Home Credit and Finance Bank

Consolidated Financial Statements
for the year ended 31 December 2011

Contents

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Independent Auditors' Report

To the Council of OOO Home Credit and Finance Bank

We have audited the accompanying consolidated financial statements of OOO "Home Credit and Finance Bank" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

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2 March 2012

	Note	2011 MRUB	2010 MRUB
Interest income	4	29,569	25,348
Interest expense	4	(6,471)	(6,234)
Net interest income		**23,098**	**19,114**
Fee and commission income	5	10,097	7,685
Fee and commission expense	6	(506)	(355)
Net fee and commission income		**9,591**	**7,330**
Other operating expense, net	7	(347)	(1,738)
Operating income		**32,342**	**24,706**
Impairment losses	8	(6,163)	(3,567)
General administrative expenses	9	(12,547)	(9,281)
Operating expenses		**(18,710)**	**(12,848)**
Profit before tax		**13,632**	**11,858**
Income tax expense	10	(2,878)	(2,447)
Net profit for the period		**10,754**	**9,411**
Other comprehensive expense			
Revaluation reserve for financial assets available for sale:			
- net change in fair value of financial assets available for sale, net of tax		(120)	188
- net change in fair value of financial assets available for sale transferred to profit or loss, net of tax		94	(255)
Other comprehensive expense for the period, net of tax		**(26)**	**(67)**
Total comprehensive income for the period		**10,728**	**9,344**

The consolidated financial statements as set out on pages 4 to 50 were approved by the Board of Management on 2 March 2012.

Acting Chairman

D.Mosolov

Chief Financial Officer

I. Kolikova

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

ASSETS	Note	2011 MRUB	2010 MRUB
Cash and cash equivalents	11	15,972	7,416
Placements with banks and other financial institutions	12	2,865	4,314
Loans to customers	13	112,833	75,275
Financial assets at fair value through profit or loss	14	608	14
Financial assets available for sale	15	11,861	5,841
Property, equipment and intangible assets	16	7,805	6,653
Investment in associate		86	63
Deferred tax asset	22	-	142
Current income tax receivable		401	205
Other assets	17	3,258	1,176
Total assets		**155,689**	**101,099**
LIABILITIES AND EQUITY			
Liabilities			
Debt securities issued	18	37,450	34,152
Due to banks and other financial institutions	19	14,128	7,467
Current accounts and deposits from customers	20	70,298	23,785
Financial liabilities at fair value through profit or loss	21	80	95
Deferred tax liability	22	14	-
Other liabilities	23	3,172	2,581
Total liabilities		**125,142**	**68,080**
Equity			
Charter capital		4,406	4,406
Other capital contributions		10,631	10,631
Revaluation reserve for financial assets available for sale		(38)	(12)
Retained earnings		15,548	17,994
Total equity		**30,547**	**33,019**
Total liabilities and equity		**155,689**	**101,099**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Charter capital MRUB	Other capital contributions MRUB	Revaluation reserve for financial assets available for sale MRUB	Retained earnings MRUB	Total MRUB
Balance at 1 January 2010	**4,406**	**10,631**	**55**	**11,741**	**26,833**
Net profit for the period	-	-	-	9,411	9,411
Net change in fair value of financial assets available for sale, net of tax	-	-	188	-	188
Net change in fair value of financial assets available for sale transferred to profit or loss, net of tax	-	-	(255)	-	(255)
Total comprehensive income for the period	-	-	(67)	9,411	9,344
Dividends paid	-	-	-	(3,158)	(3,158)
Balance at 31 December 2010	**4,406**	**10,631**	**(12)**	**17,994**	**33,019**
Balance at 1 January 2011	**4,406**	**10,631**	**(12)**	**17,994**	**33,019**
Net profit for the period	-	-	-	10,754	10,754
Net change in fair value of financial assets available for sale, net of tax	-	-	(120)	-	(120)
Net change in fair value of financial assets available for sale transferred to profit or loss, net of tax	-	-	94	-	94
Total comprehensive income for the period	-	-	(26)	10,754	10,728
Dividends paid	-	-	-	(13,200)	(13,200)
Balance at 31 December 2011	**4,406**	**10,631**	**(38)**	**15,548**	**30,547**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2011 MRUB	2010 MRUB
Operating activities			
Profit before tax		13,632	11,858
Adjustments for:			
Impairment losses	8	6,163	3,567
Net unrealised foreign exchange loss		361	192
Net accrued interest expense		(361)	(201)
Loan origination costs		2,842	1,987
Net accrued fee and comission expense		781	322
Depreciation and amortisation	9	769	763
Net loss on disposal of property, equipment and intangible assets		86	50
Loss on origination of loans at non-market interest rates	7, 13	-	2,071
Net realised loss/(gain) on disposal of financial assets available for sale	7	99	(324)
Net accrued general administrative expenses		100	576
Net loss on early redemption of debt securities issued	7	38	44
Loss on early redemption of amounts due to banks and other financial institutions	7	-	4
Increase in loans to customers		(45,584)	(23,839)
Decrease/(increase) in placements with banks and other financial institutions		1,378	(4,221)
(Increase)/decrease in financial assets available for sale		(6,135)	9,750
Increase in other assets		(2,478)	(319)
Increase in current accounts and deposits from customers		45,941	9,873
Increase in due to banks and other financial institutions		2,583	3,924
Increase in other liabilities		127	73
Cash flows from operations		**20,342**	**16,150**
Income taxes paid		(2,911)	(2,324)
Cash flows from operating activities		**17,431**	**13,826**
Investing activities			
Proceeds from sale of property and equipment		3	10
Acquisition of property, equipment and intangible assets		(2,010)	(483)
Cash flows used in investing activities		**(2,007)**	**(473)**
Financing activities			
Proceeds from debt securities issued		25,250	7,160
Repayments of debt securities issued		(22,770)	(10,047)
Proceeds from banks and other financial institutions		5,792	1,680
Repayments of amounts due to banks and other financial institutions		(1,800)	(15,017)
Dividends paid		(13,200)	(3,158)
Cash flows used in financing activities		**(6,728)**	**(19,382)**
Net increase/(decrease) in cash and cash equivalents		8,696	(6,029)
Cash and cash equivalents at 1 January		7,416	13,330
Foreign exchange effect on cash and cash equivalents		(140)	115
Cash and cash equivalents at 31 December	11	**15,972**	**7,416**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1. Description of the Group

OOO "Home Credit and Finance Bank" (the "Bank") was established in the Russian Federation as a Limited Liability Company and was granted its banking licence in 1990. On 13th October 2011 the Bank received General Banking Licence #316 from the Central Bank of Russia. The Bank together with its subsidiaries is further referred to as the Group.

Registered office

8/1 Pravda str
Moscow 125040
Russian Federation

Participants	**Country of incorporation**	**Ownership interest (%)**	
		2011	**2010**
Home Credit B.V.	The Netherlands	99.99	99.99
Home Credit International a.s.	Czech Republic	0.01	-
Chvatal Ladislav	-	-	0.01

The ultimate controlling owner is Petr Kellner, who exercises control over the Group through PPF Group N.V. registered in the Netherlands.

In March 2011 Chvatal Ladislav sold his stake to Home Credit International a.s.

Consolidated subsidiaries	**Country of incorporation**	**Ownership interest (%)**	
		2011	**2010**
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Liko-Technopolis (LLC)	Russian Federation	see below	100.00
Infobos (LLC)	Russian Federation	see below	100.00
Eurasia Capital S.A.	Luxemburg	see below	see below
Eurasia Structured Finance No.1 S.A.*	Luxemburg	see below	see below
Eurasia Credit Card Company S.A.*	Luxemburg	see below	see below

Infobos (LLC) was liquidated on 3 May 2011, Liko-Technopolis (LLC) was liquidated on 19 September 2011.

Eurasia Capital S.A., Eurasia Structured Finance No.1 S.A. and Eurasia Credit Card Company S.A. are special purpose entities established to facilitate the Group’s issues of debt securities (refer to Note 18).

* *As at 31 December 2011 Eurasia Structured Finance No.1 S.A. and Eurasia Credit Card Company S.A. were in the process of liquidation.*

Associate	**Country of incorporation**	**Ownership interest (%)**	
		2011	**2010**
Equifax Credit Services (LLC)	Russian Federation	38.14	42.00

Council

Smejc Jiri	Chairman
Kolikova Irina	Deputy Chairman
Vaisband Galina	Member

Board of Management

Svitek Ivan	Chairman/Chief Executive Officer
Mosolov Dmitri	First Deputy Chairman/ Deputy Chief Executive Officer
Gasyak Vladimir	Deputy Chairman
Schaffer Martin	Deputy Chairman
Andresov Yuriy	Deputy Chairman
Egorova Olga	Member

1. Description of the Group (continued)

Principal activities

The principal activity of the Group is the provision of the full range of banking products and services to individual customers across the Russian Federation. The activities of the Group are regulated by the Central Bank of the Russian Federation (the "CBR").

The Bank was acquired by the Home Credit Group in 2002. The primary activities of the Group are lending, deposit taking, saving and current accounts service and maintenance, payments, debit cards issuance and maintenance, Internet-banking, payroll and other banking services. The loans are offered to existing and new customers across the Russian Federation via a national wide distribution network comprising of variable channels: own banking offices, points-of-sale at retailers, Russian Post branches and other third parties. As at 31 December 2011, the Bank's distribution network comprised the head office in Moscow and 6 branches in Ufa, Rostov-on-Don, Saint-Petersburg, Yekaterinburg, Novosibirsk, Khabarovsk, 1,273 offices, 98 regional centres, 1 representative office and over 58,000 active points of sale which cover approximately 2,000 residential areas in the Russian Federation. As at 31 December 2011 the ATM network comprised of 633 ATMs across the Russian Federation.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2011 comprise the Bank and its subsidiaries.

(a) Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost or amortised historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value. Other financial assets and liabilities are stated at amortised cost. Non-financial assets and liabilities are stated at historical cost, restated for the effects of inflation as described in Note 3(b).

(c) Presentation and functional currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). Management determined the Group’s functional currency to be the RUB as it reflects the economic substance of the underlying events and circumstances of the Group. The RUB is also the Group’s presentation currency for the purposes of these consolidated financial statements. Financial information presented in RUB is rounded to the nearest million.

(d) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

2. Basis of preparation (continued)

(ii) Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Special purpose entities

The Group has established a number of special purpose entities ("SPEs") for the purposes of raising finance. The Group does not have any direct or indirect shareholdings in these entities. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks related to the SPEs.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(e) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from those estimates. In particular, information about significant areas of estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements is described in the following:
- Loan impairment - Notes 3(i) and 13;
- Estimates of fair values of financial instruments - Note 24 (e).

(f) Business environment

The Russian Federation is experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the contraction in the capital and credit markets and its impact on the Russian economy have further increased the level of economic uncertainty in the environment. These consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

3. Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the consolidated financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Roubles at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Roubles at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Roubles at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Roubles at the exchange rate at the date that the fair value is determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly, no adjustments for hyperinflation are made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of equity items as at 31 December 2002 became carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

(c) Cash and cash equivalents

The Group considers cash, nostro accounts, amounts receivable under reverse repurchase agreements, and term placements with the CBR, banks and other financial institutions due within one month to be cash and cash equivalents. The minimum reserve deposit with the CBR is not considered to be a cash equivalent due to restrictions on its withdrawability.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term,
- are part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking,
- are a derivative (except for a derivative that is a designated and effective hedging instrument), or
- are, upon initial recognition, designated by the Group as at fair value through the profit or loss.

The Group designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis,
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise, or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial classification.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

3. Significant accounting policies (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, those that the Group upon initial recognition designates as at fair value through profit or loss, or those where its initial investment may not be substantially recovered, other than because of credit deterioration.

Held-to-maturity investments are those non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than loans and receivables and instruments designated as at fair value through profit or loss or as available-for-sale.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables and held to maturity investments which are measured at amortised cost less impairment losses and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost less impairment losses.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognised in the consolidated statement of comprehensive income.

Gains and losses on financial assets available for sale are recognised directly in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of comprehensive income.

3. Significant accounting policies (continued)

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of comprehensive income when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The Group also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts due to other banks or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognised in the consolidated statement of comprehensive income over the life of the agreement.

Securities purchased under agreements to resell are recorded as due from banks or customers as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the agreement using the effective interest method.

(viii) Derivative financial instruments

The Group uses derivative financial instruments to economically hedge its exposure to foreign exchange and interest rate risk arising from financing activities. These instruments do not qualify for hedge accounting and thus any gain or loss on the derivative financial instruments is recognised in the consolidated statement of comprehensive income.

(ix) Financial guarantees

A financial guarantee is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities are included within other liabilities.

3. Significant accounting policies (continued)

(e) Securitisation

For securitised financial assets, the Group considers both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has retained substantially all of the risks and rewards relating to the transferred assets, the transferred assets are recognised in the consolidated statement of financial position.

When the Group transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets are derecognised from the consolidated statement of financial position.

If the Group neither transfers nor retains substantially all the risks and rewards relating to the transferred assets, the assets are derecognised if the Group has not retained control over the assets.

(f) Offsetting

Financial assets and liabilities are offset and the net amount 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 realise the asset and settle the liability simultaneously.

(g) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, under the terms of which the Group does not assume substantially all the risks and rewards of ownership, are expensed on a straight line basis.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

3. Significant accounting policies (continued)

(iv) Depreciation

Depreciation is charged to the consolidated statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Property and equipment are depreciated from the date the asset is available for use. The estimated useful lives are as follows:

Computers and equipment	4 years
Vehicles	5 years
Furniture	5 years
Leasehold improvements	5 years
Buildings	10-50 years

(h) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets and liabilities acquired. Goodwill is stated at cost less impairment losses.

(ii) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the consolidated statement of comprehensive income as an expense as incurred.

(iii) Amortisation

Amortisation is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is not amortised; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives are as follows:

Software	1-10 years
Licenses	1-10 years

(i) Impairment

(i) Financial assets carried at amortised cost

The Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired on a regular basis. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables 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.

3. Significant accounting policies (continued)

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the financial asset's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows. Financial assets with a short duration are not discounted.

In some cases the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of financial assets are recognised in the consolidated statement of comprehensive income and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount of the asset that would have been determined, net of amortisation, if no impairment loss had been recognised.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the consolidated statement of comprehensive income and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non-financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3. Significant accounting policies (continued)

All impairment losses in respect of non financial assets are recognised in the consolidated statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Pensions

The Government of the Russian Federation is responsible for providing pensions and retirement benefits to the Group's employees. A regular contribution linked to employees' salaries is made by the Group to the Government to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

(k) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated statement of comprehensive income except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Interest income and expense

Interest income and expense is recognised in the consolidated statement of comprehensive income as it accrues, taking into account the effective rate of the asset/liability or an applicable floating rate. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of the loan together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate. Deferred fees are amortised based on average actual historic lives of the related loans.

3. Significant accounting policies (continued)

(n) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided.

Penalty income is recognised in the consolidated statement of comprehensive income when penalty is charged to a customer, taking into account its collectability.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these pronouncements on its financial statements.

IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning on or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

3. Significant accounting policies (continued)

IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

Various Improvements to IFRSs have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2012. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

(p) Comparative figures

Value added tax expense in the amount of MRUB 354 for the year ended 31 December 2010 was reclassified from taxes other than income tax to corresponding expenses in general administrative expenses in order to conform to 2011 presentation.

4. Interest income and interest expense

	2011 MRUB	2010 MRUB
Interest income		
Loans to individuals	28,776	23,901
Financial assets available for sale	574	1,049
Financial assets at fair value through profit or loss	111	-
Placements with banks and other financial institutions	92	43
Amounts receivable under reverse repurchase agreements	14	88
Loans to corporations	2	267
	29,569	**25,348**
Interest expense		
Debt securities issued	3,434	3,952
Current accounts and deposits from customers	2,354	1,662
Due to banks and other financial institutions	579	620
Financial liabilities at fair value through profit or loss	104	-
	6,471	**6,234**

5. Fee and commission income

	2011 MRUB	2010 MRUB
Insurance agent commissions	6,239	4,111
Contractual penalties from customers	1,493	1,491
Cash operations	1,340	966
Customer payments processing and account maintenance	739	704
Fees from retailers	268	402
Other	18	11
	10,097	**7,685**

6. Fee and commission expense

	2011 MRUB	2010 MRUB
Cash transactions	277	166
Payments processing and account maintenance	95	104
Payments to the Deposit Insurance Agency	90	52
Other	44	33
	506	**355**

7. Other operating expense, net

	Note	2011 MRUB	2010 MRUB
Net gain on spot transactions and derivatives		327	180
Net gain from sale of interest in associate		25	-
Net loss on early redemption of debt securities issued		(38)	(44)
Net realised (loss)/gain on disposal of financial assets available for sale		(99)	324
Loss from foreign exchange revaluation of financial assets and liabilities		(666)	(213)
Loss on early redemption of amounts due to banks and other financial institutions		-	(4)
Loss on origination of loans at non-market interest rates	13	-	(2,071)
Other		104	90
		(347)	**(1,738)**

8. Impairment losses

	2011 MRUB	2010 MRUB
Cash loans	2,942	497
POS loans	2,938	1,954
Credit card loans	420	671
Car loans	(2)	23
Mortgage loans	(51)	268
Loans to corporations	(84)	154
	6,163	**3,567**

9. General administrative expenses

	Note	2011 MRUB	2010 MRUB
Personnel related expenses		5,575	4,404
Payroll related taxes		1,036	551
Telecommunication and postage		994	777
Occupancy	27	989	587
Depreciation and amortisation	16	769	763
Advertising and marketing		728	258
Professional services		545	605
Information technology		475	565
Repairs and maintenance		390	272
Travel expenses		202	72
Taxes other than income tax		127	121
Other		717	306
		12,547	**9,281**

10. Income tax expense

	2011 MRUB	2010 MRUB
Current tax expense	2,715	2,300
Deferred tax expense	163	147
	2,878	**2,447**

Reconciliation of effective tax rate

	2011 MRUB	2010 MRUB
Profit before tax	**13,632**	**11,858**
Income tax using the applicable tax rate 20%	2,726	2,372
Net non-deductible costs	157	90
Income taxed at lower tax rates	(5)	-
Effect of current tax overprovided in previous periods	-	(15)
	2,878	**2,447**

The tax effects relating to components of other comprehensive expense comprise:

	2011			2010		
	Amount before tax MRUB	Tax benefit MRUB	Amount net of tax MRUB	Amount before tax MRUB	Tax benefit MRUB	Amount net of tax MRUB
Net change in fair value of financial assets available for sale	(33)	7	(26)	(84)	17	**(67)**
	(33)	**7**	**(26)**	**(84)**	**17**	**(67)**

11. Cash and cash equivalents

	2011 MRUB	2010 MRUB
Cash	6,167	1,400
Nostro accounts with the CBR	5,417	1,805
Placements with banks and other financial institutions due within one month	4,388	4,128
Amounts receivable under reverse repurchase agreements	-	83
	15,972	**7,416**

Placements with banks and other financial institutions shown above comprise nostro accounts and loans and deposits.

11. Cash and cash equivalents (continued)

Nostro accounts	**2011 MRUB**	**2010 MRUB**
OECD banks	3,490	673
Largest 50 Russian banks	143	160
Other	550	47
	4,183	**880**

Loans and deposits	**2011 MRUB**	**2010 MRUB**
OECD banks	4	1,123
Largest 50 Russian banks	-	1,300
Other	201	825
	205	**3,248**

Amounts receivable under reverse repurchase agreements	**2011 MRUB**	**2010 MRUB**
Other Russian non-banking financial institutions	-	83
	-	**83**

Collateral for amounts receivable under reverse repurchase agreements

	2011 MRUB	**2010 MRUB**
Shares	-	115
	-	**115**

None of the items described above are impaired or past due.

12. Placements with banks and other financial institutions

	2011 MRUB	**2010 MRUB**
Term deposits with banks and other financial institutions due after one month	2,092	2,599
Minimum reserve deposit with the CBR	773	188
Amounts receivable under reverse repurchase agreements	-	1,527
	2,865	**4,314**

12. Placements with banks and other financial institutions (continued)

Term deposits with banks and other financial institutions due after one month	**2011 MRUB**	**2010 MRUB**
Other banks	1,421	-
OECD banks	671	1,024
Other foreign non-banking financial institutions	-	1,525
Other Russian non-banking financial institutions	-	50
	2,092	**2,599**

Amounts receivable under reverse repurchase agreements	**2011 MRUB**	**2010 MRUB**
Other foreign non-banking financial institutions	-	1,527
	-	**1,527**

The minimum reserve deposit is a mandatory non-interest bearing deposit calculated in accordance with regulations issued by the CBR and whose withdrawability is restricted.

None of the items described above are impaired or past due.

13. Loans to customers

	2011 MRUB	**2010 MRUB**
Cash loans	55,367	18,424
POS loans	44,575	43,150
Credit card loans	15,429	11,569
Mortgage loans	5,045	6,704
Car loans	569	1,215
Loans to corporations	35	170
Impairment allowance	(8,187)	(5,957)
	112,833	**75,275**

The Group provides point-of-sale loans ("POS loans") for the purchase of household goods. Credit cards are generally issued for 3 years and have an average credit limit of TRUB 84.7 and require a minimum monthly payment of 5% of the outstanding credit balance on the respective credit card (31 December 2010: 3 years and TRUB 45.6 respectively and a minimum monthly payment of 5% of the credit limit on the respective credit card). As at 31 December 2011 the average loan-to-value ratio for mortgage loans is 62% (as at 31 December 2010: 66%).

13. Loans to customers (continued)

The following table provides the average size of loans granted and the average term by type of loans as at 31 December:

	2011 Size TRUB	2011 Term Months	2010 Size TRUB	2010 Term Months
POS loans	21.0	15	17.2	15
Cash loans	78.1	33	53.3	28
Car loans	256.0	60	247.9	56
Mortgage loans	2,212.5	151	2,771.0	172

Analysis of collateral

The following table provides the analysis of loan portfolio by type of collateral as at 31 December:

	2011 Portfolio MRUB	2011 % of loan portfolio	2010 Portfolio MRUB	2010 % of loan portfolio
Real estate	5,045	4	6,704	9
Motor vehicles	569	-	1,215	1
No collateral	115,406	96	73,313	90
Total	**121,020**		**81,232**	

The amounts shown in the table above represent the gross amount of the loans, and do not necessarily represent the fair value of the collateral.

Mortgage loans are secured by underlying housing real estate. Car loans are secured by underlying motor vehicles. Credit card loans, cash loans, POS loans and loans to corporations are not secured.

Overdue mortgage and car loans with a gross value of MRUB 687 (31 December 2010: MRUB 1,077) are secured by collateral with a fair value of MRUB 924 (31 December 2010: MRUB 1,406). For the remaining overdue loans to customers with a gross value of MRUB 14,817 (31 December 2010: MRUB 10,457) there is no collateral.

As at 31 December 2011 the assets obtained by the Group by taking control of collateral accepted as security for issued mortgage loans amounted to MRUB 209 (31 December 2010: MRUB 24).

13. Loans to customers (continued)

	2011			**2010**		
	Gross MRUB	**Impairment allowance MRUB**	**Carrying amount MRUB**	**Gross MRUB**	**Impairment allowance MRUB**	**Carrying amount MRUB**
Loans to corporations						
Current	24	-	24	5	-	5
Days past due:						
90 – 360	-	-	-	154	(154)	-
more than 360	11	(11)	-	11	(11)	-
Loans to individuals						
Current	105,492	(918)	104,574	69,693	(784)	68,909
Days past due:						
1 – 90	8,529	(2,366)	6,163	5,964	(1,263)	4,701
90 – 360	6,611	(4,616)	1,995	4,884	(3,310)	1,574
more than 360	353	(276)	77	521	(435)	86
Total	**121,020**	**(8,187)**	**112,833**	**81,232**	**(5,957)**	**75,275**

The Group considers loans which are contractually overdue for more than 90 days to be non-performing ("NPL"). As of 31 December 2011 total non-performing loans amounted to MRUB 6,975 (31 December 2010: MRUB 5,570). The Group created provisions for non-performing loans of 70.3% (31 December 2010: 70.2%). Performing loans are provided for at a rate 2.9% (31 December 2010: 2.7%).

Total allowances for impairment by product classes to NPLs by product classes

	2011		**2010**	
	NPLs MRUB	**Provision coverage %**	**NPLs MRUB**	**Provision coverage %**
POS loans	3,117	106	2,461	114
Cash loans	2,298	152	830	136
Credit card loans	975	92	1,274	86
Mortgage loans	486	81	616	88
Car loans	88	102	224	99
Loans to corporations	11	100	165	100
Total	**6,975**	**117**	**5,570**	**107**

Loans and receivables, except for mortgage and car loans, overdue 360 days are written off. Mortgage and car loans and receivables overdue over 720 days are written off. Some of the loans written off can be subsequently sold. During the year ended 31 December 2011 the Group sold non-performing loans with a gross value including penalties of MRUB 5,222 for MRUB 405 (year ended 31 December 2010: MRUB 5,153 for MRUB 296).

During the year ended 31 December 2011 the Group sold performing mortgage loans with a gross value of MRUB 426 (31 December 2010: nil).

13. Loans to customers (continued)

The Group estimated the impairment on loans to customers in accordance with the accounting policy as described in Note 3(i). The key assumptions used in estimating impairment losses are as follows:
- future loan migration and collection experience will be consistent with recent experience,
- unsecured loans which borrowers are unable to repay in full can be partially recovered through the sale of the loans to collection agencies for 5-8% of the outstanding balance of the loans and through further collection actions for 17%-20% of the loans' outstanding principal balances,
- car loans which borrowers are unable to repay in full can be partially recovered through further collection action for 15% of the loans' outstanding principal balances,
- mortgage loans which borrowers are unable to repay in full can be partially recovered through the sale of collateral for 50% of the loans' outstanding principal balances.

Changes in collection estimates could affect the impairment losses recognised. For example, to the extent that estimated future cash flows of loans differs by plus/minus one percent, the loan impairment as at 31 December 2011 would be approximately MRUB 1,128 lower/higher (31 December 2010: MRUB 753).

As at 31 December 2011 mortgage loans with the total carrying amount of MRUB 730 (31 December 2010: MRUB 931) were pledged as collateral for balances due to banks and other financial institutions (Note 19).

In the third quarter of 2010 the Group granted loans under the special terms of a marketing campaign with an average contractual interest rate of 7.8%, which was below the market rate. The volume of loans granted in the amount of MRUB 10,742 was adjusted to fair value at the market interest rate of 29.9%. The effect of this adjustment in the amount of MRUB 2,071 is shown within other operating expense in the statement of comprehensive income.

That marketing campaign evoked keen responses from the market and the same products were widely introduced by competitors in 2011. Management believes that the terms of this product became standard for the market, including its interest rate of 7.8%. Accordingly, no adjustment was made to initial recognition of the loans granted under the marketing campaign in 2011.

Analysis of movements in impairment allowance

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2011 are as follows:

MRUB	**POS loans**	**Credit card loans**	**Cash loans**	**Mortgage loans**	**Car loans**	**Loans to corporations**	**Total**
Balance at 1 January	2,795	1,102	1,131	542	222	165	5,957
Net charge/ (recovery)	2,938	420	2,942	(51)	(2)	(84)	6,163
Loans recovered and sold which previously were written off	575	699	477	216	9	68	2,044
Write offs	(2,995)	(1,328)	(1,062)	(315)	(139)	(138)	(5,977)
Balance at 31 December	**3,313**	**893**	**3,488**	**392**	**90**	**11**	**8,187**

13. Loans to customers (continued)

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

MRUB	POS loans	Credit card loans	Cash loans	Mortgage loans	Car loans	Loans to corporations	Total
Balance at 1 January	2,739	2,926	2,259	675	263	11	8,873
Net charge	1,954	671	497	268	23	154	3,567
Loans recovered and sold which previously were written off	829	396	427	-	1	-	1,653
Write offs	(2,727)	(2,891)	(2,052)	(401)	(65)	-	(8,136)
Balance at 31 December	**2,795**	**1,102**	**1,131**	**542**	**222**	**165**	**5,957**

14. Financial assets at fair value through profit or loss

	2011 MRUB	2010 MRUB
Positive fair value of derivative instruments	608	14
	608	**14**

15. Financial assets available for sale

Debt securities	Note	2011 MRUB	2010 MRUB
Pledged as collateral for balances due to banks		**-**	**231**
Largest 50 Russian banks	19	-	231
Unpledged debt securities		**11,861**	**5,610**
Largest 50 Russian banks		9,075	4,101
Other		2,786	1,509
		11,861	**5,841**

Non-quoted debt securities

Included in financial assets available for sale are non-quoted debt securities as follows:

Debt securities	2011 MRUB	2010 MRUB
Other	-	150
	-	**150**

15. Financial assets available for sale (continued)

Financial assets available for sale stated at costas at 31 December 2010 comprise unquoted Government bonds of the Republic of Belarus which were sold in 2011.

16. Property, equipment and intangible assets

Movements in property, equipment and intangible assets for the year ended 31 December 2011 are as follows:

MRUB	**Land and buildings**	**Vehicles**	**Furniture**	**Leasehold improvements**	**Computers and equipment**	**Intangible assets**	**Total**
Cost							
Balance at 1 January	5,218	130	472	842	1,675	1,069	9,406
Additions	293	12	199	17	1,157	332	2,010
Disposals	(106)	(15)	(5)	-	(85)	-	(211)
Balance at 31 December	**5,405**	**127**	**666**	**859**	**2,747**	**1,401**	**11,205**
Accumulated depreciation and amortisation							
Balance at 1 January	806	71	210	61	1,195	410	2,753
Depreciation and amortisation charge	241	16	46	2	306	158	769
Disposals	(31)	(14)	(4)	-	(73)	-	(122)
Balance at 31 December	**1,016**	**73**	**252**	**63**	**1,428**	**568**	**3,400**
Net book value at 1 January	**4,412**	**59**	**262**	**781**	**480**	**659**	**6,653**
Net book value at 31 December	**4,389**	**54**	**414**	**796**	**1,319**	**833**	**7,805**

16. Property, equipment and intangible assets (continued)

Movements in property, equipment and intangible assets for the year ended 31 December 2010 are as follows:

MRUB	Land and buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
Cost							
Balance at 1 January	6,072	99	392	-	1,639	851	9,053
Additions	92	31	23	25	89	223	483
Disposals	-	-	(34)	(24)	(67)	(5)	(130)
Transfers	(946)	-	91	841	14	-	-
Balance at 31 December	**5,218**	**130**	**472**	**842**	**1,675**	**1,069**	**9,406**
Accumulated depreciation and amortisation							
Balance at 1 January	734	52	100	-	942	232	2,060
Depreciation and amortisation charge	140	19	60	61	305	178	763
Disposals	-	-	(8)	-	(62)	-	(70)
Transfers	(68)	-	58	-	10	-	-
Balance at 31 December	**806**	**71**	**210**	**61**	**1,195**	**410**	**2,753**
Net book value at 1 January	**5,338**	**47**	**292**	**-**	**697**	**619**	**6,993**
Net book value at 31 December	**4,412**	**59**	**262**	**781**	**480**	**659**	**6,653**

17. Other assets

	2011 MRUB	2010 MRUB
Accrued income	1,371	502
Settlements with suppliers	1,061	201
Prepaid expenses	376	258
Taxes other than income tax	124	106
Other	326	109
	3,258	**1,176**

18. Debt securities issued

	Maturity	Interest rate	2011 MRUB	2010 MRUB
Loan participation notes issue 4 of MUSD 500	June 2011	Fixed, 11%	-	6,847
Loan participation notes issue 5 of MUSD 301	August 2011	Fixed, 11.75%	-	5,387
Loan participation notes issue 3 of MUSD 200	August 2011	Fixed, 11.75%	-	4,750
Unsecured RUB bond issue 4 of MRUB 3,000	October 2011	7.10%	-	3,046
Stock exchange RUB bond issue 1 of MRUB 3,000	April 2014/ April 2012*	Floating, 9.88%	3,051	-
Unsecured RUB bond issue 7 of MRUB 5,000	April 2015/ May 2012*	9.00%	5,078	5,068
Unsecured RUB bond issue 6 of MRUB 5,000	June 2014/ December 2012*	7.75%	5,001	4,982
Unsecured RUB bond issue 5 of MRUB 4,000	April 2013	8.50%	3,943	4,072
Stock exchange RUB bond issue 3 of MRUB 4,000	April 2014/ October 2013*	7.90%	4,050	-
Loan participation notes issue 6 of MUSD 500	March 2014	Fixed, 7.00%	16,327	-
			37,450	**34,152**

** Early redemption option date*

The USD denominated loan participation notes issue 4 was issued in June 2008 through Eurasia Capital S.A. (refer to Note 1). The proceeds from the issue were used to grant an unsecured loan to the Bank. The notes were repaid on the maturity date.

The USD denominated loan participation notes issue 5 was issued in August 2008 through Eurasia Capital S.A. in the amount of MUSD 450. The proceeds from the issue were used to grant an unsecured loan to the Bank. Part of the issue consisted of the exchange of USD denominated loan participation notes issue 3 in the amount of MUSD 149. The notes were repaid on the maturity date.

The USD denominated loan participation notes issue 3 was issued in April 2007 through Eurasia Capital S.A. The proceeds from the issue were used to grant an unsecured loan to the Bank. The non-exchanged part of USD denominated loan participation notes issue 3 was redeemed in April 2010. The exchanged part of MUSD 149 was repaid in August 2011.

The RUB denominated bonds issue 4 was issued in October 2006 with a fixed coupon rate, resetable at specified option dates. The bond issue was repaid at par on the maturity date.

In April 2011 the Group issued the RUB denominated Stock exchange bond issue 1 with a floating coupon rate at 3M MosPrime + 290 basis points, resetable at specified coupon dates. The bondholders are entitled to demand early redemption of the bond at par in April 2012.

18. Debt securities issued (continued)

In April 2010 the Group issued the RUB denominated bonds issue 7 with a fixed coupon rate set for two years. The bondholders are entitled to demand early redemption of the bond at par in May 2012.

The RUB denominated bonds issue 6 was issued in June 2009 with a fixed coupon rate, resetable at specified option dates. In December 2010 the Group reset a new coupon rate for the next two years. Bondholders are entitled to demand early redemption of the bond at par in December 2012.

The RUB denominated bonds issue 5 was issued in April 2008 with a fixed coupon rate, resetable at specified option dates. In October 2011 the Group reset a new coupon rate which is valid till the final maturity date.

In April 2011 the Group issued the RUB denominated Stock exchange bond issue 3 with a fixed coupon rate set for the next thirty months. The bondholders are entitled to demand early redemption of the bond at par in October 2013.

The USD denominated loan participation notes issue 6 was issued in March 2011 through Eurasia Capital S.A. in the amount of MUSD 500. The proceeds from the issue were used to grant an unsecured loan to the Bank.

Eurasia Capital S.A., Eurasia Structured Finance No.1 S.A. and Eurasia Credit Card Company S.A. are SPEs established by the Group with the primary objective of raising finance through the issuance of debt securities and securitising part of the Group`s POS loan and credit card portfolios. These SPEs are controlled by the Group through the predetermination of the activities of SPEs, having rights to obtain the majority of benefits of the SPEs, and retaining the majority of the residual risks related to the SPEs.

19. Due to banks and other financial institutions

	2011 MRUB	**2010 MRUB**
Unsecured loans	13,366	6,073
Secured loans	636	1,023
Other balances	126	371
	14,128	**7,467**

As at 31 December 2011 the Group pledged mortgage loans in the amount of MRUB 730 (Note 13) as collateral for secured loans (31 December 2010: mortgage loans in the amount of MRUB 931).

As at 31 December 2010 the Group pledged financial assets available for sale in the amount of MRUB 231 (Note 15) as collateral for secured loans.

20. Current accounts and deposits from customers

	2011 MRUB	**2010 MRUB**
Retail		
Term deposits	51,719	14,503
Current accounts and demand deposits	10,057	7,138
	61,776	21,641
Corporate		
Term deposits	8,404	2,091
Current accounts and demand deposits	118	53
	8,522	2,144
	70,298	**23,785**

21. Financial liabilities at fair value through profit or loss

	2011 MRUB	2010 MRUB
Negative fair value of derivative instruments	80	95
	80	**95**

22. Deferred tax asset and liability

The Group's applicable tax rate for deferred tax is 20% (2010: 20%). Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2011 and to a net deferred tax asset as at 31 December 2010. These temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2011 MRUB	2010 MRUB	2011 MRUB	2010 MRUB	2011 MRUB	2010 MRUB
Cash and cash equivalents, placements with banks and other financial institutions	-	-	(59)	(2)	(59)	(2)
Loans to customers	256	177	(313)	(345)	(57)	(168)
Financial assets available for sale	5	2	-	-	5	2
Property, equipment and intangible assets	-	-	(553)	(418)	(553)	(418)
Fair value of derivative financial instruments	16	19	(122)	(3)	(106)	16
Debt securities issued	-	34	(22)	-	(22)	34
Due to banks	80	69	-	-	80	69
Settlements with suppliers	110	129	-	-	110	129
Other items	590	481	(2)	(1)	588	480
Net deferred tax (liability)/asset					**(14)**	**142**

23. Other liabilities

	2011 MRUB	2010 MRUB
Accrued employee compensation	1,538	1,293
Settlements with suppliers	861	882
Other taxes payable	511	390
Other	262	16
	3,172	**2,581**

24. Financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- credit,

- market,

- liquidity,

- operational.

The Board of Management has overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Credit Committee and the Asset Liability Committee (ALCO), which are responsible for developing and monitoring risk management policies in their specified areas. Both committees report regularly to the Board of Management on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The majority of the Group's exposure to credit risk arises in connection with the provision of consumer financing to private individual customers, which is the Group's principal business. As the Group's loan portfolio consists of a large amount of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items.

The Group has developed policies and procedures for the management of credit exposures, including credit scoring of customers, guidelines to limit portfolio concentration and the establishment of a credit department which actively monitors the Group's credit risk.

The maximum exposure to credit risk is the carrying amount of financial instruments included in the consolidated statement of financial position and outstanding credit related commitments.

(b) Market risk

Market risk is the risk that changes in interest rates or foreign exchange rates will affect the Group's income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

24. Financial instruments (continued)

The majority of the Group's exposure to market risk arises in connection with the funding of the Group's operations with liabilities denominated in foreign currencies, and to the extent the interest rate repricing structure of interest bearing assets differs from that of liabilities.

Overall authority for market risk is vested in ALCO. Market risk limits are approved by ALCO based on recommendations of the Risk Department's Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by ALCO.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rates risk component of market risk, by monitoring the interest rate gap is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

(i) Exposure to equity price risk

Equity price risk is the risk that the value of equity instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Equity price risk arises when the Group takes a long or short position in a financial instrument.

The Group's exposure to equity price risk is insignificant as its securities portfolio comprises an insignificant part of total assets (usually no more than 2%). As at 31 December 2011 the Group did not have open material positions in equity securities.

(ii) Exposure to interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

24. Financial instruments (continued)

Effective interest rates and repricing analysis

The following table indicates effective interest rates for interest-earning financial assets and interest-bearing financial liabilities at the reporting date and the periods in which they reprice.

	2011							2010						
MRUB	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-earning financial assets														
RUB interest-earning financial assets														
Cash and cash equivalents	1.4%	44	-	-	-	-	44	2.6%	1,933	-	-	-	-	1,933
Loans to customers														
Loans to corporations	18.0%	-	9	12	3	-	24	15.0%	-	-	5	-	-	5
Loans to individuals	35.4%	24,947	49,961	19,964	13,993	1,122	109,987	39.7%	22,265	35,155	10,233	3,473	793	71,919
Financial assets available for sale	9.0%	1,087	9,959	-	-	-	11,046	9.8%	360	5,481	-	-	-	5,841
USD interest-earning financial assets														
Cash and cash equivalents	1.0%	18	-	-	-	-	18	1.6%	2,909	-	-	-	-	2,909
Placements with banks and other financial institutions	5.8%	-	1,421	-	-	-	1,421	6.6%	1,527	2,548	-	-	-	4,075
Loans to customers														-
Loans to individuals	11.8%	57	174	241	517	1,833	2,822	11.3%	178	448	508	1,109	1,108	3,351
Financial assets available for sale	8.7%	273	542	-	-	-	815	-	-	-	-	-	-	-
EUR interest-earning financial assets														
Cash and cash equivalents	1.5%	145	-	-	-	-	145	1.3%	13	-	-	-	-	13
CZK interest-earning financial assets														
Cash and cash equivalents	0.2%	3	-	-	-	-	3	0.1%	4	-	-	-	-	4

24. Financial instruments (continued)

Effective interest rates and repricing analysis

MRUB	**2011**							**2010**						
	Effective interest rate	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**More than 5 years**	**Total**
Interest-bearing financial liabilities														
RUB interest-bearing financial liabilities														
Debt securities issued	9.0%	255	12,978	7,890	-	-	21,123	8.5%	199	7,010	9,959	-	-	17,168
Due to banks and other financial institutions	8.5%	9,043	2,345	277	5	-	11,670	7.2%	3,147	3,052	844	-	-	7,043
Current accounts and deposits from customers	10.2%	6,540	33,719	17,079	30	-	57,368	10.3%	5,395	10,371	316	-	-	16,082
USD interest-bearing financial liabilities														
Debt securities issued	7.4%	318	-	-	16,009	-	16,327	11.8%	440	16,544	-	-	-	16,984
Due to banks and other financial institutions	2.5%	1,963	-	-	-	-	1,963	-	-	-	-	-	-	-
Current accounts and deposits from customers	6.3%	119	2,176	-	-	-	2,295	5.3%	117	67	-	-	-	184
EUR interest-bearing financial liabilities														
Due to banks and other financial institutions	3.7%	-	-	-	43	-	43	3.3%	-	-	-	-	53	53
Current accounts and deposits from customers	5.4%	136	323	1	-	-	460	5.4%	156	172	-	-	-	328
CZK interest-bearing financial liabilities														
Due to banks and other financial institutions	6.7%	-	-	-	326	-	326	-	-	-	-	-	-	-
Effect of interest rate derivatives														
in RUB		1,000	-	(1,000)	-	-	-		-	-	-	-	-	-
Net position as at 31 December														
in RUB		11,240	10,887	(6,270)	13,961	1,122	30,940		15,817	20,203	(881)	3,473	793	39,405
in USD		(2,052)	(39)	241	(15,492)	1,833	(15,509)		4,057	(13,615)	508	1,109	1,108	(6,833)
in EUR		9	(323)	(1)	(43)	-	(358)		(143)	(172)	-	-	(53)	(368)
in CZK		3	-	-	(326)	-	(323)		4	-	-	-	-	4

24. Financial instruments (continued)

Effective interest rates sensitivity analysis

An analysis of sensitivity of the Group's net profit and equity to changes in market interest rates based on a simplified scenario of a 1% symmetrical fall or rise in all yield curves and positions of interest bearing assets and liabilities existing as at 31 December 2011 and 2010 is as follows:

	2011 Total effect on net profit/ equity MRUB	2010 Total effect on net profit/ equity MRUB
RUB		
+ 1% rate increase	64	171
- 1% rate decrease	(64)	(171)
USD		
+ 1% rate increase	(8)	(35)
- 1% rate decrease	8	35

An analysis of sensitivity of equity as a result of changes in the fair value of financial assets available for sale due to changes in the interest rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 1% symmetrical fall or rise in all yield curves is as follows:

	2011 Total effect on equity MRUB	2010 Total effect on equity MRUB
+ 1% rate increase	90	44
- 1% rate decrease	(95)	(47)

24. Financial instruments (continued)

(iii) Foreign currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecast assets in a foreign currency are either greater or less than the liabilities in that currency.

Foreign exchange rate risk mainly arises due to the funding of the Group operations with liabilities denominated in foreign currencies. Derivative financial instruments are used by the Group to hedge the mismatches in the foreign currency structure of assets and liabilities.

Assets and liabilities by currency as at 31 December are as follows:

			2011					2010		
MRUB	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets										
Cash and cash equivalents	3,320	190	12,459	3	15,972	1,986	51	5,374	5	7,416
Placements with banks and other financial institutions	2,092	-	773	-	2,865	4,076	-	238	-	4,314
Loans to customers	2,822	-	110,011	-	112,833	3,351	-	71,924	-	75,275
Financial assets at fair value through profit or loss	-	-	608	-	608	-	-	14	-	14
Financial assets available for sale	815	-	11,046	-	11,861	-	-	5,841	-	5,841
Property, equipment and intangible assets	-	-	7,805	-	7,805	-	-	6,653	-	6,653
Investment in associate	-	-	86	-	86	-	-	63	-	63
Deferred tax asset	-	-	-	-	-	-	-	142	-	142
Current income tax receivable	-	-	401	-	401	-	-	205	-	205
Other assets	15	6	2,900	337	3,258	-	-	934	242	1,176
Total assets	**9,064**	**196**	**146,089**	**340**	**155,689**	**9,413**	**51**	**91,388**	**247**	**101,099**
Liabilities										
Debt securities issued	16,327	-	21,123	-	37,450	16,984	-	17,168	-	34,152
Due to banks and other financial institutions	1,967	43	11,792	326	14,128	11	53	7,403	-	7,467
Current accounts and deposits from customers	2,354	467	67,477	-	70,298	250	337	23,198	-	23,785
Financial liabilities at fair value through profit or loss	-	-	80	-	80	-	-	95	-	95
Deferred tax liability	-	-	14	-	14	-	-	-	-	-
Other liabilities	38	2	3,069	63	3,172	-	19	2,504	58	2,581
Total liabilities	**20,686**	**512**	**103,555**	**389**	**125,142**	**17,245**	**409**	**50,368**	**58**	**68,080**
Effect of foreign currency derivatives	11,929	208	(12,443)	306	-	7,514	351	(7,855)	(10)	-
Net position as of 31 December	**307**	**(108)**	**30,091**	**257**	**30,547**	**(318)**	**(7)**	**33,165**	**179**	**33,019**

24. Financial instruments (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of the Group’s net profit and equity to change in the currency exchange rates based on positions existing as at 31 December 2011 and 2010 and a simplified scenario of a 5% change in USD and EUR to Russian Rouble exchange rates is as follows:

	2011 Total effect on net profit/ equity MRUB	**2010 Total effect on net profit/ equity MRUB**
Effect of 5% RUB depreciation against USD	12	(13)
Effect of 5% RUB appreciation against USD	(12)	13
Effect of 5% RUB depreciation against EUR	(4)	-
Effect of 5% RUB appreciation against EUR	4	-

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Financial Markets department collects information from other departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. A portfolio of short-term liquid assets is maintained to ensure sufficient liquidity. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering different market conditions. Liquidity position projections are subject to regular review and approval by ALCO.

24. Financial instruments (continued)

The following table shows assets and liabilities as at 31 December by remaining contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated statement of financial position because the statement of financial position amount is based on discounted cash flows.

	2011							2010						
MRUB	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Assets														
Cash and cash equivalents	15,972	-	-	-	-	-	15,972	7,418	-	-	-	-	-	7,418
Placements with banks and other financial institutions	-	-	1,465	-	-	1,445	2,910	-	1,591	2,625	-	-	188	4,404
Loans to customers	10,618	23,892	68,317	48,298	3,508	-	154,633	6,512	17,268	45,120	31,534	4,674	-	105,108
Financial assets at fair value through profit or loss	103	40	43	422	-	-	608	-	14	-	-	-	-	14
Financial assets available for sale	45	1,430	11,214	-	-	-	12,689	5	30	6,358	-	-	-	6,393
Property, equipment and intangible assets	-	-	-	-	-	7,805	7,805	-	-	-	-	-	6,653	6,653
Investment in associate	-	-	-	-	-	86	86	-	-	-	-	-	63	63
Deferred tax asset	-	-	-	-	-	-	-	-	-	-	-	-	142	142
Current income tax receivable	-	-	401	-	-	-	401	-	-	205	-	-	-	205
Other assets	1,371	-	1,674	-	-	213	3,258	502	-	650	-	-	24	1,176
Total assets	**28,109**	**25,362**	**83,114**	**48,720**	**3,508**	**9,549**	**198,362**	**14,437**	**18,903**	**54,958**	**31,534**	**4,674**	**7,070**	**131,576**
Liabilities														
Debt securities issued	346	660	14,523	26,146	-	-	41,675	247	666	25,496	10,611	-	-	37,020
Due to banks and other financial institutions	3,394	7,815	2,511	764	-	-	14,484	2,385	1,157	3,180	926	78	-	7,726
Current accounts and deposits from customers	13,185	3,846	37,943	20,447	-	-	75,421	8,532	4,756	11,658	348	-	-	25,294
Financial liabilities at fair value through profit or loss	3	13	39	25	-	-	80	76	19	-	-	-	-	95
Deferred tax liability	-	-	-	-	-	14	14	-	-	-	-	-	-	-
Other liabilities	1,634	1,538	-	-	-	-	3,172	1,288	1,293	-	-	-	-	2,581
Total liabilities	**18,562**	**13,872**	**55,016**	**47,382**	**-**	**14**	**134,846**	**12,528**	**7,891**	**40,334**	**11,885**	**78**	**-**	**72,716**
Irrevocable credit related commitments	849	-	-	-	-	-	849	1,380	-	-	3	-	-	1,383
Net position	**8,698**	**11,490**	**28,098**	**1,338**	**3,508**	**9,535**	**62,667**	**529**	**11,012**	**14,624**	**19,646**	**4,596**	**7,070**	**57,477**
Cumulative net position	**8,698**	**20,188**	**48,286**	**49,624**	**53,132**	**62,667**	**62,667**	**529**	**11,541**	**26,165**	**45,811**	**50,407**	**57,477**	**57,477**

24. Financial instruments (continued)

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations and are faced by all business entities.

The objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

• requirements for appropriate segregation of duties, including the independent authorization of transactions,
• requirements for the reconciliation and monitoring of transactions,
• compliance with regulatory and other legal requirements,
• documentation of controls and procedures,
• requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
• requirements for the reporting of operational losses and proposed remedial action,
• development of contingency plans,
• training and professional development,
• ethical and business standards,
• risk mitigation, including insurance where this is effective.

(e) Fair value of financial instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IFRS 7 *Financial Instruments: Disclosures*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced sale or liquidation. As no readily available market exists for a significant part of the financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument.

The estimated fair values of financial assets available for sale and debt securities issued are based on quoted market prices at the reporting date without any deduction for transaction costs.

The following assumptions are used by management to estimate the fair values of other financial instruments:
- The Group considers contractual interest rates of POS, cash and credit card loans to be marketable and, therefore, estimates the fair value of these loans to be the same as their carrying value. The estimation of the fair value of mortgage and car loans was made by using discounting future cash flows at discount rates 12 - 17%, subject to the term and currency of the loan.
- The Group considers contractual interest rates of placements with banks and other financial institutions and due to banks and other financial institutions to be marketable and, therefore, estimates the fair value of these loans to be the same as their carrying value.
- The Group uses widely recognised valuation models for determining the fair value of financial instruments at fair value through profit or loss that use only observable market data such as foreign currency exchange rates and benchmark interest rates.

The Group's estimates of fair values of its financial assets and liabilities are not materially different from their carrying values.

24. Financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices (Level 1) or calculated using valuation techniques where all the model inputs are observable in the market (Level 2) as at 31 December 2011:

	Level 1 MRUB	**Level 2 MRUB**	**Total MRUB**
Assets			
Financial assets at fair value through profit or loss	-	608	608
Financial assets available for sale	11,861	-	11,861
	11,861	**608**	**12,469**
Liabilities			
Financial liabilities at fair value through profit or loss	-	80	80
	-	**80**	**80**

During 2011 there were no transfers between financial instruments of Level 1 and Level 2.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques where all the model inputs are observable in the market as at 31 December 2010:

	Level 1 MRUB	**Level 2 MRUB**	**Total MRUB**
Assets			
Financial assets at fair value through profit or loss	-	14	14
Financial assets available for sale	5,691	-	5,691
	5,691	**14**	**5,705**
Liabilities			
Financial liabilities at fair value through profit or loss	-	95	95
	-	**95**	**95**

25. Derivative financial instruments

As at 31 December 2011 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Foreign currency forward contracts	1 to 3 months	RUB/USD	322	22
Foreign currency swap contracts	less than 1 month	RUB/USD	8,693	99
		RUB/EUR	208	4
		USD/CZK	306	(3)
	1 to 5 years	RUB/USD	3,220	397
Interest rate swap contracts	1 to 5 years	Floating/Fixed (RUB)	250	2
		Floating/Fixed (RUB)	500	5
		Floating/Fixed (RUB)	250	2
				528

As at 31 December 2010 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Foreign currency forward contracts	1 to 3 months	RUB/USD	305	-
Foreign currency swap contracts	less than 1 month	RUB/USD	5,791	(68)
		USD/EUR	452	(8)
		EUR/RUB	101	-
	1 to 3 months	CZK/RUB	479	9
		RUB/USD	2,339	(14)
		USD/CZK	469	-
				(81)

26. Commitments

Credit related commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved credit limits related to customer's credit card accounts, approved overdraft facilities and approved consumer loans.

	2011 MRUB	2010 MRUB
Credit card commitments	22,878	12,707
Consumer loan commitments	849	1,380
Undrawn overdraft facilities	-	3
	23,727	**14,090**

The total outstanding contractual commitments to extend credit indicated above represent future cash requirements, though some of these commitments may expire or terminate without being funded.

27. Operating leases

The Group leases a number of premises and equipment under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

Non-cancellable operating lease rentals are payable as follows:

	2011 MRUB	2010 MRUB
Less than one year	1,329	592
Between one and five years	2,953	883
More than five years	496	19
	4,778	**1,494**

During the year MRUB 989 (2010: MRUB 587) was recognised as an expense in the consolidated statement of comprehensive income in respect of operating leases (Note 9).

28. Contingencies

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29. Related party transactions

(a) Transactions with the parent

Amounts included in the consolidated statement of comprehensive income in relation to transactions with the parent are as follows:

	2011 MRUB	2010 MRUB
Interest income	-	102
Interest expense	-	(12)
Loss from foreign exchange revaluation of financial assets and liabilities	-	(193)
General administrative expenses	(40)	(80)
	(40)	**(183)**

Amounts included in the consolidated statement of financial position in relation to transactions with the parent are as follows:

	Note	2011 MRUB	2010 MRUB
Other liabilities		-	(19)
		-	**(19)**

(b) Transactions with entities controlled by the ultimate controlling entity

Amounts included in the consolidated statement of comprehensive income in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2011 MRUB	2010 MRUB
Interest income	(355)	146
Interest expense	(154)	(87)
Fee and commission income	16	5
Fee and commission expense	(2)	(1)
Gain from foreign exchange revaluation of financial assets and liabilities	17	4
Net gain on spot transactions and derivatives	2	97
Other income	5	-
General administrative expenses	(552)	(526)
	(1,023)	**(362)**

29. Related party transactions (continued)

Amounts included in the consolidated statement of financial position in relation to transactions with entities controlled by the ultimate controlling entity are as follows:

	2011 **MRUB**	**2010** **MRUB**
Loans to customers	186	183
Property, equipment and intangible assets	76	71
Cash and cash equivalents	4	267
Placements with banks and other financial institutions	-	1,024
Financial assets at fair value through profit or loss	-	10
Other assets	285	199
Debt securities issued	(1,719)	(1,038)
Current accounts and deposits from customers	(1,000)	-
Due to banks and other financial institutions	(389)	(24)
Financial liabilities at fair value through profit or loss	(3)	-
Other liabilities	(142)	(91)
	(2,702)	**601**

As at 31 December 2011 loans to customers shown above included loan origination agent fees paid totalling MRUB 186 which form an integral part of loans to customers and are to be amortised within 15 months (31 December 2010: MRUB 183).

As at 31 December 2010 placements with banks and other financial institutions shown above included a term deposit in the amount of MRUB 1,024 at an effective interest rate of 4.67% with the maturity of 3 months.

The effective interest rate on debt securities issued shown above was 7.3% and the maturity was one month to five years as at 31 December 2011 (31 December 2010: 8.8% and six months to two years respectively).

As at 31 December 2011 current accounts and deposits from customers included a deposit in the amount of MRUB 1,000 at an effective interest rate of 6.5% with the maturity of less than one month.

As at 31 December 2011 amounts due to banks and other financial institutions shown above included term deposits in the amount of MRUB 326 at an effective interest rate of 6.71% with the maturity of two to five years. The remaining part comprised other balances.

(c) Transactions with members of key management

Amounts included in the consolidated statement of comprehensive income in relation to transactions with members of key management (members of the Council and the Board of Management) of MRUB 613 (2010: MRUB 537) represent compensation for the year.

30. Capital management

The Group’s lead regulator, the Central Bank of Russia, sets and monitors capital requirements for both the Bank and the Group as a whole.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2011, this minimum level is 10%.

The Group also operates its capital adequacy in compliance with the methodology set out by the Bank of International Settlements. Tier I capital is represented by equity. In connection with the USD denominated loan participation notes described in Note 18 the Group is committed to maintain its capital adequacy ratio at or above the minimum level of 13%.

During the reporting period the Group was fully in compliance with the capital regulations described above.

	2011 MRUB	**2010 MRUB**
Risk weighted assets	**149,358**	**98,523**
Tier I capital	30,547	33,019
Total capital	**30,547**	**33,019**
Tier I ratio	20.5%	33.5%
Capital Adequacy Ratio	20.5%	33.5%

31. Segment analysis

The Executive Committee (the "Committee") is the chief operating decision maker. The Committee reviews internal reporting on a regular basis to assess performance of individual segments and to allocate resources accordingly.

The Committee monitors performance mainly from a product perspective with major reportable segments being consumer loans, cash loans and credit card loans. Other segments comprising mortgage loans, car loans, loans to corporations and treasury operations are less significant and thus are not reported separately in these financial statements.

Revenues of reportable segments consist of interest and fee income including inter-segment revenues resulting from allocation of financing raised by the treasury function to major segments. Performance of individual segments is assessed by the Commitee based on segment profit or loss.

31. Segment analysis (continued)

Total segment assets mainly consist of the loan portfolio and interest earning financial assets accumulated as a result of treasury operations. A reconciliation of the total of the segment's assets to Group's total assets is provided below.

	Consumer loans MRUB	Credit card loans MRUB	Cash loans MRUB	Other segments MRUB	Total MRUB
Year ended 31 December 2011					
External interest income	11,573	4,266	12,102	1,628	**29,569**
Fee and commission income	3,826	1,791	3,645	137	**9,399**
Inter segment revenue	-	-	-	5,501	**5,501**
Total revenues	**15,399**	**6,057**	**15,747**	**7,266**	**44,469**
External interest expense	-	-	-	(6,471)	**(6,471)**
Inter segment interest expense	(2,520)	(753)	(1,950)	-	**(5,223)**
Inter segment other operating expense, net	(134)	(40)	(104)	-	**(278)**
Fee and commission expense	-	(262)	-	(22)	**(284)**
Other operating expense, net	-	-	-	(438)	**(438)**
Impairment losses	(2,938)	(420)	(2,942)	137	**(6,163)**
Total expenses	**(5,592)**	**(1,475)**	**(4,996)**	**(6,794)**	**(18,857)**
Segment profit	**9,807**	**4,582**	**10,751**	**472**	**25,612**
Year ended 31 December 2010					
External interest income	12,277	4,986	5,483	2,602	**25,348**
Fee and commission income	3,811	1,254	1,836	111	**7,012**
Inter segment revenue	-	-	-	4,281	**4,281**
Total revenues	**16,088**	**6,240**	**7,319**	**6,994**	**36,641**
External interest expense	-	-	-	(6,234)	**(6,234)**
Inter segment interest expense	(2,319)	(1,045)	(894)	-	**(4,258)**
Inter segment other operating expense, net	(12)	(6)	(5)	-	**(23)**
Fee and commission expense	-	(166)	-	(18)	**(184)**
Other operating expense, net	(2,071)	-	-	247	**(1,824)**
Impairment losses	(1,953)	(672)	(497)	(445)	**(3,567)**
Total expenses	**(6,355)**	**(1,889)**	**(1,396)**	**(6,450)**	**(16,090)**
Segment profit	**9,733**	**4,351**	**5,923**	**544**	**20,551**

31. Segment analysis (continued)

Segment assets

MRUB	POS loans	Credit card loans	Cash loans	Other segments	Total
Carrying amount at 31 December 2011	41,262	14,536	51,879	19,922	**127,599**
Carrying amount at 31 December 2010	40,355	10,467	17,293	20,253	**88,368**

A reconciliation of segment profit to total profit before tax is provided as follows:

	2011 MRUB	2010 MRUB
Segment profit for reportable segments	**25,612**	**20,551**
Unallocated fee income	698	673
Unallocated fee expense	(222)	(171)
Unallocated other operating income	91	86
General administrative expenses	(12,547)	(9,281)
Profit before tax	**13,632**	**11,858**

Reportable segments' assets are reconciled to total assets as follows:

	2011 MRUB	2010 MRUB
Total segment assets	**127,599**	**88,368**
Cash and cash equivalents (excluded from other segments)	15,767	4,304
Placements with banks and other financial institutions (excluded from other segments)	773	188
Property, equipment and intangible assets	7,805	6,653
Investment in subsidiaries and associates	86	63
Income tax asset	401	347
Other assets	3,258	1,176
Total assets	**155,689**	**101,099**

32. Other matters

In August 2011 the Group entered into a call option agreement enabling it to purchase a 90.01% stake in Home Credit Bank (JSC), a bank incorporated in the Republic of Kazakhstan, from its current shareholder. The option is exercisable until 31 December 2014, and its exercise is subject to obtaining regulatory approvals. However, due to regulatory uncertainties which arose in connection with recent changes to the banking legislation of the Republic of Kazakhstan, the ability of the Group to meet the conditions required to exercise the option is remote and not within the control of the Group. Therefore, the Group has assessed that the fair value of the option is not significant.