



**“National Factoring Company”
Banking Group
Consolidated Financial Statements**

Year ended 31 December 2009

Together with Independent Auditors' Report

Ernst & Young

 **ERNST & YOUNG**

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Independent auditors' report

To the Shareholders and Board of Directors of Banking Group "National Factoring Company" -

We have audited the accompanying consolidated financial statements of "National Factoring Company" Banking Group (hereinafter, "the Group"), which comprise the consolidated statement of financial position as of 31 December 2009, and the consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

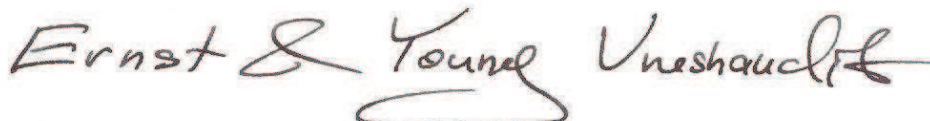
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



14 May 2010

Consolidated statement of financial position

As of 31 December 2009

(Thousands of Russian Rubles)

	<i>Notes</i>	2009	2008
Assets			
Cash and cash equivalents	5	523,083	1,792,532
Trading securities	6	22,541	156,405
Amounts due from credit institutions	7	525,949	525,974
Factoring advances and loans	8	3,962,081	6,307,462
Current income tax asset		21,071	21,598
Deferred income tax asset	9	1,380	21,155
Other assets	10	103,559	147,923
Total assets		5,159,664	8,973,049
Liabilities			
Amounts due to Central Bank	11	507,069	1,526,799
Amounts due to credit institutions	12	1,438,672	2,423,384
Debt securities issued	13	40,913	2,323,031
Settlements with clients on factoring		59,434	103,569
Time deposits of customers	14	266,047	-
Borrowed funds from foreign financial institutions	8	214,378	-
Current income tax liability	9	-	1,222
Other liabilities	10	57,791	95,999
Total liabilities		2,584,304	6,474,004
Equity			
Share capital	15	1,456,000	1,456,000
Retained earnings		1,119,360	1,043,045
Total equity		2,575,360	2,499,045
Total equity and liabilities		5,159,664	8,973,049

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

Roman V. Ogonkov

Chairman of Management Board

Dmitry V. Baryshnikov

Chief Accountant

14 May 2010



Consolidated statement of comprehensive income

For the year ended 31 December 2009

(Thousands of Russian Rubles)

	<i>Notes</i>	2009	2008
Interest income			
Factoring advances	17	1,052,434	1,612,310
Due from credit institutions		76,163	122,552
Loans		138,019	29,885
Trading securities		10,234	3,333
		<u>1,276,850</u>	<u>1,768,080</u>
Interest expense			
Amounts due to credit institutions		(304,732)	(432,438)
Debt securities issued		(123,772)	(271,902)
Deposits		(7,911)	(1,801)
Other		(32,171)	(14,877)
		<u>(468,586)</u>	<u>(721,018)</u>
Net interest income			
		<u>808,264</u>	<u>1,047,062</u>
Allowance for loan impairment	8	(176,176)	(302,939)
Net interest income after allowance for loan impairment			
		<u>632,088</u>	<u>744,123</u>
Non-interest income			
Net fee and commission expense	18	(5,741)	(13,716)
Net gains/(losses) from trading securities	19	29,489	(17,697)
Net gains/(losses) from foreign currencies:			
- dealing		2,549	(22,184)
- translation differences		(19,113)	4,330
Other income/expense	18	(11,393)	12,288
Non-interest income			
		<u>(4,209)</u>	<u>(36,979)</u>
Non-interest expense			
Personnel expenses	20	(335,849)	(373,622)
Administrative and operating expenses	20	(174,161)	(200,089)
Depreciation		(4,742)	(4,807)
Non-interest expense			
		<u>(514,752)</u>	<u>(578,518)</u>
Profit before income tax expense			
		113,127	128,626
Income tax expense	9	(36,812)	(56,790)
Profit for the year			
		<u>76,315</u>	<u>71,836</u>
Other comprehensive income			
		-	-
Total comprehensive income for the year			
		<u>76,315</u>	<u>71,836</u>

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2009

(Thousands of Russian Rubles)

	<u>Notes</u>	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
31 December 2007		1,456,000	971,209	2,427,209
Total comprehensive income for the year		–	71,836	71,836
31 December 2008		1,456,000	1,043,045	2,499,045
Total comprehensive income for the year		–	76,315	76,315
31 December 2009	15	1,456,000	1,119,360	2,575,360

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2009

(Thousands of Russian Rubles)

	<i>Notes</i>	2009	2008
Cash flows from operating activities			
Interest, fees and commissions received		1,332,475	1,745,941
Interest, fees and commissions paid		(508,692)	(702,059)
Gains less losses from trading securities		7,493	375
Realised gains less losses from dealing in foreign currencies		2,549	(20,454)
Other income/expense received		(10,371)	12,288
Personnel expenses paid		(292,793)	(322,775)
Other operating expenses paid		(174,158)	(200,161)
Cash flows from operating activities before changes in operating assets and liabilities		356,503	513,155
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		3,785	558,262
Factoring advances and loans		2,118,943	476,374
Trading securities		153,705	(151,898)
Other assets		27,683	(8,629)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to Central Bank		(1,020,000)	1,520,000
Amounts due to credit institutions		(1,046,967)	(3,955,131)
Settlements with clients on factoring		(49,895)	(23,759)
Time deposits of customers		260,000	(500)
Other liabilities		185,673	38,627
Net cash flows from operating activities before income tax		989,430	(1,033,499)
Income tax paid		(17,732)	(115,597)
Net cash from/(used in) operating activities		971,698	(1,149,096)
Cash flows from investing activities			
Purchase of property and equipment		(2,549)	(6,376)
Proceeds from sale of property and equipment		898	383
Net cash used in investing activities		(1,651)	(5,993)
Cash flows from financing activities			
Proceeds from bonds issued		–	2,311,000
Redemption of bonds issued		(2,264,387)	(741,148)
Redemption of credit linked notes		–	(800,000)
Net cash used in financing activities		(2,264,387)	769,852
Effect of exchange rates changes on cash and cash equivalents		24,891	17,514
Net decrease in cash and cash equivalents		(1,269,449)	(367,723)
Cash and cash equivalents, beginning		1,792,532	2,160,255
Cash and cash equivalents, ending	5	523,083	1,792,532

The accompanying notes on pages 5 to 34 are an integral part of these consolidated financial statements.

(Thousands of Russian Rubles)

1. Principal activities

Banking group "National Factoring Company" (hereinafter the "Group") consists of Bank "National Factoring Company" (Closed Joint Stock Company) (the "Bank") and company "NFC-Premium" (Limited liability company) (the "Company").

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

As of 20 December 2007, the Bank organized the 100% owned subsidiary (NFC-Premium). The company's principal activity is factoring. The company is a subsidiary of the Bank and was consolidated in these financial statements.

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

Shareholder	2009 %	2008 %
Salerna LLC	50	50
Centerryboproduct LLC	50	50
Total	100.0	100.0

The Group is ultimately controlled by Mr Nickolai Tsvetkov.

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

The Bank's main office is located in Moscow and it has 20 operating outlets in the Russian Federation. The Bank's registered legal address is 14 Kozhevnickeskaya Street, Moscow, Russia, 115114.

The Group had an average of 363 employees during 2009 (2008 – 389) and 377 employees as of 31 December 2009 (2008 – 430).

2. Basis of preparation

General

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

The Group 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 consolidated financial statements are based on the Group'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 consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading securities have been measured at fair value.

These consolidated financial statements are presented in thousands of Russian Rubles ("RUB") unless otherwise indicated.

(Thousands of Russian Rubles)

2. Basis of preparation (continued)

Reconciliation of RAL and IFRS equity and profit (loss) for the year

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

	2009		2008	
	Equity	Profit for the year	Equity	Profit for the year
Russian Accounting Legislation (combined)	2,417,550	74,614	2,342,936	180,926
Effect of consolidation of subsidiaries	–	(1,022)	1,022	1,022
Capitalisation of distribution from funds	152,700	–	152,700	–
Effect of accrued interest	(36,824)	(18,163)	(18,661)	(116,337)
Impairment of financial assets	152,944	63,712	89,232	38,518
Accrual of additional compensation benefit	(112,478)	(41,273)	(71,205)	(32,724)
Fair value re-measurement of securities	2,704	20,776	(18,072)	(18,072)
Deferred tax	1,380	(19,775)	21,155	20,161
Other	(2,616)	(2,554)	(62)	(1,658)
International Financial Reporting Standards	2,575,360	76,315	2,499,045	71,836

3. Summary of accounting policies

Changes in accounting policies

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

Improvements to IFRS

In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, with earlier application permitted. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Group.

IAS 1 Presentation of Financial Statements (Revised)

A revised IAS 1 was issued in September 2007, and became effective for annual periods beginning on or after 1 January 2009. This revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as of the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements.

The Group has elected to present comprehensive income in one single statement. The Group has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement, or retrospectively reclassified items in the consolidated financial statements.

IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 were issued in March 2009, to enhance fair value and liquidity disclosures. With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management. Comparative information has not been provided as permitted by the transition provisions of the amendment.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IAS 24 "Related party disclosures" (Revised)

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

IFRS 8 "Operating Segments"

IFRS 8 became effective for annual periods beginning on or after 1 January 2009. This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. These amendments have not affected the consolidated financial statements of the Group.

Subsidiaries

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

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired the difference is recognised directly in the consolidated statement of comprehensive income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the reporting date represents the minority shareholders' share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the acquisition date and the minorities' share in movements in equity since the acquisition date. Minority interest is presented within equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited to retained earnings.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the uniting of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill inherent in the Predecessor's original acquisition is also recorded in these consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

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

Date of recognition

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

'Day 1' profit

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

Financial assets at fair value through profit or loss

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

Factoring advances, loans and receivables

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

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

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

Cash and cash equivalents

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending

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

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

Promissory notes

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

Borrowings

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

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

Leases

Operating - Group as lessee

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets

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

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

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

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Renegotiated loans

Where possible, the Group seeks to restructure loans and factoring advances rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan, factoring advances are no longer considered past due. Management continuously reviews renegotiated loans and factoring advances to ensure that all criteria are met and that future payments are likely to occur. The loans and factoring advances continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

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 Group 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 Group 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 Group 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 Group'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 Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 consolidated statement of comprehensive income.

Financial guarantees

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

Taxation

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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 Group's activities. These taxes are included as a component of other operating expenses.

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Property and equipment

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

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

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

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

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

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

Provisions

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

Retirement and other employee benefit obligations

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

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

Share capital

Share capital

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

Dividends

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

Segmental reporting

During 2009 and 2008 the Group operated in one operating segment, and as a result it was exempt from the scope of IFRS 8 "Operating Segments".

Contingencies

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Dividend income

Revenue is recognised when the Groups' right to receive the payment is established.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official CBR exchange rates at 31 December 2009 and 31 December 2008, were 30.2442 Rubles and 29.3804 Rubles to 1 USD, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items

The amendment to IAS 39 was issued in August 2008, and becomes effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. Management does not expect the amendment to IAS 39 to affect the Group's consolidated financial statements as the Group has not entered into any such hedges.

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

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

(Thousands of Russian Rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and become effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"

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

Improvements to IFRSs

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" will have no impact on the accounting policies, financial position or performance of the Group, except the following amendments resulting in changes to accounting policies, as described below.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group will continue to disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment will have no impact on the Group.

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

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

IFRS 9 "Financial Instruments"

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

(Thousands of Russian Rubles)

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

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

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2009</u>	<u>2008</u>
Current accounts with the Central Bank	101,485	593,375
Current accounts with other credit institutions	33,980	299,184
Time deposits with credit institutions up to 90 days	386,329	899,973
Other	1,289	-
Cash and cash equivalents	<u>523,083</u>	<u>1,792,532</u>

As of 31 December 2009, time deposits with credit institutions up to 90 days are placed with two Russian banks (31 December 2008: seven). The Group didn't have non-cash transactions during 2009 and 2008.

6. Trading securities

As of 31 December 2009 and 2008, trading securities owned comprise corporate bonds, issued by a related party with maturity 21 July 2011 and coupon rate 12.99%.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2009</u>	<u>2008</u>
Obligatory reserve with the Central Bank	35,886	39,469
Time deposits for more than 90 days	490,063	-
Promissory notes	-	486,505
Amounts due from credit institutions	<u>525,949</u>	<u>525,974</u>

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

As of 31 December 2009, time deposits were placed with two Russian banks (31 December 2008: 0) maturing within the period from 3 months to 1 year and with interest rates in EUR 5.75%-6.00%, in USD 4.00%-6.50%.

(Thousands of Russian Rubles)

8. Factoring advances and loans

Factoring advances and loans comprise:

	2009	2008
Factoring advances with recourse	2,601,136	3,832,646
Factoring advances without recourse	1,474,369	2,133,155
Loans to customers and reverse repurchase agreements	623,889	990,308
	4,699,394	6,956,109
Less – Clients counter-claims	(16,115)	(31,421)
	4,683,279	6,924,688
Less – Allowance for impairment	(721,198)	(617,226)
Factoring advances and loans	3,962,081	6,307,462

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

Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<i>Factoring advances with recourse</i>	<i>Factoring advances without recourse</i>	<i>Total</i>
At 1 January 2009	388,121	229,105	617,226
Charge for the year	148,899	27,277	176,176
Amounts written off	(59,968)	(12,236)	(72,204)
At 31 December 2009	477,052	244,146	721,198
Individual impairment	462,480	240,150	702,630
Collective impairment	14,572	3,996	18,568
	477,052	244,146	721,198
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	621,462	322,898	944,360

	<i>Factoring advances with recourse</i>	<i>Factoring advances without recourse</i>	<i>Total</i>
At 1 January 2008	218,459	95,828	314,287
Charge for the year	169,662	133,277	302,939
At 31 December 2008	388,121	229,105	617,226
Individual impairment	371,744	223,437	595,181
Collective impairment	16,377	5,668	22,045
	388,121	229,105	617,226
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	910,570	242,097	1,152,667

(Thousands of Russian Rubles)

8. Factoring advances and loans (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2009, comprised RUB 23,934 (2008 – RUB 30,632).

In accordance with the CBR requirements, loans may only be written off with the approval of the Management Board of the Group and, in certain cases, with the respective decision of the Court. During the year ended 31 December 2009 loans and factoring advances in amount of RUB 72,204 were written off.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- Guarantee agreements,
- Accounts receivable.

Reverse repurchase agreements

The Group has entered into reverse repurchase agreement with a single Russian company (related party of the Group) for the amount of RUB 39,612. The subject of this agreement are corporate bonds, issued by a related party of the Group with a fair value of RUB 38,029.

Concentration of loans to customers

As of 31 December 2009, the Group had a concentration of loans represented by RUB 2,528,802 due from the ten largest third party entities (54% of gross loan portfolio) (2008 – RUB 2,931,285 or 42%). An allowance of RUB 166,205 (2008 – RUB 92,707) was recognized against these factoring advances and loans. Clients of the Group consist of commercial enterprises and individuals. Factoring advances and loans are made principally within Russia in the following industry sectors:

	<u>2009</u>	<u>2008</u>
Production and wholesale of food and beverages	1,346,765	1,808,999
Trading enterprises	1,222,678	1,793,573
Construction and finishing materials	879,662	1,048,347
Investment and finance	592,043	961,786
Production and wholesale of computers and consumer electronics	259,329	619,621
Metallurgy and manufacturing	53,222	256,374
Individuals	32,377	30,308
Chemistry and oil	17,548	13,840
Other	279,655	391,840
	<u>4,683,279</u>	<u>6,924,688</u>

9. Taxation

The corporate income tax expense comprises:

	<u>2009</u>	<u>2008</u>
Current tax charge	17,135	75,608
Prior period tax	(98)	1,343
Deferred tax charge/(credit) – origination and reversal of temporary differences	19,775	(20,161)
Income tax expense	<u>36,812</u>	<u>56,790</u>

There was no any deferred tax related to items charged or credited to other comprehensive income during the year.

Russian legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities was 20% for 2009 and 24% for 2008. The tax rate for companies other than banks was also 20% for 2009 and 24% for 2008. The tax rate for interest income on state securities was 15% for Federal taxes.

(Thousands of Russian Rubles)

9. Taxation (continued)

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

	2009	2008
Profit before tax	113,127	128,626
Statutory tax rate	20%	24%
Theoretical income tax expense at the statutory rate	22,625	30,870
Non-deductible expenditures	14,285	20,384
Prior period tax	(98)	1,343
Effect of change in statutory tax rate	–	4,231
Income on state securities taxed at different rates (15%)	–	(38)
Income tax expense	36,812	56,790

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

	2007	Origination and reversal of temporary differences In the statement comprehensive income	2008	Origination and reversal of temporary differences In the statement of comprehensive income	2009
Tax effect of deductible temporary differences:					
Trading securities	–	3,614	3,614	(3,614)	–
Factoring advances and loans	6,139	13,067	19,206	(17,774)	1,432
Other assets	–	657	657	(657)	–
Other liabilities	–	471	471	39	510
Deferred tax asset	6,139	17,809	23,948	(22,006)	1,942
Tax effect of taxable temporary differences:					
Derivatives	415	(415)	–	–	–
Trading securities	–	–	–	540	540
Amounts due to credit institutions	3,293	(3,120)	173	(173)	–
Debt securities issued	1,437	1,183	2,620	(2,598)	22
Deferred tax liability	5,145	(2,352)	2,793	(2,231)	562
Net deferred tax liability (asset)	(994)	(20,161)	(21,155)	19,775	(1,380)

10. Other assets and liabilities

Other assets comprise:

	2009	2008
Advances to employees	40,222	83,851
Prepayments	37,957	33,216
Prepaid operating taxes	14,642	16,747
Property and equipment, net	10,158	13,409
Intangible assets, net	580	700
Other assets	103,559	147,923

Other liabilities comprise:

	2009	2008
Operating taxes payable	36,949	65,107
Accrued additional compensation and employee benefit	19,906	20,479
Accounts payable	–	9,524
Other	936	889
Other liabilities	57,791	95,999

(Thousands of Russian Rubles)

11. Amounts due to Central Bank

Amounts due to Central Bank consist of short-term unsecured loans received from the CBR in total amount of RUB 507,069 (2008 – RUB 1,526,799). The loans were granted by the CBR as a part of the program to support liquidity level in the Russia banking system.

12. Amounts due to credit institutions

As of 31 December 2009, amounts due to credit institutions comprise loans from two Russian Banks (31 December 2008: six), maturing within the period from less than 1 month to 3 months and with interest rates in RUR 5.00%-11.00%, in EUR 3.00%, in USD 2.25%-2.75%.

13. Debt securities issued

Debt securities issued consisted of bonds issued by the Group in total amount of RUB 40,913 (2008 – 2,323,031).

The Group issued bonds on 29 April 2008, with maturity of three years and coupon interest rate of 13%. Nominal value of the bonds is RUB 2,000,000. As of 31 December 2009 year 1,960,250 bonds with nominal value RUB 1,000 were bought back by the Group.

14. Time deposits of customers

As of 31 December 2009, time deposits of customers comprise time deposits of three Russian legal entities (31 December 2008:0), maturing within the period from less than 1 month to 3 months and with interest rates 13%-15%.

15. Equity

Shares outstanding, issued and fully paid were represented by 1,456,000 ordinary shares as of 31 December 2009 and 2008.

The share capital of the Bank was contributed by the shareholders in Russian Rubles and they are entitled to dividends and any capital distribution in Russian Rubles.

In accordance with Russian legislation, dividends may only be declared to the shareholders of the Group from accumulated undistributed and unreserved earnings as shown in the Group's financial statements prepared in accordance with RAL. The Group had approximately RUB 74,683 of undistributed and unreserved earnings as of 31 December 2009 (2008 – RUB 186,652).

Statutory general reserve

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

16. Commitments and contingencies

Operating environment

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

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

(Thousands of Russian Rubles)

16. Commitments and contingencies (continued)

Operating environment (continued)

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

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

Legal

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

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

As of 31 December 2009 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Commitments and contingencies

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

	<u>2009</u>	<u>2008</u>
Credit related commitments		
Undrawn loan commitments	565	–
Guarantees	348,825	487,529
	<u>349,390</u>	<u>487,529</u>
Operating lease commitments		
Not later than 1 year	114,332	84,143
Later than 1 year but not later than 5 years	119,000	138,455
	<u>233,332</u>	<u>222,598</u>
Financial commitments and contingencies	<u>582,722</u>	<u>710,127</u>

Insurance

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

17. Interest income from factoring operations

Interest income from factoring operations comprise the following types:

	<u>2009</u>	<u>2008</u>
Financing income	679,055	1,051,401
Service premium	270,375	414,280
Risk premium	103,004	146,629
Interest income from factoring advances	<u>1,052,434</u>	<u>1,612,310</u>

(Thousands of Russian Rubles)

18. Fee, commission and other income/expense

Net commission expense comprises the following:

	<u>2009</u>	<u>2008</u>
Commission paid to CBR	(2,659)	(8,685)
Other	(3,082)	(5,031)
Total commission expense	<u>(5,741)</u>	<u>(13,716)</u>

Other income/ expense comprises the following:

	<u>2009</u>	<u>2008</u>
Gains/(losses) from operations with bonds issued	(2,104)	10,759
Losses from sale of factoring advances	(10,093)	-
Other income	804	1,529
Total commission expense	<u>(11,393)</u>	<u>12,288</u>

19. Net gains/(losses) from trading securities

Net gains/(losses) from trading securities comprise the realized and unrealized gain/(losses) from operations with corporate bonds of a related party.

20. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<u>2009</u>	<u>2008</u>
Salaries and bonuses	(255,295)	(288,098)
Social security costs	(36,925)	(41,775)
Deferred employee benefit expense	(43,629)	(43,749)
Personnel expenses	<u>(335,849)</u>	<u>(373,622)</u>
Occupancy and rent	(81,147)	(85,028)
Legal and consultancy	(18,018)	(18,639)
Marketing and advertising	(16,499)	(29,432)
Communications	(12,835)	(13,539)
Business travel and related	(10,607)	(22,191)
Repair and maintenance of property and equipment	(7,997)	(7,051)
Operating taxes	(7,037)	(5,066)
Information technology	(4,233)	(2,943)
Office supplies	(2,132)	(3,544)
Security	(1,814)	(2,059)
Periodicals subscription	(1,610)	(1,408)
Transport and delivery	(1,007)	(1,354)
Personnel training	(693)	(1,042)
Other	(8,532)	(6,793)
Other operating expenses	<u>(174,161)</u>	<u>(200,089)</u>

21. Risk management

Introduction

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

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

(Thousands of Russian Rubles)

21. Risk management (continued)

Introduction (continued)

Goals and objectives of risk management system:

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

Definition of key areas the risk management in the Group:

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

Main principles of establishing the risk management system

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

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

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

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

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

Organization of Group's risk management system

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

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

(Thousands of Russian Rubles)

21. Risk management (continued)

Introduction (continued)

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

- ▶ Risk Management Committee – takes decisions on methodological issues of risk management as well as working conditions in specific industry sectors or decisions on non-typical conditions of factoring services rendered to Clients. Inter alia, Risk management committee is entitled to take decisions on issues being within the competence of Risk Monitoring Committee and Underwriting Committee, since Risk Management Committee is a collegiate body of a higher level than Risk Monitoring Committee and Underwriting Committee. Decisions taken by Risk Management Committee may not be cancelled/amended by Risk Monitoring Committee and Underwriting Committee.
- ▶ Risk Monitoring Committee takes decisions on selection of clients, conditions of their servicing as well as termination, renewal or continuation of their servicing on the former or amended terms based on the results of planned or unplanned monitoring.
- ▶ Underwriting Committee takes decisions on large amounts of limits set on Debtors.
- ▶ Asset-Liability Management Committee takes decisions on assuming and regulating credit risks, which are not related to factoring operations.

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

Risk management procedure:

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

Methods applied in risk management:

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

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

Credit risk

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

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

(Thousands of Russian Rubles)

21. Risk management (continued)

Credit risk (continued)

Specific features of credit risk management in factoring operations

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

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on behalf of debtors. Such payments are collected from debtors based on the contract terms. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Notes</i>	<i>Maximum exposure 2009</i>	<i>Maximum exposure 2008</i>
Cash and cash equivalents	5	523,083	1,792,532
Trading securities	6	22,541	156,405
Amounts due from credit institutions	7	525,949	525,974
Factoring advances and loans	8	3,962,081	6,307,462
Other assets	10	37,957	33,216
		5,071,611	8,815,589
Financial commitments and contingencies	17	349,390	487,529
Total credit risk exposure		5,421,001	9,303,118

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

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

Credit quality per class of financial assets

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

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

(Thousands of Russian Rubles)

21. Risk management (continued)

Credit risk (continued)

	Notes	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired</i> 2008	<i>Total</i> 2008
		<i>High grade</i> 2008	<i>Standard grade</i> 2008	<i>Sub-standard grade</i> 2008		
Amounts due from credit institutions	7	525,974	–	–	–	525,974
Factoring advances and loans	8					
Factoring advances with recourse		1,072,038	1,687,091	119,110	954,407	3,832,646
Factoring advances without recourse		402,940	1,429,210	20,495	249,089	2,101,734
Loans to customers		21,653	568,655	400,000	–	990,308
		1,496,631	3,684,956	539,605	1,203,496	6,924,688
Total		2,022,605	3,684,956	539,605	1,203,496	7,450,662

Past due loans to customers include those that are past due but aren't individually impaired. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

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

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

	<i>Less than</i> <i>30 days</i> 2009	<i>31 to 90</i> <i>days</i> 2009	<i>More than</i> <i>90 days</i> 2009	<i>Total</i> 2009
Factoring advances and loans				
Factoring advances with recourse	718	–	–	718
Factoring advances without recourse	3,439	–	–	3,439
Loans to customers	–	–	1,091	1,091
Total	4,157	–	1,091	5,248
	<i>Less than</i> <i>30 days</i> 2008	<i>31 to 90</i> <i>days</i> 2008	<i>More than</i> <i>90 days</i> 2008	<i>Total</i> 2008
Factoring advances and loans				
Factoring advances with recourse	42,373	47	1,417	43,837
Factoring advances without recourse	6,055	341	596	6,992
Loans to customers	–	–	–	–
Total	48,428	388	2,013	50,829

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

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

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

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

As of 31 December 2009 renegotiated financial assets include loans to individuals in amount of RUB 3,109 (2008 – RUB 0).

(Thousands of Russian Rubles)

21. Risk management (continued)

Credit risk (continued)

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

The geographical concentration of Group's monetary assets and liabilities is set out below:

	2009				2008			
	Russia	OECD	CIS and other foreign countries	Total	Russia	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	523,083	–	–	523,083	1,792,532	–	–	1,792,532
Trading securities	22,541	–	–	22,541	156,405	–	–	156,405
Amounts due from credit institutions	525,949	–	–	525,949	525,974	–	–	525,974
Factoring advances and loans	3,935,744	340	25,997	3,962,081	6,269,342	–	38,120	6,307,462
Other assets	126,010	–	–	126,010	190,676	–	–	190,676
	5,133,327	340	25,997	5,159,664	8,934,929	–	38,120	8,973,049
Liabilities:								
Amounts due to Central Bank	507,069	–	–	507,069	1,526,799	–	–	1,526,799
Amounts due to credit institutions	1,438,672	–	–	1,438,672	2,225,931	197,453	–	2,423,384
Debt securities issued	40,913	–	–	40,913	2,323,031	–	–	2,323,031
Settlements with clients on factoring	59,404	6	24	59,434	103,569	–	–	103,569
Time deposits of customers	266,047	–	–	266,047	–	–	–	–
Borrowed funds from foreign financial institutions	–	214,378	–	214,378	–	–	–	–
Other liabilities	57,644	147	–	57,791	97,221	–	–	97,221
	2,369,749	214,531	24	2,584,304	6,276,551	197,453	–	6,474,004
Net balance sheet position	2,763,578	(214,191)	25,973	2,575,360	2,658,378	(197,453)	38,120	2,499,045
Net off-balance sheet position	582,722	–	–	582,722	710,127	–	–	710,127

(Thousands of Russian Rubles)

21. Risk management (continued)

Liquidity risk and funding management

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

The Group manages and controls liquidity risk by the following measures:

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

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

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

The table below summarizes the contractual maturity of assets and liabilities:

	2009							No defined maturity	Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Overdue		
Assets:									
Cash and cash equivalents	136,754	125,000	261,329	–	–	–	–	–	523,083
Trading securities	–	22,541	–	–	–	–	–	–	22,541
Amounts due from credit institutions	–	68,624	130,309	326,759	188	69	–	–	525,949
Factoring advances and loans	–	800,508	326,505	2,562,525	19,492	7,068	245,983	–	3,962,081
Current tax assets	–	–	21,071	–	–	–	–	–	21,071
Deferred tax assets	–	–	–	–	1,380	–	–	–	1,380
Other assets	–	18,491	892	45,670	19,833	–	–	18,673	103,559
	136,754	1,035,164	740,106	2,934,954	40,893	7,137	245,983	18,673	5,159,664
Due to Central Bank	–	–	507,069	–	–	–	–	–	507,069
Due to credit institutions	–	770,192	668,480	–	–	–	–	–	1,438,672
Debt securities issued	–	–	–	40,913	–	–	–	–	40,913
Settlements with clients on factoring	–	59,434	–	–	–	–	–	–	59,434
Time deposits of customers	–	123,551	142,496	–	–	–	–	–	266,047
Borrowed funds from foreign financial institutions	46,828	593	–	166,957	–	–	–	–	214,378
Other liabilities	–	32,970	24,633	188	–	–	–	–	57,791
	46,828	986,740	1,342,678	208,058	–	–	–	–	2,584,304
Net balance sheet position	89,926	48,424	(602,572)	2,726,896	40,893	7,137	245,983	18,673	2,575,360
Accumulated gap	89,926	138,350	(464,222)	2,262,674	2,303,567	2,310,704	2,556,687	2,575,360	

(Thousands of Russian Rubles)

21. Risk management (continued)

Liquidity risk and funding management (continued)

	2008							No defined maturity	Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Overdue		
Assets:									
Cash and cash equivalents	892,559	618,155	281,818	–	–	–	–	–	1,792,532
Trading securities	–	156,405	–	–	–	–	–	–	156,405
Amounts due from credit institutions	–	2,208	6,960	516,036	–	–	770	–	525,974
Factoring advances and loans	–	1,106,398	1,084,367	3,970,261	17,342	7,516	121,578	–	6,307,462
Current tax assets	–	–	21,598	–	–	–	–	–	21,598
Deferred tax assets	–	–	–	–	21,155	–	–	–	21,155
Other assets	–	8,206	41,751	6	83,851	–	–	14,109	147,923
	892,559	1,891,372	1,436,494	4,486,303	122,348	7,516	122,348	14,109	8,973,049
Due to Central Bank	–	1,256,076	270,723	–	–	–	–	–	1,526,799
Due to credit institutions	–	1,345,018	985,082	93,284	–	–	–	–	2,423,384
Debt securities issued	–	–	442	2,322,589	–	–	–	–	2,323,031
Settlements with clients on factoring	–	103,569	–	–	–	–	–	–	103,569
Current tax liability	–	–	1,222	–	–	–	–	–	1,222
Other liabilities	–	52,472	43,527	–	–	–	–	–	95,999
	–	2,757,135	1,300,996	2,415,873	–	–	–	–	6,474,004
Net balance sheet position	892,559	(865,763)	135,498	2,070,430	122,348	7,516	122,348	14,109	2,499,045
Accumulated gap	892,559	26,796	162,294	2,232,724	2,355,072	2,362,588	2,484,936	2,499,045	

Analysis of financial liabilities by remaining contractual maturities

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

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

Financial liabilities As of 31 December 2008	On demand	Less than 1 months	1 to 3 months	3 to 12 months	Total
Amounts due to Central Bank	–	1,264,667	279,424	–	1,544,091
Amounts due to credit institutions	–	1,351,961	1,003,255	94,819	2,450,035
Debt securities issued	–	–	7,682	2,445,663	2,453,345
Settlements with clients on factoring	–	103,569	–	–	103,569
Total undiscounted financial liabilities	–	2,720,197	1,290,361	2,540,482	6,551,040

(Thousands of Russian Rubles)

21. Risk management (continued)

Liquidity risk and funding management (continued)

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

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Total
2009	359,023	20,576	84,123	119,000	582,722
2008	489,759	20,807	61,106	138,455	710,127

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

Market risk

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

Interest rate risk

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

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

	Increase in basis points 2009	Sensitivity of net interest income 2009
Currency		
RUR	+600	1,613
EUR	+100	(2,138)
	Decrease in basis points 2009	Sensitivity of net interest income 2009
Currency		
RUR	-200	(538)
EUR	-25	534
	Increase in basis points 2008	Sensitivity of net interest income 2008
Currency		
RUR	+685	5,785
USD	+55	(2,766)
	Decrease in basis points 2008	Sensitivity of net interest income 2008
Currency		
RUR	-685	(5,785)
USD	-55	2,766

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

(Thousands of Russian Rubles)

21. Risk management (continued)

Market risk (continued)

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

	2009			2008		
	Rubles	USD	Other foreign currencies	Rubles	USD	Other foreign currencies
Cash and cash equivalents	3.1%	–	4.0%	14.6%	7.8%	8.0%
Amounts due from credit institutions	–	4.9%	5.9%	11.3%	–	–
Factoring advances	29.8%	23.6%	31.3%	25.9%	21.9%	13.3%
Loans to customers	15.1%	9.3%	–	13.6%	9.3%	–
Amounts due to Central Bank	12.0%	–	–	13.0%	–	–
Amounts due to credit institutions	8.1%	2.7%	3.0%	17.9%	6.6%	5.5%
Debt securities issued	14.5%	–	–	13.3%	–	–
Borrowed funds from foreign financial institutions	–	–	3.4%	–	–	–

Currency risk

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

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

Currency	Change in	Effect on profit	Change in	Effect on profit
	currency rate in		currency rate in	
	%	before tax	%	before tax
	2009	2009	2008	2008
USD	14.8%	2,538	-13.8%	(24,140)
USD	-14.8%	(2,538)	-31.8%	(55,628)
EUR	14.0%	1,226	-1.1%	786
EUR	-14.0%	(1,226)	-18.3%	13,081

Operational risk

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

22. Fair values of financial instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Thousands of Russian Rubles)

22. Fair values of financial instruments (continued)

All financial instruments at fair value are level 1 financial instruments.

During the year, the Group did not transfer financial instruments from level 1 and level 2 to level 3 of the fair value hierarchy.

Fair value of financial assets and liabilities not carried at fair value

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

	<i>Carrying value 2009</i>	<i>Fair value 2009</i>	<i>Unrecognised gain/(loss) 2009</i>	<i>Carrying value 2008</i>	<i>Fair value 2008</i>	<i>Unrecognised gain/(loss) 2008</i>
Financial assets						
Cash and Cash equivalents	523,083	523,083	–	1,792,532	1,792,532	–
Amounts due from credit institutions	525,949	524,415	(1,534)	525,974	523,952	(2,022)
Factoring advances and loans	3,962,081	3,957,040	(5,041)	6,307,462	6,300,180	(7,282)
Other assets	92,821	86,638	(6,183)	133,814	114,864	(18,950)
	5,103,934	5,091,176	(12,758)	8,759,782	8,731,528	(28,254)
Financial liabilities						
Amounts due to Central Bank	507,069	507,069	–	1,526,799	1,527,655	(856)
Amounts due to credit institutions	1,438,672	1,438,654	18	2,423,384	2,423,384	–
Debt securities issued	40,913	41,718	(805)	2,323,031	2,338,921	(15,890)
Settlements with clients on factoring	59,434	59,434	–	103,569	103,569	–
Borrowed funds from foreign financial institutions	214,378	214,378	–	–	–	–
Other liabilities	57,791	57,791	–	97,221	97,221	–
	2,318,257	2,319,044	(787)	6,474,004	6,490,750	(16,746)
Total unrecognised charge in unrecognised gain value			(13,545)			(45,000)

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(Thousands of Russian Rubles)

23. Related party disclosures

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

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

The Group enters into transactions with related parties under the following conditions: loans are granted on market conditions, the amounts due to related parties are attracted at market conditions, settlements occur in cash.

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

	2009		2008	
	<i>Entities under common control (Financial Corporation Uralsib)</i>	<i>Key management personnel</i>	<i>Entities under common control (Financial Corporation Uralsib)</i>	<i>Key management personnel</i>
Cash and cash equivalents	20,722	–	161,340	–
Interest income on amounts due to credit institutions	3,688	–	12,213	–
Trading securities	22,541	–	156,405	–
Factoring advances and loans at 1 January	960,000	1,785	21,500	593
Loans issued during the year	7,395,432	8,617	2,742,200	2,844
Factoring advances and loans repaid during the year	7,502,511	5,298	1,803,700	1,652
Factoring advances and loans at 31 December, gross	852,921	5,104	960,000	1,785
Less: allowance for impairment at 31 December	2,741	–	–	–
Factoring advances and loans at 31 December, net	850,180	5,104	960,000	1,785
Undrawn loan commitment	–	565	–	–
Interest income on factoring advances and loans	136,739	613	23,694	53
Impairment of interest earning assets	–	–	–	–
Other assets	62	40,222	–	83,851
Amounts due to credit institutions	1,408,672	–	1,761,223	–
Interest expense on amounts due to credit institutions	138,559	–	240,407	–
Time deposits at 1 January	–	–	504	–
Time deposits received during the year	1,291	–	6	–
Time deposits repaid during the year	1,291	–	510	–
Time deposits	–	–	–	–
Interest expense on time deposits	41	–	10	–
Net gains/losses from trading securities	6,232	–	–	–
Net gains/losses from foreign currencies dealing	(2,943)	–	(117)	–
Salaries and employment benefits	–	69,404	–	66,914
Administrative and operating expenses	17,309	–	14,188	–

(Thousands of Russian Rubles)

23. Related party disclosures (continued)

Subsidiaries

The consolidated financial statements include the following major subsidiaries:

2009 and 2008

Subsidiary	Ownership/ Voting, %	Country	Date of incorporation	Industry	Date of acquisition
"NFC-Premium"	100%	Russia	20 December 2007	Factoring	20 December 2007

24. Capital adequacy

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

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

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

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

CBR capital adequacy ratio

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on RAL. As of 31 December 2009 and 2008, the Bank's capital adequacy ratio on this basis was as follows:

	2009	2008
Main capital	2,339,922	2,231,242
Additional capital	55,528	72,821
Less: deductions from capital	1,080	1,200
Total capital	2,394,370	2,302,863
Risk weighted assets	6,183,774	9,452,713
Capital adequacy ratio	38.7%	24.4%

Capital adequacy ratio under Basel Capital Accord 1988

The Group's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2009 and 2008, comprised:

	2009	2008
Tier 1 capital	2,575,360	2,499,045
Tier 2 capital	–	–
Total capital	2,575,360	2,499,045
Risk weighted assets	4,644,905	7,672,057
Tier 1 capital ratio	55.4%	32.6%
Total capital ratio	55.4%	32.6%

(Thousands of Russian Rubles)

25. Events after the reporting period

On February 5, 2010 the Board of Directors of the Group made a decision to sell the subsidiary company "NFC-Premium" to a Russian company (a related party of the Group). This event does not have any significant impact on the financial position of the Bank.

On April 15, 2010 the Board of Directors of the Group proposed dividends in amount of 17.1703296703 rubles per share.