166 669

Allowances for impairment of assets are deducted from the related assets. In accordance with Russian legislation, 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.

NOTE 7 – SALARIES AND ADMINISTRATIVE AND OPERATING EXPENSES

Salaries and benefits, administrative and operating expenses comprise:

	2005	2004
Salaries and additional compensation payments	134 909	33 168
Social security costs	18 167	5 151
SALARIES AND EMPLOYMENT BENEFITS	153 076	38 319
Occupancy and rent	33 704	3 905
Equipment support and maintenance	20 002	2 282
Business development	12 479	2 432
Marketing and advertising	10 012	3 992
Communications	2 515	72
Professional services	2 129	60
Operating taxes	226	2 547
Other	2 799	2 716
ADMINISTRATIVE AND OPERATING EXPENSES	83 866	18 006

(Thousands of Russian Rubles)

NOTE 8 – TAXATION

The corporate income tax expense comprises:

	2005	2004
Current tax expense	95 117	13 686
Deferred tax expense (benefit)	20 017	(12 564)
INCOME TAX EXPENSE	115 134	1 122

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:

	2005	2004
Current tax assets	9 496	—
Deferred tax assets	—	12 564
Current tax liabilities	—	11 230
Deferred tax liabilities	7 453	—

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:

	2005	2004
INCOME BEFORE TAXATION	481 028	3 337
Statutory tax rate	24%	24%
THEORETICAL INCOME TAX EXPENSE AT STATUTORY RATE	115 447	801
State securities income taxed at difference rate	(56)	—
Non-deductible expenditures and other non-temporary differences	(257)	321
INCOME TAX EXPENSE	115 134	1 122

(Thousands of Russian Rubles)

NOTE 8 – TAXATION (CONTINUED)

Deferred tax assets and liabilities comprise:

	2005	2004
TAX EFFECT OF DEDUCTIBLE TEMPORARY DIFFERENCES		
Factoring advances	—	12 457
Other	—	280
DEFERRED TAX ASSETS	—	12 737
TAX EFFECT OF TAXABLE TEMPORARY DIFFERENCES		
Factoring advances	6 484	—
Accruals	969	173
DEFERRED TAX LIABILITIES	7 453	173
DEFERRED TAX LIABILITY (ASSET)	7 453	(12 564)

NOTE 9 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2005 г.	2004 г.
Current account with the Central Bank	445 369	12 435
Current accounts with other credit institutions	199 788	832 217
Time deposits with credit institutions up to 90 days	230 086	—
CASH AND CASH EQUIVALENTS	875 243	844 652

As of December 31, 2005, the Bank placed RUB 30,000 (2004– nil) as a deposit in RUB with a Russian bank and received RUB 30,000 (2004– nil) as a RUB deposit from the same bank (see Note 14).

(Thousands of Russian Rubles)

NOTE 10 – TRADING SECURITIES

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

NOTE 11 – AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amounts due from credit institutions comprise:

	2005	2004
Obligatory reserve with the Central Bank	170 557	55 251
Time deposits for more than 90 days or overdue	117 133	—
AMOUNTS DUE FROM CREDIT INSTITUTIONS	287 690	55 251

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.

NOTE 12 – FACTORING ADVANCES

Factoring advances comprise:

	2005	2004
Factoring advances with recourse	4 484 757	2 841 182
Factoring advances without recourse	55 709	56 861
	4 540 466	2 898 043
Less – Clients counter-claims	(2 858)	(9 726)
Less – Allowance for impairment	(166 669)	(81 741)
FACTORING ADVANCES	4 370 939	2 806 576

As of December 31, 2005, the Bank's advances to its 10 largest third party borrowers comprised RUB 1,302,417, or 29% of gross factoring portfolio (2004 – RUB 862,991, or 30%). As of December 31, 2005, an allowance of RUB 3,904 (2004 – RUB 22,739) was made against these advances.

(Thousands of Russian Rubles)

NOTE 12 – FACTORING ADVANCES (CONTINUED)

The majority of advances have been extended to private companies. Advances are made principally within Russia in the following industry sectors:

	2005	2004
Production and wholesale of food and beverages	2 196 199	869 451
Production and wholesale of computers and consumer electronics	991 119	670 881
Other trading enterprises	524 773	761 804
Construction and finishing materials	397 890	279 021
Metallurgy and manufacturing	159 374	225 757
Other	271 111	91 129
	4 540 466	2 898 043

NOTE 13 – OTHER ASSETS AND LIABILITIES

Other assets comprise:

	2005	2004
Prepayments	26 015	2 652
Property and equipment, net	4 759	1 835
Prepaid operating taxes	2 088	368
Intangible assets, net	5	6
OTHER ASSETS	32 867	4 861

Other liabilities comprise:

	2005	2004
Operating taxes payable	17 825	8 061
Accrued additional compensation and other employee benefits	17 106	8 095
Debt securities issued	—	1 000
Other	—	974
OTHER LIABILITIES	34 931	18 130

(Thousands of Russian Rubles)

NOTE 14 – AMOUNTS DUE TO CREDIT INSTITUTIONS

Amounts due to credit institutions comprise:

	2005	2004
Current accounts	1 267	—
Time deposits and loans	3 620 254	1 487 167
AMOUNTS DUE TO CREDIT INSTITUTIONS	3 621 521	1 487 167

As discussed in Note 19, the Bank had a significant concentration of time deposits and loans due to a related party bank.

NOTE 15 – NET ASSETS ATTRIBUTABLE TO PARTICIPANTS

As of December 31, 2005, the authorized nominal statutory fund equals 1,456,000 RUB and is contributed by:

728,000 RUB	50%	LLC "SALERNA"
728,000 RUB	50%	LLC "CENTERRYBOPRODUCT"

As of December 31, 2005, the statutory fund was registered and fully paid. The statutory fund of the Bank was contributed by the participants in Russian Rubles. Participants are entitled to vote at general meetings of participants in proportion to their share in the statutory fund.

In accordance with the Russian legislation, participants in limited liability

companies may unilaterally withdraw from the company. In such cases the company will be obliged to pay the withdrawing participant's share of net assets of the company, determined on the basis of statutory accounting reports for the year of withdrawal, in cash or, subject to consent of the participant, by an in kind transfer of assets. The payment should be made no

later than six months after the end of the year of the withdrawal. According to article 11 of the Federal law «On banks and banking activity», participants can not withdraw from banks formed as a limited liability company for three years from the bank registration date. The Bank was registered on June 17, 2003.

(Thousands of Russian Rubles)

NOTE 16 – FINANCIAL COMMITMENTS AND CONTINGENCIES

Operating Environment

The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The

stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

Legal

In the ordinary course of business, the Bank may be 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 the Bank's future operations.

As of December 31, 2005 and December 31, 2004 the Bank's financial commitments and contingencies comprised the following:

	2005	2004
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Not later than 1 year	39 605	24 435
Later than 1 year	34 176	—
FINANCIAL COMMITMENTS AND CONTINGENCIES	73 781	24 435

(Thousands of Russian Rubles)

NOTE 17 – FINANCIAL RISK MANAGEMENT POLICIES

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 and brokers 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.

Concentration

The geographical concentration of banking assets and liabilities follows.

	2005				2004			
	Russia	OECD	CIS and other foreign countries	Total	Russia	OECD	CIS and other foreign countries	Total
ASSETS								
Cash and cash equivalents	875 243	—	—	875 243	844 652	—	—	844 652
Trading securities	20 694	—	—	20 694	—	—	—	—
Amounts due from credit institution	287 690	—	—	287 690	55 251	—	—	55 251
Factoring advances	4 264 063	14 111	92 765	4 370 939	2 784 247	—	22 329	2 806 576
All other assets	42 363	—	—	42 363	17 425	—	—	17 425
	5 490 053	14 111	92 765	5 596 929	3 701 575	—	22 329	3 723 904
LIABILITIES								
Due to credit institutions	3 551 188	70 333	—	3 621 521	1 487 167	—	—	1 487 167
Settlements with clients on factoring по факторинговым операциям	77 886	—	—	77 886	43 510	—	—	43 510
Time deposits of clients	30 930	—	—	30 930	705 553	—	—	705 553
All other liabilities	42 384	—	—	42 384	29 360	—	—	29 360
	3 702 388	70 333	—	3 772 721	2 265 590	—	—	2 265 590
NET BALANCE SHEET POSITION	1 787 665	(56 222)	92 765	1 824 208	1 435 985	—	22 329	1 458 314

(Thousands of Russian Rubles)

NOTE 17 – FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

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.

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

	2005					2004			
	Rubles	USD	EUR	Other	Total	Rubles	USD	EUR	Total
ASSETS:									
Cash and cash equivalents	874 116	893	185	49	875 243	841 638	64	2 950	844 652
Trading securities	20 694	—	—	—	20 694	—	—	—	—
Amounts due from credit institutions	200 912	86 778	—	—	287 690	55 251	—	—	55 251
Factoring advances	4 270 961	96 132	3 846	—	4 370 939	2 783 552	23 024	—	2 806 576
All other assets	42 186	177	—	—	42 363	17 369	—	56	17 425
	5 408 869	183 980	4 031	49	5 596 929	3 697 810	23 088	3 006	3 723 904
LIABILITIES:									
Amounts due to credit institutions	3 403 082	216 730	1 709	—	3 621 521	1 461 885	21 312	3 970	1 487 167
Settlements with clients on factoring	77 568	318	—	—	77 886	43 510	—	—	43 510
Time deposits of clients	30 930	—	—	—	30 930	705 553	—	—	705 553
All other liabilities	42 384	—	—	—	42 384	29 360	—	—	29 360
	3 553 964	217 048	1 709	—	3 772 721	2 240 308	21 312	3 970	2 265 590
NET BALANCE SHEET POSITION	1 854 905	(33 068)	2 322	49	1 824 208	1 457 502	1 776	(964)	1 458 314

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)

NOTE 17 – FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Liquidity Risk.

The contractual maturities of monetary assets and liabilities:

	2005							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Overdue	No defined maturity	Total
ASSETS								
Cash and cash equivalents	645 157	200 071	30 015	—	—	—	—	875 243
Trading securities	20694	—	—	—	—	—	—	20 694
Amount due from credit institutions	—	15035	185662	85227	1766	—	—	287 690
Factoring advances	—	377 061	3 422 494	527 105	—	44 279	—	4 370 939
All other assets	—	10 534	9 496	3 865	13 704	—	4 764	42 363
	665 851	602 701	3 647 667	616 197	15 470	44 279	4 764	5 596 929
LIABILITIES								
Amounts due to credit institutions	1 267	632 796	1 778 969	1 208 489	—	—	—	3 621 521
Settlements with clients on factoring	—	15 145	62 741	—	—	—	—	77 886
Time deposits of clients	—	30 930	—	—	—	—	—	30 930
All other liabilities	—	34 931	—	—	7 453	—	—	42 624
	1 267	713 802	1 841 710	1 208 489	7 453	—	—	3 772 721
NET POSITION	664 584	(111 101)	1 805 957	(592 292)	8 017	44 279	4 764	1 824 208
ACCUMULATED GAP	664 584	553 483	2 359 440	1 767 148	1 775 165	1 819 444	1 824 208	

	2004							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Overdue	No defined maturity	Total
ASSETS								
Cash and cash equivalents	844 652	—	—	—	—	—	—	844 652
Trading securities	—	54 978	—	273	—	—	—	55 251
Amount due from credit institutions	—	15035	185662	85227	1766	—	—	287 690
Factoring advances	—	164 687	2 406 348	231 183	131	4 227	—	2 806 576
All other assets	—	3 020	—	—	12 564	—	1 841	17 425
	844 652	222 685	2 406 348	231 456	12 695	4 227	1 841	3 723 904
LIABILITIES								
Amounts due to credit institutions	—	614 336	772 733	100 098	—	—	—	1 487 167
Settlements with clients on factoring	—	43 510	—	—	—	—	—	43 510
Time deposits of clients	—	701 848	—	3 705	—	—	—	705 553
All other liabilities	—	1 000	—	—	—	—	28 360	29 360
	—	1 360 694	772 733	103 803	—	—	28 360	2 265 590
NET POSITION	844 652	(1 138 009)	1 633 615	127 653	12 695	4 227	(26 519)	1 458 314
ACCUMULATED GAP	844 652	(293 357)	1 340 258	1 467 911	1 480 606	1 484 833	1 458 314	

(Thousands of Russian Rubles)

NOTE 17 – FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

Liquidity Risk (Continued).

Long-term credits and overdraft facilities are generally not available in Russia except for programs set up by international financial institutions. However, in the Russian marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. The maturity of obligatory reserve with the CBR was presented based on contractual maturity of related liabilities.

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.

Most of Bank's interest-bearing financial assets and liabilities have fixed interest rates. Furthermore, as specified above in the maturity analysis section, most of the Bank's assets and

liabilities are relatively short-term. The Bank's management monitors interest margin of the Bank and believes that the Bank is not exposed to significant interest rate risks.

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

	2005			2004		
	Rubles	USD	Other foreign currencies	Rubles	USD	Other foreign currencies
ASSETS						
Cash and cash equivalents, time deposits	6.8%	—	—	—	—	—
Trading securities	6.3%	—	—	—	—	—
Amounts due from credit institutions, time deposits	9.0%	4.0%	—	—	—	—
Factoring advances	21.0%	15.8%	15.2%	21.2%	17.9%	—
Due to credit institutions, time deposits	4.8%	3.8%	3.5%	3.7%	1.6%	1.0%
Time deposits of clients	10.0%	—	—	7.6%	—	—

(Thousands of Russian Rubles)

NOTE 18 – FAIR VALUE 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.

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 Customers and Credit Institutions

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.

The Bank's assets and operations are concentrated primarily in the Russian Federation. Management believes that, based upon its best estimates, as of December 31, 2005, and December 31, 2004, the fair value of substantially all Bank's assets and liabilities approximates their carrying values.

NOTE 19 – RELATED PARTIES

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 relation-

ship, 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. The Bank is a member of a holding headed by Limited Liability Partnership «Limited Liability Company «Financial Corporation NIKoil» and Company». The Bank is ultimately controlled by Mr. Nickolai A Tsvetkov.

(Thousands of Russian Rubles)

NOTE 19 – RELATED PARTIES (CONTINUED)

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

	2005		2004	
	Entities of holding headed by Limited Liability Partnership «Limited Liability Company «Financial Corporation NIKoil» and Company	Key management personnel	Entities of holding headed by Limited Liability Partnership «Financial Corporation NIKoil» and Company	Key management personnel
CASH AND CASH EQUIVALENTS	133 220	—	831 363	—
Factoring advances outstanding at January 1	—	—	—	—
Factoring advances issued during the year	36 036	—	—	—
Factoring advances repayments during the year	—	—	—	—
FACTORING ADVANCES OUTSTANDING AT DECEMBER 31, GROSS	36 036	—	—	—
Less: allowance for impairment at December 31	461	—	—	—
FACTORING ADVANCES OUTSTANDING AT DECEMBER 31, NET	35 575	—	—	—
INTEREST INCOME ON LOANS	36	—	—	—
IMPAIRMENT OF LOANS	461	—	—	—
AMOUNTS DUE TO CREDIT INSTITUTIONS AT DECEMBER 31	2 774 051	—	1 457 106	—
TIME DEPOSITS OF CLIENTS AT DECEMBER 31	—	—	705 553	—
INTEREST EXPENSE	59 955	—	8 611	—
SALARIES AND EMPLOYMENT BENEFITS	—	8 831	—	4 756

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.



National Factoring Company (Limited Liability Company)

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