VW Bank RUS (LLC)

International Financial Reporting Standards Financial Statements and Independent Auditor’s Report

For the period from incorporation on 13 August 2010 to 31 December 2010

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INDEPENDENT AUDITOR'S REPORT

To the Participants and Board of Directors of LLC "VW Bank RUS":

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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.

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

Opinion

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

ZAO "PricewaterhouseCoopers Audit"

12 April 2011
Moscow, Russian Federation

In thousands of Russian Roubles	Note	31 December 2010
ASSETS		
Cash and cash equivalents	7	275 961
Mandatory cash balances with the Bank of Russia	7	106
Due from other banks	8	1 200 977
Loans and advances to customers	9	177 458
Deferred income tax asset	17	2 407
Premises, equipment	10	14 759
Intangible assets	10	48 361
Other assets	11	3 425
TOTAL ASSETS		**1 723 454**
LIABILITIES		
Customer accounts	12	492
Other liabilities	13	29 333
TOTAL LIABILITIES		**29 825**
EQUITY		
Share capital	14	1 760 000
Accumulated deficit		(66 371)
TOTAL EQUITY		**1 693 629**
TOTAL LIABILITIES AND EQUITY		**1 723 454**

Approved for issue and signed on behalf of the Management Board of the Bank on 12 April 2011.

Korchagin Nikolay Pavlovich
Chairman of the Board

"Фольксваген Банк РУС" Volkswagen Bank RUS

Bugaenko Oleg Alexandrovich
Chief Accountant

In thousands of Russian Roubles	**Note**	**2010**
Interest income	15	3 741
Net interest income		**3 741**
Provision for loan impairment	9	(4 213)
Net interest income after provision for loan impairment		(472)
Fee and commission income		44
Fee and commission expense		(161)
Other operating income		8
Administrative and other operating expenses	16	(68 197)
Loss before tax		**(68 778)**
Income tax credit	17	2 407
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(66 371)**

In thousands of Russian Roubles	Note	Share capital	Share premium	Accumu-lated deficit	Total
Balance at 13 August 2010		-	-	-	-
Loss for the year		-	-	(66 371)	(66 371)
Total comprehensive loss for 2010		-	-	(66 371)	(66 371)
Contribution from the Bank's participants	14	880 000	880 000	-	1 760 000
Balance at 31 December 2010		**880 000**	**880 000**	**(66 371)**	**1 693 629**

In thousands of Russian Roubles	Note	2010
Cash flows from operating activities		
Interest received		2 315
Fees and commissions received		8
Fees and commissions paid		(144)
Other operating income received		1
Administrative and other operating expenses paid		(49 770)
Cash flows used in operating activities before changes in operating assets and liabilities		(47 590)
Net increase in mandatory cash balances with the Bank of Russia		(106)
Net increase in due from other banks		(1 200 000)
Net increase in loans and advances to customers		(181 221)
Net increase in other assets		(29)
Net increase in customer accounts		492
Net increase in other liabilities		2 016
Net cash used in operating activities		(1 378 848)
Cash flows from investing activities		
Acquisition of premises and equipment	10	(15 541)
Acquisition of intangible assets	10	(42 060)
Net cash used in investing activities		(57 601)
Cash flows from financing activities		
Increase in the share capital and share premium	14	1 760 000
Net cash from financing activities		**1 760 000**
Effect of exchange rate changes on cash and cash equivalents		**-**
Net increase in cash and cash equivalents		**275 961**
Cash and cash equivalents at the beginning of the year		-
Cash and cash equivalents at the end of the year	7	**275 961**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 for LLC VW Bank RUS (the "Bank").

The Bank was incorporated on 2 July 2010 and is domiciled in the Russian Federation. The Bank was set up in accordance with Russian regulations and is a limited liability company. This legal status means that the Bank is limited by shares of its participants.

As at 31 December 2010 the Bank's participants were:

(%)	**2010**
VOLKSWAGEN FINANCIAL SERVICES AG	99%
VOLKSWAGEN BANK GMBH	1%

VOLKSWAGEN BANK GMBH is a subsidiary of VOLKSWAGEN FINANCIAL SERVICES AG.

Principal activity. The Bank's principal business activity is commercial loans to individuals and legal entities and provision of other banking services within the Russian Federation. The Bank has operated under banking license No. 3500 for carrying out banking transactions in Russian Roubles and foreign currency (without the right for attraction of individual deposits) issued by the Central Bank of the Russian Federation ("CBRF") on 13 August 2010.

The Bank has no branches or representative offices. The Bank had 28 employees at 31 December 2010.

Registered address and place of business. The Bank's registered address is: Obrucheva st., 30/1, bld.1, 117485, Moscow, Russian Federation.

Presentation currency. These financial statements are presented in Russian Roubles ("RR"), unless otherwise stated.

2 Operating Environment of the Bank

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian rouble against major foreign currencies, and increased money market liquidity levels.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 20). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

2 Operating Environment of the Bank (Continued)

Management is unable to predict all developments which could have an impact on the banking sector and the wider economy and consequently what effect, if any, they could have on the future financial position of the Bank. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business.

3 Summary of Significant Accounting Policies

Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

These financial statements do not include comparative data for previous reporting periods as the Bank was set up and started its operations in 2010. The Bank has been implementing IFRS in full since its incorporation.

These financial statements were prepared based on the assumption that the Bank will continue its operations in the foreseeable future. The Bank's development strategy is aimed at active development of its business in the corporate segment and subsequent entry into the retail lending market.

These financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated. These financial statements have been prepared under the historical cost convention, as modified by revaluation of certain financial instruments carried at fair value.

The Bank maintains its accounting records in the currency of the Russian Federation and in accordance with Russian legislation. These financial statements have been prepared from the accounting records and adjusted as necessary in order to be in accordance with IFRS. The main adjustments include reclassification of certain types of assets and liabilities, income and expenses in line items of the statement of financial position and the statement of comprehensive income to bring them in line with the substance of transactions.

Recognition and measurement of financial assets and liabilities

Financial assets and liabilities are recorded in the statement of financial position when the Bank becomes a party to a contract on a corresponding financial instrument. The Bank recognises regular acquisitions and disposal of financial assets and liabilities by settlement dates.

Financial assets and liabilities are initially recognised at their fair value. Amount at initial recognition of financial assets and liabilities which are not financial assets and liabilities at fair value through profit and loss is adjusted by the amount of transaction costs directly related to acquisition or recognition of a financial asset or issuance of financial liability.

After initial recognition of financial instruments the Bank uses the following measurement methods depending on their classification:

- at fair value;
- at amortised cost.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Derecognition of financial assets and liabilities. The Bank derecognises financial assets when:

- the rights to cash flows from the assets have expired;
- the Bank has transferred the rights to the cash flows from the assets or retained the right to the cash flows from the assets, but assumed obligations to repay them to a third party without significant delay under a qualifying pass-through arrangement; while
- (a) either transferring substantially all the risks and rewards of ownership of the assets, or (b) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

The Bank derecognises the financial asset when the asset is transferred and derecognition requirements are met.

The Bank derecognises financial liabilities when they are extinguished, cancelled or terminated.

Cash and cash equivalents. Cash and cash equivalents are cash on hand and on the Bank's current accounts and also cash equivalents which represent short-term, highly liquid items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Funds of restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBRF. Mandatory cash balances with the Bank of Russia are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Bank's day to day operations. They are not considered as part of cash and cash equivalents for the purposes of the cash flow statement and shown in the balance sheet separately.

Due from other banks. In the normal course of business the Bank places funds and deposits with other banks for different periods. Due from banks are initially recorded at fair value and subsequently measures at amortised cost using the effective interest method. Due from banks are carried net of impairment provisions (if any indication of impairment exists).

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment of financial assets is the difference between the carrying amount of the assets and the present value of expected cash flows, including amounts recoverable from guarantees and collateral discounted at the original effective interest rate for this financial instrument, which is carried at amortised cost.

Impairment losses on financial assets carried at amortised cost are recognised in statement of comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount of the estimated future cash flows of the financial asset that can be reliably estimated

3 Summary of Significant Accounting Policies (Continued)

If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Principal criteria (loss events) used to determine whether there is any evidence that an impairment loss has occurred are as follows:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement system;
- the borrower experiences a significant financial difficulty;
- the borrower considers bankruptcy or a financial reorganisation;
- the value of collateral significantly decreases as a result of deteriorating market conditions;
- and others.

Writing off loans to customers against impairment provisions. Loans that cannot be collected, including through enforcement of collateral, are written off against impairment provisions. Uncollectible loans are written off after all necessary and reasonable actions to recover the asset have been completed and the Bank repossessed and realised the available collateral. Any surplus from such realisation is returned to the borrower.

Credit related commitments. The Bank enters into credit related commitments, including undrawn credit lines. Such instruments associated with various levels of credit risks are not shown in the statement of financial position.

The Bank uses the same credit policies for credit related commitments as it does for balance sheet financial instruments.

The Bank creates provisions for credit related commitments if there is any probability of incurring losses on such instruments.

Premises and equipment. Fixed assets are stated at cost less accumulated depreciation and provision for impairment, where required.

At the end of each reporting period the Bank assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Bank estimates the recoverable amount, which is determined as the higher of the asset's fair value less costs to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the difference is recognised in comprehensive income as impairment loss to the extent it exceeds the recoverable amount.

Repairs and maintenance are charged to the statement of comprehensive income when the expenditure is incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with the carrying amount are recognised within other operating income and expenses in the statement of comprehensive income for the year.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Depreciation is applied on a straight-line basis over the estimated useful lives of the assets using the following rates:

	Depreciation rate, %
Office and computer equipment	
- head-end equipment and servers	20
- computer equipment	33,33
- furniture	20

Intangible assets. The Bank's intangible assets have definite useful life and are initially stated at cost. Upon initial recognition, intangible assets are stated at cost, less accumulated depreciation and impairment provision, where required.

Intangible assets are amortised on a straight line basis over expected useful life of 5 years. The Bank reviews amortisation periods and procedures on an annual basis at the end of each reporting period.

Amortisation of intangible assets is recognised in the statement of comprehensive income within administrative and other operating expenses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software development costs recorded as assets are amortised using the straight-line method over their useful lives using a 20% amortisation rate.

Operating leases. The Bank is a lessee under operating lease contracts. Total lease payments under operating lease contracts are recorded in the statement of comprehensive income on a straight-line basis over the period of the lease.

Customer accounts. Customer accounts are non-derivative financial liabilities to corporate customers and are carried at amortised cost.

Income tax. Income taxes have been provided for in the financial statements in accordance with legislation enacted in the Russian Federation. Income tax expense/(credit) in the statement of comprehensive income for the year includes current income tax and changes in deferred tax assets and liabilities.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods using tax rates enacted by the end of the reporting period.

Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted at the end of the reporting period which are expected to apply to the period when the assets are realised and the liabilities redeemed.

Deferred tax liabilities are recorded for all taxable temporary differences, except for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

3 Summary of Significant Accounting Policies (Continued)

Deferred tax assets are recorded for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised, except for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit;

Deferred tax assets and liabilities are offset only if there is a legal right to offset current tax assets and liabilities and deferred taxes relate to the same taxpaying organisation of the Bank and tax body.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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

Related provisions are provided for to the extent that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, except for when a reliable estimate of the amount of the obligation cannot be made. The Bank reviews the probability of outflow of resources and the level of provisions for contingencies and commitments at each reporting date.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Net assets attributable to participants. The Bank classified net assets attributable to participants in the Bank, which was created as a limited liability company, as equity instruments (equity components).

Share capital. Share capital is a total of contributions of the Bank's participants carried at cost.

Income and expense recognition. Interest income and expense are recorded in the statement of comprehensive income for all debt instruments on an accrual basis using the effective interest method.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability.

3 Summary of Significant Accounting Policies (Continued)

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of the Bank and the Bank's presentation currency is Russian Roubles ("RR").

Monetary assets and liabilities denominated in foreign currency are translated into the currency of the Russian Federation at the official exchange rate of the CBRF at the balance sheet date. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities into the Bank's functional currency at official exchange rates of the CBRF are included in the statement of comprehensive income within foreign exchange gains less losses.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was EURO 1 = RR 40.3331.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, bonuses, paid annual leave, contributions to the Russian Federation state pension and social insurance funds are accrued in the year in which the associated services are rendered by the employees of the Bank.

Sick leave benefits, child care allowances and non-monetary benefits are accrued upon their occurrence.

The Bank undertakes liabilities for unused annual leave payments to its employees. Such liabilities are recognised in the statement of financial position within other liabilities with their simultaneous recording in the statement of comprehensive income for the part of annual leaves falling to the reporting period.

Amendment of the financial statements after issue. The Bank's owners and management have the power to amend the financial statements after issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include 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 average historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. As at the reporting date the impairment loss on loans and advances was calculated based on the average of borrower's probability of default which was received from the parent company based on its statistical data. If the actual probability of default is 5% higher/lower than the average used for impairment loss calculation, the provision would be approximately RR 7 041 thousand higher or RR 4 006 thousand lower.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 20.

Classification of participants interests as equity. Under Russian legislation, the participants in the limited liability company cannot redeem their ownership interest within the first three years of its operations. Participants in the Bank declared that they change the Bank's Charter to remove their redemption rights as soon as possible. Given that such changes are within the control of the shareholders and considering their intentions, the Management has used professional judgment in classifying the participants' ownership interests in the Bank as its equity rather than as liabilities.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. The business plan is based on the assumption concerning stable growth of the loan portfolio at the expense of existing products and launch of new products under stable macroeconomic circumstances. As this is the first year of functioning of the Bank the management might not reliably forecast profits for foreseeable future years and recoverable level of deferred tax assets except for deferred tax asset arising from accrual of annual bonuses.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 23.

5 Adoption of New or Revised Standards and Interpretations

(a) Amendments to standards adopted before their effective date

The Bank adopted the amendment to IAS 1, Presentation of Financial Statements, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Bank has not early adopted.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Bank does not expect the amendments to have any material effect on its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in the statement of comprehensive income, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Bank is considering the implications of the standard and the impact on the Bank.

6 New Accounting Pronouncements (Continued)

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Bank does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Bank does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Bank does not expect the amendments to have any material effect on its financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Group's financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Bank does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Bank does not expect the amendments to have any effect on its financial statements.

6 New Accounting Pronouncements (Continued)

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.
The Bank does not expect the amendments to have any effect on its financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity (this amendment was early adopted by the Bank); IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Bank does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Bank as explained in Note 5.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank's financial statements.

7 Cash and Cash Equivalents

In thousands of Russian Roubles	**2010**
Cash balances with the CBRF (other than mandatory cash balances)	273 243
Correspondent accounts with other banks	2 718
Total cash and cash equivalents	**275 961**

The credit quality of cash and cash equivalents may be summarised based on Fitch Ratings where available or other ratings converted to the nearest equivalent on the Fitch rating scale as at 31 December 2010:

In thousands of Russian Roubles	**Cash balances with the CBRF (other than mandatory cash balances)**	**Correspondent accounts with other banks**	**Total**
Neither past due nor impaired			
- Central Bank of the Russian Federation	273 243	-	273 243
- Lower than BBB+ rated	-	2 718	2 718
Total cash and cash equivalents, excluding cash on hand	**273 243**	**2 718**	**275 961**

Mandatory cash balances with the Central Bank of the Russian Federation at 31 December 2010 total RR 106 thousand. The Bank should deposit mandatory cash balances with the CBRF on a permanent basis.

Interest rate analysis of cash and cash equivalents is disclosed in Note 18. Information on related party balances is disclosed in Note 23.

8 Due from Other Banks

In thousands of Russian Roubles	**2010**
Placements with other banks	1 200 977
Total due from other banks	**1 200 977**

Amounts due from other banks are not collateralised. Under the contractual terms, the Bank may not require the funds to be returned prior to the expiry of the deposit without preliminary approval of the counterparty bank, with interest on deposit being calculated at a lower rate.

Analysis by credit quality of amounts due from other banks outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Placements with other banks**
Neither past due nor impaired	
- Russian banks with foreign participation, out of them	1 200 977
- Lower than BBB+ rated	1 200 977
Total neither past due nor impaired	**1 200 977**
Less: Provision for impairment	-
Total due from other banks	**1 200 977**

8 Due from Other Banks (Continued)

The credit rating is based on Fitch Ratings where available or other ratings converted to the nearest equivalent on the Fitch Ratings scale.

The primary factor that the Bank considers in determining whether a deposit is impaired is its overdue status. At 31 December 2010 amounts due from other banks had no impairment indicators.

At 31 December 2010 the Bank had balances with two counterparty banks with aggregated amounts above RR 400 000 thousand. The total aggregate amount of these deposits was RR 1 200 977 thousand or 100% of the total amount due from other banks.

Refer to Note 21 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 18. Information on related party balances is disclosed in Note 23.

9 Loans and Advances to Customers

In thousands of Russian Roubles	**2010**
Corporate loans	181 671
Less: Provision for loan impairment	(4 213)
Total loans and advances to customers	**177 458**

Movements in the provision for loan impairment during 2010 are as follows:

In thousands of Russian Roubles	**Corporate loans**
Provision for loan impairment at 13 August 2010	-
Provision for impairment during the year	4 213
Provision for loan impairment at 31 December 2010	**4 213**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2010	
In thousands of Russian Roubles	**Amount**	**%**
Leasing	122 065	67%
Motor vehicle trading	59 606	33%
Total loans and advances to customers (before provision for loan impairment)	**181 671**	**100%**

At 31 December 2010 the Bank had one borrower with aggregated loan amounts of RR 122 065 thousand or 67% of the gross loan portfolio.

Information about collateral at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Corporate loans**
Unsecured loans	131 483
Loans collateralised by:	
- motor vehicles	50 188
Total loans and advances to customers	**181 671**

9 Loans and Advances to Customers (Continued)

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures.

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Corporate loans**
Neither past due nor impaired - standard loan portfolio	**181 671**
Total neither past due nor impaired	**181 671**
Less: Provision for impairment	(4 213)
Total loans and advances to customers	**177 458**

As at 31 December 2010 the Bank did not have any past due or impaired loans.

In accordance with the Bank's internal policy the loan portfolio is divided into several risk categories depending on the borrower's rating class.

- Standard loan portfolio (above the average rating class);
- Satisfactory loans (average rating class);
- Loans requiring special attention (below the average rating class)
- Default loans (the lowest rating class).

The rating class is assigned to all borrowers based on the comprehensive analysis of their performance.

In order to book loan impairment provisions, the Bank used the methodology of Volkswagen Financial Services AG parent company that was designed in compliance with IAS 39, Financial Instruments: Recognition and Measurement. Loan provisions are booked based on the borrowers' default statistics for each rating class. Since the Bank has no statistical information, provisions are booked based on the average of the borrower's probability of default for each rating class determined using the default statistics of the parent company.

The Bank’s policy is to classify each loan as neither past due nor impaired until specific objective evidence of loan impairment is identified. The impairment provisions were booked for neither past due nor impaired loans based on this policy and the portfolio impairment methodology.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. At 31 December 2010 there were no overdue principal and interest payments.

Refer to Note 21 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 18. Information on related party balances is disclosed in Note 23.

10 Premises, Equipment and Intangible Assets

In thousands of Russian Roubles	Note	Office and computer equipment	Total premises and equipment	Computer software licences	Total
Carrying amount at 13 August 2010		-	-	-	-
Additions		15 541	15 541	51 438	66 979
Depreciation and amortisation	16	(782)	(782)	(3 077)	(3 859)
Carrying amount at 31 December 2010		**14 759**	**14 759**	**48 361**	**63 120**
Cost at 31 December 2010		15 541	15 541	51 438	66 979
Accumulated depreciation		(782)	(782)	(3 077)	(3 859)
Carrying amount at 31 December 2010		**14 759**	**14 759**	**48 361**	**63 120**

11 Other Assets

In thousands of Russian Roubles	**2010**
Prepayments and receivables on business operations	3 283
Taxes recoverable other than on income	135
Other	7
Total other assets	**3 425**

Amounts included in other assets are neither past due nor impaired. All of the above assets are expected to be recovered within twelve months after the year-end.

Information on related party balances is disclosed in Note 23.

12 Customer Accounts

In thousands of Russian Roubles	**2010**
Other legal entities	
- Current/settlement accounts	492
Total customer accounts	**492**

Economic sector concentrations within customer accounts are as follows:

	2010	
In thousands of Russian Roubles	**Amount**	**%**
Manufacturing	272	55%
Trade	220	45%
Total customer accounts	**492**	**100%**

At 31 December 2010 the Bank had two customers with balances above RR 200 thousand. The aggregate balance of these customers was RR 492 thousand or 100% of total customer accounts.

Refer to Note 21 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 18. Information on related party balances is disclosed in Note 23.

13 Other Liabilities

Other liabilities comprise the following:

In thousands of Russian Roubles	**2010**
Payables on business operations and professional services	17 975
Accrued employee benefit costs	8 912
Taxes other than on income payable	2 446
Total other liabilities	**29 333**

All of the above liabilities are expected to be settled within twelve months after the year-end.

14 Share Capital

The Bank's share capital was funded by contributions of participants in Roubles. The participants transferred cash to fund the Bank's share capital at the end of July 2010 and the Central Bank of the Russian Federation credited this cash to a special transit account up to the moment of issuance of license to the Bank as follows:

In thousands of Russian Roubles	**2010**
VOLKSWAGEN FINANCIAL SERVICES AG	1 742 400
VOLKSWAGEN BANK GMBH	17 600

On 13 August 2010, the Central Bank of the Russian Federation issued to the Bank a license for carrying out banking transactions in Russian Roubles and foreign currency (without the right to attract individual deposits).

On 16 August 2010, the founders' contributions to the Bank's share capital were transferred from the special transit account to the Bank's correspondent account in the Central Bank of the Russian Federation.

The Bank's charter sets the amount of the share capital equal to RR 880 000 thousand. The amount of the founders' contribution in excess of the set amount of charter capital was recognised within share premium.

In thousands of Russian Roubles	**Charter capital**	**Share premium**	**Total**
At 13 August 2010	-	-	-
Contribution from the Bank's participants	880 000	880 000	1 760 000
At 31 December 2010	880 000	880 000	1 760 000

15 Interest Income

In thousands of Russian Roubles	**2010**
Interest income	
Loans and advances to customers	2 764
Due from other banks	977
Total interest income	**3 741**

16 Administrative and other operating expenses

In thousands of Russian Roubles	**Note**	**2010**
Staff costs		25 391
Costs of corporate events		11 217
Operating lease expenses		7 452
Insurance contributions		4 900
Taxes other than on income		4 391
Communication, telecommunication and information system services		3 860
Depreciation of premises and equipment and amortisation of intangible assets	10	3 859
Professional services		3 845
Other expenses		3 282
Total administrative and other operating expenses		**68 197**

17 Income Taxes

(a) Components of income tax benefit

Income tax credit recorded in profit or loss for the year comprises the following:

In thousands of Russian Roubles	**2010**
Deferred tax	(2 407)
Income tax credit for the year	**(2 407)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Bank's 2010 financial result in 2010 is 20%.

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	**2010**
Loss before tax	**(68 778)**
Theoretical tax credit at statutory rate (2010: 20%)	(13 755)
Tax effect of items which are not deductible or assessable for taxation purposes:	
- Non-deductible expenses	2 801
- Other non-temporary differences	185
Unrecognised tax loss carry forwards	8 362
Income tax credit for the year	**(2 407)**

(c) Tax loss carry forwards

The Bank has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards. The amount of potential deferred tax asset is RR 8 362 thousand as at 31 December 2010. In accordance with tax legislation tax losses can be recovered against taxable profits during ten subsequent tax periods.

In thousands of Russian Roubles	**2010**
Tax loss carry-forwards expiring:	
- after 31 December 2016	41 811
Total tax loss carry forwards	**41 811**

17 Income Taxes (Continued)

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Russia give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

In thousands of Russian Roubles	13 August 2010	Credited/ (charged) to profit or loss	31 December 2010
Tax effect of deductible/(taxable) temporary differences			
Premises and equipment	-	(161)	(161)
Loan impairment provision	-	547	547
Accrued expenses	-	2 021	2 021
Net deferred tax asset	-	2 407	2 407
Recognised deferred tax asset	-	2 407	2 407
Recognised deferred tax liability	-	-	-
Net deferred tax asset	-	2 407	2 407

18 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Bank takes on exposure to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank’s lending and other transactions with counterparties giving rise to financial assets.

The Bank’s maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the statement of financial position. For commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 20. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 9.

The Bank applies policies and procedures aimed at ensuring the Bank's assets and equity, mitigation of the risk that may result in unexpected losses.

18 Financial Risk Management (Continued)

Credit risk management includes:

- set of management decisions aimed at risk identification, quantitative and qualitative research and planning of the protective measures aimed at elimination or mitigation of losses as a result of default or partial default of the borrowers under contract terms.
- the procedures for identification of potential risks, their qualitative and quantitative evaluation of the loan application, development of the measures ensuring protection against risks, risk monitoring and corrective actions.

The Bank evaluates credit risks on ongoing basis.

The key components of credit risk management are:

- conservative approach to credit risk management;
- regular and objective evaluation of the borrowers' financial position and monitoring of its changes;
- monitoring of the quality of debt servicing.

The Bank controls the credit risk through setting limits and monitoring of compliance with these limits.

Credit limits and the procedure for their approval by different classes of borrowers are limited by the obligatory ratios set by the Central Bank of Russia. In the course of its business the Bank strictly complies with the ratios.

The main principle of credit risk management is segregation of decision-making authorities.

Credit risk management instruments include:

- Planning of the credit portfolio quality and structure;
- Establishment of internal and external guidelines and provisions of lending process;
- Loan portfolio quality monitoring;
- Credit risk monitoring;
- Review of current business and lending experience.

Planning of the credit portfolio quality and structure takes into account risk categories, priorities of the Bank's regional development and other indicators.

The Bank uses formalised internal credit ratings to monitor creditworthiness of corporate customers.

The process of credit risk monitoring includes regular expert formalised evaluation of credit risk in accordance with which the risk classes (rating classes) are assigned to the customers.

The main instrument of credit risk reduction is acceptance of collateral. Requirements to collateral depend upon the borrower's creditworthiness and other risk factors.

The Bank also accepts guarantees and warranties in order to mitigate credit risk.

The Bank discloses the information about collateral and other loan security forms in the notes to financial statements.

18 Financial Risk Management (Continued)

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies for credit related commitments as it does for balance sheet financial instruments, including approvals of transaction, risk mitigating limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency and (b) interest rate, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

As at 31 December 2010 the Bank had no exposure to currency risk because all Bank's financial assets and liabilities are denominated in it functional currency.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Management monitors on a regular basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Total**
31 December 2010				
Total financial assets	1 277 149	377 353	-	1 654 502
Total financial liabilities	18 467	-	-	18 467
Net interest sensitivity gap at 31 December 2010	1 258 682	377 353	-	1 636 035

Some of the Bank's standard credit products have complex interest rate structure, which is reviewed on monthly basis.

At 31 December 2010, if interest rates had been 200 basis points lower with all other variables held constant, net profit for the year would have been by RR 3 035 thousand lower mainly as a result of lower interest income on due from other banks and loans to legal entities.

At 31 December 2010, if interest rates had been 200 basis points higher with all other variables held constant, profit for the year would have been by RR 3 035 thousand higher as a result of higher interest income on due from other banks and loans to legal entities.

18 Financial Risk Management (Continued)

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel.

In % p.a.	**2010 Russian roubles**
Assets	
Cash and cash equivalents	0%
Due from other banks	4%
Loans and advances to customers	8%
Liabilities	
Customer accounts	
- current and settlement accounts	0%

The sign "-" in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

Other price risk. The Bank is exposed to prepayment risk through providing fixed or variable rate loans, which give the borrower the right to early repay the loans. The Bank's current year loss and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers.

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2010 is set out below:

In thousands of Russian Roubles	**Russia**
Financial assets	
Cash and cash equivalents	275 961
Mandatory cash balances with the Bank of Russia	106
Due from other banks	1 200 977
Loans and advances to customers	177 458
Total financial assets	**1 654 502**
Financial liabilities	
Customer accounts	492
Payables	17 975
Total financial liabilities	**18 467**
Net position in on-balance sheet financial instruments	**1 636 035**
Credit related commitments	**440 779**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing exposures to borrowers with aggregated loan balances in excess of 10% of net assets. Refer to Notes 8 and 9.

18 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from customer accounts and loan draw downs. Early repayment of loans and their roll-over are the main reasons for liquidity risk. The Bank does not maintain cash resources to simultaneously meet all of these needs as in view of the specifics of its current activities the amount of attracted funds is minimal. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Bank's equity is the main source of funding for the Bank. The Bank invests the funds in short-term liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements. The Bank calculates liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. These ratios are:

- Instant liquidity ratio (N2), which is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 1593% at 31 December 2010.

- Current liquidity ratio (N3), which is calculated as the ratio of liquid assets to liabilities maturing within 30 calendar days. The ratio was 7371 % at 31 December 2010.

The Treasury receives information about the liquidity profile of the financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The table below shows maturity analysis of assets and liabilities at 31 December 2010 and based on their contractual maturities except for assets that are readily saleable in case it would be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions and based on the expected timing of cash inflows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

The amounts disclosed in the table are contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

18 Financial Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2010 is as follows:

In thousands of Russian Roubles	**Demand and less than 1 month**	**From 1 to 6 months**	**Total**
Assets			
Cash and cash equivalents	275 961	-	275 961
Mandatory cash balances with the Bank of Russia	106	-	106
Due from other banks	1 003 360	200 000	1 203 360
Loans and advances to customers	1 060	185 064	186 124
Total	**1 280 487**	**385 064**	**1 665 551**
Liabilities			
Customer accounts	492	-	492
Payables	17 975		17 975
Total potential future payments for financial obligations	**18 467**	**-**	**18 467**
Liquidity gap arising from financial instruments	**1 262 020**	**385 064**	**1 647 084**
Credit related commitments	**440 779**	**-**	**440 779**

The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

In Bank`s Management opinion, the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

As the Bank was established in 2010, the main source of asset funding is equity.

19 Management of Capital

The Bank's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. The Bank considers total capital under management to be equity as shown in the statement of financial position. The amount of capital that the Bank managed as of 31 December 2010 was RR 1 693 629 thousand. Compliance with capital adequacy ratios set by the Central Bank of the Russian Federation is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of the Board and Chief Accountant. Other objectives of capital management are evaluated annually.

19 Management of Capital (Continued)

Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's reports prepared under Russian accounting standards and comprises:

In thousands of Russian Roubles	**2010**
Net assets under Russian GAAP	1 648 638
Total regulatory capital	**1 648 638**

The Bank complied with all externally imposed capital requirements throughout 2010.

20 Contingencies and Commitments

***Legal proceedings*.** During 2010, no claims against the Bank were received.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes the following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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.

Russian transfer pricing legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice in this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the entity.

As at 31 December 2010 the management did not book any provision for potential tax liabilities as it is believes that its interpretation of the relevant tax, currency and customs legislation is appropriate.

20 Contingencies and Commitments (Continued)

Operating lease commitments. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Russian Roubles	**2010**
Due within 1 year	7 835
Total operating lease commitments	**7 835**

Credit related commitments

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Russian Roubles	**2010**
Undrawn credit lines that are irrevocable or are revocable only in response to a material adverse change.	440 779
Total credit related commitments, net of provision	**440 779**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

All credit related commitments are denominated in Russian roubles.

21 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

In thousands of Russian Roubles	2010 Carrying amount	2010 Fair value
FINANCIAL ASSETS		
Cash and cash equivalents		
- Cash balances with the CBRF	273 243	273 243
- Correspondent accounts with other banks	2 718	2 718
Mandatory cash balances with the CBRF	106	106
Due from other banks		
- Loans and deposits with other banks	1 200 977	1 200 977
Loans and Advances to Customers		
- Corporate loans	177 458	177 458
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1 654 502**	**1 654 502**

In thousands of Russian Roubles	2010 Carrying amount	2010 Fair value
FINANCIAL LIABILITIES		
Customer accounts		
- Current/settlement accounts of other legal entities	492	492
Payables	17 975	17 975
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**18 467**	**18 467**

(b) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation

The best evidence of fair value is price quotations in an active market. Where quoted market prices are not available, the Bank uses valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on, maturity of the instrument and credit risk of the counterparty and were as follows:

	2010
Due from other banks	
Loans and deposits with other banks	3% - 4 % p.a.
Loans and advances to customers	
Corporate loans	7 % - 11 % p.a.
Customer accounts	
- Current/settlement accounts of other legal entities	0 % p.a.

22 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: recognition and measurement*, the Bank assigns the following categories to its financial assets: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through the statement of comprehensive income. Financial assets at fair value through the statement of comprehensive income have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables form a separate category. The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2010:

In thousands of Russian Roubles	**Loans and receivables**
ASSETS	
Cash and cash equivalents	275 961
Mandatory cash balances with the Bank of Russia	106
Due from other banks	
- Loans and deposits with other banks	1 200 977
Loans and advances to customers	
- Corporate loans	177 458
Other financial assets:	
- Prepayments and receivables relating to other operations	1
TOTAL FINANCIAL ASSETS	**1 654 503**

As of 31 December 2010 all of the Bank's financial liabilities are carried at amortised cost.

23 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can 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.

At 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Companies under common control**
Gross amount of loans and advances to customers (contractual interest rate: 6.53 %)	122 065
Impairment provisions for loans and advances to customers at 31 December	(3 357)
Other assets	37
Customer accounts (contractual interest rate: 0 %)	220
Other liabilities	14 405

23 Related Party Transactions (Continued)

The income and expense items with related parties for 2010 were as follows:

In thousands of Russian Roubles	**Companies under common control**
Interest income	2 052
Provision for loan impairment	3 357
Fee and commission income	39
Fee and commission expense	17
Administrative and other operating expenses	8 751

At 31 December 2010, other rights and obligations with related parties were as follows:

In thousands of Russian Roubles	**Companies under common control**
Other contingent obligations	7 835

Aggregate amounts lent to and repaid by related parties during 2010 were:

In thousands of Russian Roubles	**Companies under common control**
Amounts lent to related parties during the year	122 000

The ultimate shareholder and ultimate controlling party of the Bank is Volkswagen AG.

In 2010, the remuneration of members of the Management Board and the Board of Directors of the Bank comprised salaries, discretionary bonuses and other short-term benefits totalling RR 3 344 thousand.