

# **Home Credit and Finance Bank**

**Consolidated Financial Statements  
for the year ended 31 December 2010**

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## Independent Auditors' Report

*To the Council of OOO Home Credit and Finance Bank*

### Report on the Consolidated Financial Statements

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 2010, 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 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 our 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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

28 February 2011

**Home Credit and Finance Bank**  
*Consolidated Statement of Comprehensive Income*  
*for the year ended 31 December 2010*

	<b>Note</b>	<b>2010 MRUB</b>	<b>2009 MRUB</b>
Interest income	4	25,348	28,578
Interest expense	4	<u>(6,234)</u>	<u>(10,132)</u>
<b>Net interest income</b>		<b>19,114</b>	<b>18,446</b>
Fee and commission income	5	7,685	6,897
Fee and commission expense	6	<u>(355)</u>	<u>(413)</u>
<b>Net fee and commission income</b>		<b>7,330</b>	<b>6,484</b>
Other operating expense, net	7	<u>(1,738)</u>	<u>(585)</u>
<b>Operating income</b>		<b>24,706</b>	<b>24,345</b>
Impairment losses	8	(3,567)	(8,873)
General administrative expenses	9	<u>(9,281)</u>	<u>(8,911)</u>
<b>Operating expenses</b>		<b><u>(12,848)</u></b>	<b><u>(17,784)</u></b>
<b>Profit before tax</b>		<b>11,858</b>	<b>6,561</b>
Income tax expense	10	<u>(2,447)</u>	<u>(1,382)</u>
<b>Net profit for the period</b>		<b><u>9,411</u></b>	<b><u>5,179</u></b>
<b>Other comprehensive income</b>			
Revaluation reserve for financial assets available for sale:			
- net change in fair value of financial assets available for sale, net of tax		188	235
- net change in fair value of financial assets available for sale transferred to profit or loss, net of tax		<u>(255)</u>	<u>(180)</u>
<b>Other comprehensive (expense)/income for the period, net of tax</b>		<b><u>(67)</u></b>	<b><u>55</u></b>
<b>Total comprehensive income for the period</b>		<b><u>9,344</u></b>	<b><u>5,234</u></b>

The consolidated financial statements as set out on pages 4 to 48 were approved by the Board of Management on 28 February 2011.

Chief Executive Officer

I. Svitek



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.

**Home Credit and Finance Bank**  
*Consolidated Statement of Financial Position*  
as at 31 December 2010

<b>ASSETS</b>	<b>Note</b>	<b>2010 MRUB</b>	<b>2009 MRUB</b>
Cash and cash equivalents	11	7,416	13,330
Placements with banks and other financial institutions	12	4,314	109
Loans to customers	13	75,275	58,929
Financial assets at fair value through profit or loss	14	14	182
Financial assets available for sale	15	5,841	15,516
Property, equipment and intangible assets	16	6,653	6,993
Investment in associate		63	25
Deferred tax asset	22	142	272
Current income tax receivable		205	226
Other assets	17	1,176	894
<b>Total assets</b>		<b>101,099</b>	<b>96,476</b>
 <b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Debt securities issued	18	34,152	36,988
Due to banks and other financial institutions	19	7,467	17,213
Current accounts and deposits from customers	20	23,785	13,578
Financial liabilities at fair value through profit or loss	21	95	142
Other liabilities	23	2,581	1,722
<b>Total liabilities</b>		<b>68,080</b>	<b>69,643</b>
<b>Equity</b>			
Charter capital		4,406	4,406
Other capital contributions		10,631	10,631
Revaluation reserve for financial assets available for sale		(12)	55
Retained earnings		17,994	11,741
<b>Total equity</b>		<b>33,019</b>	<b>26,833</b>
<b>Total liabilities and equity</b>		<b>101,099</b>	<b>96,476</b>

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

**Home Credit and Finance Bank**  
*Consolidated Statement of Changes in Equity*  
*for the year ended 31 December 2010*

	<b>Charter capital MRUB</b>	<b>Other capital contributions MRUB</b>	<b>Revaluation reserve for financial assets available for sale MRUB</b>	<b>Retained earnings MRUB</b>	<b>Total MRUB</b>
<b>Balance at 1 January 2009</b>	<b>4,406</b>	<b>9,631</b>	<b>-</b>	<b>6,562</b>	<b>20,599</b>
Net profit for the period	-	-	-	5,179	5,179
Net change in fair value of financial assets available for sale, net of tax	-	-	235	-	235
Net change in fair value of financial assets available for sale transferred to profit or loss, net of tax	-	-	(180)	-	(180)
Total comprehensive income for the period	-	-	55	5,179	5,234
Contributions by owners	-	1,000	-	-	1,000
<b>Balance at 31 December 2009</b>	<b>4,406</b>	<b>10,631</b>	<b>55</b>	<b>11,741</b>	<b>26,833</b>
<b>Balance at 1 January 2010</b>	<b>4,406</b>	<b>10,631</b>	<b>55</b>	<b>11,741</b>	<b>26,833</b>
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)
<b>Balance at 31 December 2010</b>	<b>4,406</b>	<b>10,631</b>	<b>(12)</b>	<b>17,994</b>	<b>33,019</b>

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.

**Home Credit and Finance Bank**  
*Consolidated Statement of Cash Flows*  
*for the year ended 31 December 2010*

	Note	2010 MRUB	2009 MRUB
<b>Operating activities</b>			
Profit before tax		11,858	6,561
Adjustments for:			
Impairment losses	8	3,567	8,873
Net unrealised foreign exchange loss		192	8,735
Net accrued interest expense		1,786	2,034
Net accrued fee and comission expense/(income)		322	(313)
Net accrued other operating income		-	(1)
Depreciation and amortisation	9	763	765
Net loss on disposal of property, equipment and intangible assets		50	135
Loss on origination of loans at non-market interest rates	7, 13	2,071	-
Net realised gain on disposal of financial assets available for sale	7	(324)	(225)
Net accrued general administrative expenses		576	752
Net loss/(gain) on early redemption of debt securities issued	7	44	(597)
Loss on early redemption of amounts due to banks and other financial institutions	7	4	34
(Increase)/decrease in loans to customers		(23,839)	5,304
(Increase)/decrease in placements with banks and other financial institutions		(4,221)	90
Decrease/(increase) in financial assets available for sale		9,750	(15,428)
(Increase)/decrease in other assets		(319)	226
Increase in current accounts and deposits from customers		9,873	3,581
Increase/(decrease) in deposits from banks and other financial institutions		3,924	(2,818)
Increase/(decrease) in other liabilities		73	(131)
<b>Cash flows from operations</b>		<b>16,150</b>	<b>17,577</b>
Income taxes paid		(2,324)	(771)
<b>Cash flows from operating activities</b>		<b>13,826</b>	<b>16,806</b>
<b>Investing activities</b>			
Proceeds from sale of property and equipment		10	12
Acquisition of property, equipment and intangible assets		(483)	(843)
<b>Cash flows used in investing activities</b>		<b>(473)</b>	<b>(831)</b>
<b>Financing activities</b>			
Proceeds from debt securities issued		7,160	18,534
Payments of debt securities issued		(10,047)	(39,407)
Proceeds from deposits from banks and other financial institutions		1,680	-
Payments of deposits from banks and other financial institutions		(15,017)	(5,580)
Dividends paid		(3,158)	-
Contribution from owners		-	1,000
<b>Cash flows used in financing activities</b>		<b>(19,382)</b>	<b>(25,453)</b>
Net decrease in cash and cash equivalents		(6,029)	(9,478)
Cash and cash equivalents at 1 January		13,330	22,574
Foreign exchange effect on cash and cash equivalents		115	234
<b>Cash and cash equivalents at 31 December</b>	11	<b>7,416</b>	<b>13,330</b>

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 general banking license in 1990. The Bank together with its subsidiaries is further referred as the Group.

### Registered office

8/1 Pravda str  
Moscow 125040  
Russian Federation

Participants	Country of incorporation	Ownership interest (%)	
		2010	2009
Home Credit B.V.	The Netherlands	99.99	99.99
Chvatal Ladislav	-	0.01	0.01

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

Consolidated subsidiaries	Country of incorporation	Ownership interest (%)	
		2010	2009
Infobos (LLC)*	Russian Federation	100.00	100.00
Liko-Technopolis (LLC)*	Russian Federation	100.00	100.00
Financial Innovations (LLC)	Russian Federation	100.00	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
Eurasia Credit Card Funding I S.A.*	Luxemburg	see below	see below

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

*\* As at 31 December 2010 Infobos (LLC), Liko-Technopolis (LLC), Eurasia Credit Card Company S.A. and Eurasia Credit Card Funding I S.A. were under the process of liquidation.*

Associate	Country of incorporation	Ownership interest (%)	
		2010	2009
Equifax Credit Services (LLC)	Russian Federation	42.00	42.00

### Council

Smejck 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 maintenance, SMS and Internet-banking services, payroll and other banking services. The loans are offered to existing and new customers across the Russian Federation via a well-developed distribution network comprising of variable channels: own banking offices network, points-of-sale at retailers, Russian Post branches and other third parties. As at 31 December 2010, the Bank's well-developed distribution network comprised of the head office in Moscow and 5 branches in Ufa, Volgograd, Saint-Petersburg, Yekaterinburg, Novosibirsk, 305 banking offices, 43 representative offices and over 46,000 active points of sale at retailers which cover over 1,200 cities in 80 regions of the Russian Federation. As at 31 December 2010 the ATM network comprised of 366 ATMs across the Russian Federation.

## **2. Basis of preparation**

The consolidated financial statements for the year ended 31 December 2010 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 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.

#### **(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.

## **2. Basis of preparation (continued)**

### **(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.

### **3. Significant accounting policies (continued)**

#### **(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.

*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.

### **3. Significant accounting policies (continued)**

#### **(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.

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.

### **3. Significant accounting policies (continued)**

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.

#### **(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.

### **3. Significant accounting policies (continued)**

#### **(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.

##### **(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.

### **3. Significant accounting policies (continued)**

#### **(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.

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.

### **3. Significant accounting policies (continued)**

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.

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.



### **3. Significant accounting policies (continued)**

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.

#### **(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 2010, 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.

IFRS 7 *Financial Instruments: Disclosures* (effective from 1 January 2011). Improvements to IFRSs issued in May 2010 amended disclosures of credit risk relating to collateral held as security. The Group will apply these amendments prospectively from 1 January 2011.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. 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 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.

#### **(p) Comparative figures**

Payments processing and accounts maintenance expense in the amount of MRUB 6 and payments to Deposit Insurance Agency in the amount of MRUB 23 were reclassified from other fee and commission expense.

#### 4. Interest income and interest expense

	2010 MRUB	2009 MRUB
<b>Interest income</b>		
Loans to individuals	23,901	25,374
Financial assets available for sale	1,049	954
Loans to corporations	267	265
Amounts receivable under reverse repurchase agreements	88	99
Placements with banks and other financial institutions	43	801
Financial assets at fair value through profit or loss	-	1,085
	<u><b>25,348</b></u>	<u><b>28,578</b></u>
<b>Interest expense</b>		
Debt securities issued	3,952	5,542
Current accounts and deposits from customers	1,662	524
Due to banks and other financial institutions	620	3,074
Financial liabilities at fair value through profit or loss	-	992
	<u><b>6,234</b></u>	<u><b>10,132</b></u>

#### 5. Fee and commission income

	2010 MRUB	2009 MRUB
Insurance agent commissions	4,111	2,756
Contractual penalties from customers	1,491	2,389
Cash operations	966	1,128
Customer payments processing and account maintenance	704	375
Fees from retailers	402	213
Other	11	36
	<u><b>7,685</b></u>	<u><b>6,897</b></u>

#### 6. Fee and commission expense

	2010 MRUB	2009 MRUB
Cash transactions	166	284
Payments processing and account maintenance	104	92
Payments to the Deposit Insurance Agency	52	23
Other	33	14
	<u><b>355</b></u>	<u><b>413</b></u>

## 7. Other operating expense, net

	Note	2010 MRUB	2009 MRUB
Net realised gain on financial assets available for sale		324	225
Net gain on spot transactions and derivatives		180	2,227
Loss on early redemption of amounts due to banks and other financial institutions		(4)	(34)
Net (loss)/gain on early redemption of debt securities issued		(44)	597
Loss from foreign exchange revaluation of financial assets and liabilities		(213)	(3,681)
Loss on origination of loans at non-market interest rates	13	(2,071)	-
Other		90	81
		<u>(1,738)</u>	<u>(585)</u>

## 8. Impairment losses

	2010 MRUB	2009 MRUB
Consumer loans	1,954	2,660
Credit card loans	671	3,196
Cash loans	497	2,398
Mortgage loans	268	371
Loans to corporations	154	11
Car loans	23	237
	<u>3,567</u>	<u>8,873</u>

## 9. General administrative expenses

	Note	2010 MRUB	2009 MRUB
Employee compensation		4,398	3,804
Depreciation and amortisation	16	763	765
Telecommunication and postage		674	758
Occupancy	27	568	671
Payroll related taxes		551	499
Professional services		532	624
Information technology		491	576
Taxes other than income tax		475	414
Advertising and marketing		241	99
Repairs and maintenance		231	307
Travel expenses		71	61
Other		286	333
		<u>9,281</u>	<u>8,911</u>

## 10. Income tax expense

	2010 MRUB	2009 MRUB
Current tax expense	2,300	1,049
Deferred tax expense	147	333
	<u>2,447</u>	<u>1,382</u>
<b>Reconciliation of effective tax rate</b>		
	2010 MRUB	2009 MRUB
<b>Profit before tax</b>	<u>11,858</u>	<u>6,561</u>
Income tax using the applicable tax rate 20%	2,372	1,312
Net non-deductible costs	90	95
Effect of current tax overprovided in previous periods	(15)	(25)
	<u>2,447</u>	<u>1,382</u>

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

	2010			2009		
	Amount before tax MRUB	Tax benefit MRUB	Amount net of tax MRUB	Amount before tax MRUB	Tax expense MRUB	Amount net of tax MRUB
Net change in fair value of financial assets available for sale	(84)	17	(67)	69	(14)	55
	<u>(84)</u>	<u>17</u>	<u>(67)</u>	<u>69</u>	<u>(14)</u>	<u>55</u>

## 11. Cash and cash equivalents

	2010 MRUB	2009 MRUB
Placements with banks and other financial institutions due within one month	4,128	8,605
Nostro accounts with the CBR	1,805	1,893
Cash	1,400	1,340
Amounts receivable under reverse repurchase agreements	83	1,492
	<u>7,416</u>	<u>13,330</u>

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

## 11. Cash and cash equivalents (continued)

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
<b>Nostro accounts</b>		
OECD banks	673	2,372
Largest 50 Russian banks	160	68
Other	47	398
	<b>880</b>	<b>2,838</b>
	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
<b>Loans and deposits</b>		
Largest 50 Russian banks	1,300	2,488
OECD banks	1,123	970
Russian subsidiaries of OECD banks	-	1,624
Other	825	685
	<b>3,248</b>	<b>5,767</b>
	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
<b>Amounts receivable under reverse repurchase agreements</b>		
Other Russian non-banking financial institutions	83	300
Other foreign non-banking financial	-	1,192
	<b>83</b>	<b>1,492</b>
	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
<b>Collateral for amounts receivable under reverse repurchase agreements</b>		
Shares	115	264
Debt securities	-	1,635
	<b>115</b>	<b>1,899</b>

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

## 12. Placements with banks and other financial institutions

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
Term deposits with banks and other financial institutions due after one month	2,599	1
Amounts receivable under reverse repurchase agreements	1,527	-
Minimum reserve deposit with the CBR	188	108
	<b>4,314</b>	<b>109</b>

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

	2010	2009
<b>Term deposits with banks and other financial institutions due after one month</b>	<b>MRUB</b>	<b>MRUB</b>
Other foreign non-banking financial institutions	1,525	-
OECD banks	1,024	-
Other Russian non-banking financial institutions	50	1
	<u><b>2,599</b></u>	<u><b>1</b></u>
	<b>2010</b>	<b>2009</b>
<b>Amounts receivable under reverse repurchase agreements</b>	<b>MRUB</b>	<b>MRUB</b>
Other foreign non-banking financial institutions	1,527	-
	<u><b>1,527</b></u>	<u><b>-</b></u>

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

	2010	2009
	<b>MRUB</b>	<b>MRUB</b>
Consumer loans	43,150	28,658
Cash loans	18,424	10,652
Credit card loans	11,569	18,112
Mortgage loans	6,704	8,015
Car loans	1,215	1,979
Loans to corporations	170	386
Impairment allowance	(5,957)	(8,873)
	<u><b>75,275</b></u>	<u><b>58,929</b></u>

The Group provides consumer loans for the purchase of household goods, including, but not limited to: household appliances, consumer electronics, computer hardware, mobile phones, furniture, constructing materials and gardening equipment. Credit cards are generally issued for 3 years and have an average credit limit of TRUB 45.6 and require a minimum monthly payment of 5% of the credit limit on the respective credit card (31 December 2009: 3 years, TRUB 32.8 and 5%, respectively). As at 31 December 2010 the average loan-to-value ratio for mortgage loans is 66% (as at 31 December 2009: 68%).

### 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:

	<b>Size</b>	<b>2010</b>	<b>Size</b>	<b>2009</b>
	<b>TRUB</b>	<b>Term</b>	<b>TRUB</b>	<b>Term</b>
		<b>Months</b>		<b>Months</b>
Consumer loans	17.2	15	15.3	10
Cash loans	53.3	28	48.8	19
Car loans	247.9	56	258.4	52
Mortgage loans	2,771.0	172	2,156.0	191

#### Analysis of collateral

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

	<b>2010</b>		<b>2009</b>	
	<b>Portfolio</b>	<b>% of loan</b>	<b>Portfolio</b>	<b>% of loan</b>
	<b>MRUB</b>	<b>portfolio</b>	<b>MRUB</b>	<b>portfolio</b>
Real estate	6,704	9	8,227	12
Motor vehicles	1,215	1	1,979	3
Guarantees	-	-	151	-
No collateral	73,313	90	57,445	85
<b>Total</b>	<b>81,232</b>		<b>67,802</b>	

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. As at 31 December 2010 there is no collateral for loans to corporations (2009: third party guarantees and real estate). Credit card loans, cash loans and consumer loans are not secured.

Overdue mortgage and car loans with a gross value of MRUB 1,077 (31 December 2009: MRUB 1,526) are secured by collateral with a fair value of MRUB 1,406 (31 December 2009: MRUB 2,243). For the remaining overdue loans to customers with a gross value of MRUB 10,457 (31 December 2009: MRUB 13,873) there is no collateral.

During the year ended 31 December 2010 the Group obtained assets in the amount of MRUB 24 by taking control of collateral accepted as security for issued mortgage loans (31 December 2009: nil).

### 13. Loans to customers (continued)

	2010			2009		
	Gross MRUB	Impairment allowance MRUB	Carrying amount MRUB	Gross MRUB	Impairment allowance MRUB	Carrying amount MRUB
<b>Loans to corporations</b>						
Current	5	-	5	375	-	375
<i>Days past due:</i>						
90 – 360	154	(154)	-	11	(11)	-
more than 360	11	(11)	-	-	-	-
<b>Loans to individuals</b>						
Current	69,693	(784)	68,909	52,028	(981)	51,047
<i>Days past due:</i>						
1 – 90	5,964	(1,263)	4,701	6,642	(1,574)	5,068
90 – 360	4,884	(3,310)	1,574	8,292	(6,101)	2,191
more than 360	521	(435)	86	454	(206)	248
<b>Total</b>	<b>81,232</b>	<b>(5,957)</b>	<b>75,275</b>	<b>67,802</b>	<b>(8,873)</b>	<b>58,929</b>

The Group classifies loans which are contractually overdue for more than 90 days as non-performing ("NPL"). As of 31 December 2010 total non-performing loans amounted to MRUB 5,570 (31 December 2009: MRUB 8,757). The Group created provisions for non-performing loans of 70.2% (31 December 2009: 72.1%). Performing loans are provided for at a rate 2.7% (31 December 2009: 8.7%).

#### NPLs by product classes to total impairment allowances by product classes

	2010		2009	
	NPLs	Provision	NPLs	Provision
	MRUB	coverage %	MRUB	coverage %
Consumer loans	2,461	114	2,546	108
Credit card loans	1,274	86	2,991	98
Cash loans	830	136	1,999	113
Mortgage loans	616	88	960	70
Car loans	224	99	250	105
Loans to corporations	165	100	11	100
<b>Total</b>	<b>5,570</b>	<b>107</b>	<b>8,757</b>	<b>101</b>

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 2010 the Group sold non-performing loans with a gross value including penalties of MRUB 5,153 for MRUB 296 (year ended 31 December 2009: MRUB 2,009 for MRUB 136).



### 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 3.9-7.2% of the outstanding balance of the loans and through further collection actions for 17% of the loans' outstanding principal balance,
- 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 balance,
- 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 balance.

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 2010 would be approximately MRUB 753 lower/higher (31 December 2009: MRUB 589).

In February 2009 the Group redeemed consumer loan receivables backed notes with the face value of MEUR 126.5 and as a result as of 31 December 2009 no consumer loans were collateralised in relation to the notes issued by the Eurasia Structured Finance No.1 S.A. as a part of consumer loan securitisation transaction (refer to Note 18).

In April 2009 the Group redeemed credit card receivables backed notes of MRUB 8,200 and credit card receivables with a total carrying amount of MRUB 12,352 were bought back by the Bank at par.

As at 31 December 2010 mortgage loans with the total carrying amount of MRUB 931 (31 December 2009: MRUB 2,600) were collateralised in relation to 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.

#### Analysis of movements in impairment allowance

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

MRUB	Consumer loans	Credit card loans	Cash loans	Mortgage loans	Car loans	Loans to corporations	Total
<b>Balance at 1 January</b>	2,739	2,926	2,259	675	263	11	8,873
Impairment losses	1,954	671	497	268	23	154	3,567
Recoveries	829	396	427	-	1	-	1,653
Amount related to loans written off	(2,727)	(2,891)	(2,052)	(401)	(65)	-	(8,136)
<b>Balance at 31 December</b>	<b>2,795</b>	<b>1,102</b>	<b>1,131</b>	<b>542</b>	<b>222</b>	<b>165</b>	<b>5,957</b>

### 13. Loans to customers (continued)

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

MRUB	Consumer loans	Credit card loans	Cash loans	Mortgage loans	Car loans	Loans to corporations	Total
<b>Balance at 1 January</b>	3,437	2,471	2,379	352	173	-	8,812
Impairment losses	2,660	3,196	2,398	371	237	11	8,873
Recoveries	564	209	187	44	-	-	1,004
Amount related to loans written off	(3,922)	(2,950)	(2,705)	(92)	(147)	-	(9,816)
<b>Balance at 31 December</b>	<b>2,739</b>	<b>2,926</b>	<b>2,259</b>	<b>675</b>	<b>263</b>	<b>11</b>	<b>8,873</b>

### 14. Financial assets at fair value through profit or loss

	Note	2010 MRUB	2009 MRUB
Positive fair value of derivative instruments	25	14	182
		<b>14</b>	<b>182</b>

### 15. Financial assets available for sale

	Note	2010 MRUB	2009 MRUB
<b>Debt securities</b>			
<b>Pledged as collateral for balances due to banks</b>		<b>231</b>	<b>3,951</b>
Largest 50 Russian banks	19	231	3,951
<b>Unpledged debt securities</b>		<b>5,610</b>	<b>11,565</b>
Largest 50 Russian banks		4,101	7,177
Home Credit B.V.	29 (a)	-	2,185
Other		1,509	2,203
		<b>5,841</b>	<b>15,516</b>

#### Non-quoted debt securities

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

	2010 MRUB	2009 MRUB
<b>Debt securities</b>		
Other	150	140
	<b>150</b>	<b>140</b>

## 15. Financial assets available for sale (continued)

Financial assets available for sale stated at cost comprise unquoted Government bonds of the Republic of Belarus. There were no transactions in 2010 that provide any evidence of the current fair value. However, debt securities with a carrying amount of MRUB 150 were acquired during the current year and management believes it is unlikely that the fair value at the year end would differ significantly from that carrying amount.

## 16. Property, equipment and intangible assets

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

MRUB	Land & buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
<b>Cost</b>							
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	-	-
<b>Balance at 31 December</b>	<b>5,218</b>	<b>130</b>	<b>472</b>	<b>842</b>	<b>1,675</b>	<b>1,069</b>	<b>9,406</b>
<b>Accumulated depreciation and amortisation</b>							
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	-	-
<b>Balance at 31 December</b>	<b>806</b>	<b>71</b>	<b>210</b>	<b>61</b>	<b>1,195</b>	<b>410</b>	<b>2,753</b>
<b>Net book value at 1 January</b>	<b>5,338</b>	<b>47</b>	<b>292</b>	<b>-</b>	<b>697</b>	<b>619</b>	<b>6,993</b>
<b>Net book value at 31 December</b>	<b>4,412</b>	<b>59</b>	<b>262</b>	<b>781</b>	<b>480</b>	<b>659</b>	<b>6,653</b>

## 16. Property, equipment and intangible assets (continued)

Movements in property, equipment and intangible assets for the year ended 31 December 2009 are as follows:

MRUB	Land & buildings	Vehicles	Furniture	Leasehold improvements	Computers and equipment	Intangible assets	Total
<b>Cost</b>							
Balance at 1 January	6,309	115	405	14	1,482	383	8,708
Additions	70	-	19	-	249	468	806
Disposals	(132)	(16)	(198)	(1)	(114)	-	(461)
Transfers	(175)	-	166	(13)	22	-	-
<b>Balance at 31 December</b>	<b>6,072</b>	<b>99</b>	<b>392</b>	<b>-</b>	<b>1,639</b>	<b>851</b>	<b>9,053</b>
<b>Accumulated depreciation and amortisation</b>							
Balance at 1 January	572	47	241	1	732	55	1,648
Depreciation and amortisation charge	222	17	44	-	305	177	765
Disposals	(60)	(12)	(185)	(1)	(95)	-	(353)
<b>Balance at 31 December</b>	<b>734</b>	<b>52</b>	<b>100</b>	<b>-</b>	<b>942</b>	<b>232</b>	<b>2,060</b>
<b>Net book value at 1 January</b>	<b>5,737</b>	<b>68</b>	<b>164</b>	<b>13</b>	<b>750</b>	<b>328</b>	<b>7,060</b>
<b>Net book value at 31 December</b>	<b>5,338</b>	<b>47</b>	<b>292</b>	<b>-</b>	<b>697</b>	<b>619</b>	<b>6,993</b>

Movements in the impairment allowance are as follows:

	2010 MRUB	2009 MRUB
<b>Balance at 1 January</b>	<b>-</b>	<b>(149)</b>
Impairment losses	-	-
Amounts related to offices closed	-	149
<b>Balance at 31 December</b>	<b>-</b>	<b>-</b>

## 17. Other assets

	2010 MRUB	2009 MRUB
Accrued income	502	358
Prepaid expenses	258	125
Settlements with suppliers	201	201
Taxes other than income tax	106	142
Other	109	68
	<b>1,176</b>	<b>894</b>

## 18. Debt securities issued

	<b>Maturity</b>	<b>Interest rate</b>	<b>2010 MRUB</b>	<b>2009 MRUB</b>
Unsecured RUB bond issue 2 of MRUB 3,000	May 2010	17.50%	-	2,782
Unsecured RUB bond issue 3 of MRUB 3,000	September 2010	7.50%	-	3,012
Loan participation notes issue 4 of MUSD 500	June 2011	Fixed, 11%	6,847	7,396
Loan participation notes issue 3 of MUSD 200	August 2011	Fixed, 11.75%	4,750	5,903
Loan participation notes issue 5 of MUSD 301	August 2011	Fixed, 11.75%	5,387	5,684
Unsecured RUB bond issue 4 of MRUB 3,000	October 2011	7.10%	3,046	3,117
Unsecured RUB bond issue 5 of MRUB 4,000	April 2013/ October 2011*	8.15%	4,072	4,081
Unsecured RUB bond issue 7 of MRUB 3,000	April 2015/ May 2012*	9.00%	5,068	-
Unsecured RUB bond issue 6 of MRUB 5,000	June 2014/ December 2012*	7.75%	<u>4,982</u>	<u>5,013</u>
			<b><u>34,152</u></b>	<b><u>36,988</u></b>

\* Early redemption option date

The RUB denominated bonds issue 2 was issued in May 2005 with a fixed coupon rate, resetable at option dates. In May 2010 the Group repaid the bonds at par.

The RUB denominated bonds issue 3 was issued in September 2005 with a fixed coupon rate, resetable at option dates. In September 2010 the Group repaid the bonds at par.

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. By 31 December 2010 the Group bought back the USD denominated loan participation notes issue 4 with a cumulative principal amount of MUSD 276.

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 Group bought back from the market the non-exchanged part (as described below) of the USD denominated loan participation notes issue 3 with the principal amount of MUSD 11 and repaid the rest of non-exchanged part of the bond at par in April 2010.

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. By 31 December 2010 the Group bought back the USD denominated loan participation notes issue 5 with a cumulative principal amount of MUSD 132.

The RUB denominated bonds issue 4 was issued in October 2006 with a fixed coupon rate, resetable at option dates. In October 2010 the Group reset a new coupon rate through the final maturity date.

## 18. Debt securities issued (continued)

The RUB denominated bonds issue 5 was issued in April 2008 with a fixed coupon rate, resetable at option dates. In April 2010 the Group reset a new coupon rate for the next eighteen months. The bondholders are entitled to demand early redemption of the bond at par in October 2011.

In April 2010 the Group issued the RUB denominated bonds issue 7 with a fixed coupon rate set for two years. 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 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.

Eurasia Capital S.A., Eurasia Structured Finance No.1 S.A., Eurasia Credit Card Company S.A. and Eurasia Credit Card Funding I 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 consumer loan and credit card portfolio. 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. The Group decided to liquidate Eurasia Credit Card Company S.A. and Eurasia Credit Card Funding I S.A. as a result of the redemption of the credit card portfolio securitisation.

## 19. Due to banks and other financial institutions

	2010 MRUB	2009 MRUB
Other unsecured loans	6,073	1,714
Other secured loans	1,023	1,810
Unsecured loans from the CBR	-	11,392
Secured loans from the CBR	-	1,188
Subordinated loan	-	1,064
Other balances	371	45
	<u>7,467</u>	<u>17,213</u>

As at 31 December 2010 the Group pledged financial assets available for sale at the amount of MRUB 231 (Note 15) and mortgage loans at the amount of MRUB 931 (Note 13) as a collateral for other secured loans (31 December 2009: mortgage loans at the amount of MRUB 2,600).

As at 31 December 2009 the Group pledged financial assets available for sale at the amount of MRUB 3,951 (Note 15) as a collateral for secured loans from the CBR.

## 20. Current accounts and deposits from customers

	2010 MRUB	2009 MRUB
<b>Corporate</b>		
Current accounts and demand deposits	53	115
Term deposits	2,091	1,538
	<u>2,144</u>	<u>1,653</u>
<b>Retail</b>		
Current accounts and demand deposits	7,138	4,904
Term deposits	14,503	7,021
	<u>21,641</u>	<u>11,925</u>
	<u>23,785</u>	<u>13,578</u>

## 21. Financial liabilities at fair value through profit or loss

	Note	2010 MRUB	2009 MRUB
Negative fair value of derivative instruments	25	95	142
		<u>95</u>	<u>142</u>

## 22. Deferred tax asset and liability

The Group's applicable tax rate for deferred tax is 20% (2009: 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 asset as at 31 December 2010 and 2009. These temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2010 MRUB	2009 MRUB	2010 MRUB	2009 MRUB	2010 MRUB	2009 MRUB
Cash and cash equivalents, placements with banks and other financial institutions	-	-	(2)	(2)	(2)	(2)
Loans to customers	177	422	(345)	(292)	(168)	130
Financial assets available for sale	2	57	-	(13)	2	44
Property, equipment and intangible assets	-	-	(418)	(377)	(418)	(377)
Fair value of derivative financial instruments	19	28	(3)	(23)	16	5
Debt securities issued	34	-	-	-	34	-
Due to banks	69	21	-	-	69	21
Settlements with suppliers	129	156	-	-	129	156
Current accounts and deposits from customers	-	-	-	(4)	-	(4)
Other items	481	300	(1)	(1)	480	299
<b>Net deferred tax assets</b>					<u>142</u>	<u>272</u>

## 23. Other liabilities

	2010 MRUB	2009 MRUB
Accrued employee compensation	1,293	635
Settlements with suppliers	882	707
Other taxes payable	390	230
Provision for restructuring	-	137
Other	16	13
	<u>2,581</u>	<u>1,722</u>

## 23. Other liabilities (continued)

Movements in the provision for restructuring are as follows:

	2010 MRUB	2009 MRUB
<b>Balance at 1 January</b>	<b>137</b>	<b>253</b>
Reversal of provision for restructuring	(137)	
Amounts related to offices closed	-	(116)
<b>Balance at 31 December</b>	<b>-</b>	<b>137</b>

## 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 2010 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 their effective interest rates for interest-bearing financial assets and liabilities at the reporting date and the periods in which they reprice.

MRUB	Effective interest rate	2010						Effective interest rate	Less than 3 months	3 to 12 months	2009				Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Less than 3 months				3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	
Interest earning financial assets															
RUB interest bearing financial assets															
Cash and cash equivalents	2.6%	1,933	-	-	-	-	1,933	5.4%	2,201	-	-	-	-	2,201	
Loans to customers															
Loans to corporations	15.0%	-	-	5	-	-	5	18.0%	12	-	-	-	-	12	
Loans to individuals	39.7%	22,265	35,155	10,233	3,473	793	71,919	45.7%	15,691	24,171	10,737	1,126	2,441	54,166	
Financial assets available for sale	9.8%	360	5,481	-	-	-	5,841	14.7%	-	8,388	-	-	-	8,388	
USD interest bearing financial assets															
Cash and cash equivalents	1.6%	2,909	-	-	-	-	2,909	1.4%	4,156	-	-	-	-	4,156	
Placements with banks and other financial institutions	6.6%	1,527	2,548	-	-	-	4,075	-	-	-	-	-	-	-	
Loans to customers															
Loans to corporations	-	-	-	-	-	-	-	16.2%	363	-	-	-	-	363	
Loans to individuals	11.3%	178	448	508	1,109	1,108	3,351	12.3%	65	117	148	395	3,663	4,388	
Financial assets available for sale	-	-	-	-	-	-	-	8.8%	345	4,314	-	-	-	4,659	
EUR interest bearing financial assets															
Cash and cash equivalents	1.3%	13	-	-	-	-	13	-	-	-	-	-	-	-	
Financial assets available for sale	-	-	-	-	-	-	-	7.0%	-	284	-	-	-	284	
CZK interest bearing financial assets															
Cash and cash equivalents	0.1%	4	-	-	-	-	4	0.9%	171	-	-	-	-	171	
Financial assets available for sale	-	-	-	-	-	-	-	10.3%	-	2,185	-	-	-	2,185	

## 24. Financial instruments (continued)

### Effective interest rates and repricing analysis

MRUB	Effective interest rate	2010						Effective interest rate	2009						Total
		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years	Total		Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	More than 5 years		
Interest bearing financial liabilities															
RUB interest bearing financial liability															
Debt securities issued	8.5%	199	7,010	9,959	-	-	17,168	15.3%	3,180	14,825	-	-	-	18,005	
Due to banks and other financial institutions	7.2%	3,147	3,052	844	-	-	7,043	12.0%	12,552	2,590	-	-	-	15,142	
Current accounts and deposits from customers	10.3%	5,395	10,371	316	-	-	16,082	14.6%	1,349	6,956	-	-	-	8,305	
USD interest bearing financial liability															
Debt securities issued	11.8%	440	16,544	-	-	-	16,984	12.2%	453	11,158	7,372	-	-	18,983	
Due to banks and other financial institutions	-	-	-	-	-	-	-	10.7%	1,064	958	-	-	-	2,022	
Current accounts and deposits from customers	5.3%	117	67	-	-	-	184	6.0%	12	80	-	-	-	92	
EUR interest bearing financial liability															
Due to banks and other financial institutions	3.3%	-	-	-	-	53	53	-	-	-	-	-	-	-	
Current accounts and deposits from customers	5.4%	156	172	-	-	-	328	6.1%	20	142	-	-	-	162	
CZK interest bearing financial liability															
Due to banks and other financial institutions	-	-	-	-	-	-	-	1.1%	4	-	-	-	-	4	
Net position as at 31 December															
in RUB		15,817	20,203	(881)	3,473	793	39,405		823	8,188	10,737	1,126	2,441	23,315	
in USD		4,057	(13,615)	508	1,109	1,108	(6,833)		3,400	(7,765)	(7,224)	395	3,663	(7,531)	
in EUR		(143)	(172)	-	-	(53)	(368)		(20)	142	-	-	-	122	
in CZK		4	-	-	-	-	4		167	2,185	-	-	-	2,352	

## 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 2010 and 2009 is as follows:

	<b>2010</b> <b>Total effect</b> <b>on net profit/</b> <b>equity</b> <b>MRUB</b>	<b>2009</b> <b>Total effect</b> <b>on net profit/</b> <b>equity</b> <b>MRUB</b>
<b>RUB</b>		
+ 1% rate increase	171	90
- 1% rate decrease	(171)	(90)
<b>USD</b>		
+ 1% rate increase	(35)	(7)
- 1% rate decrease	35	7
<b>EUR</b>		
+ 1% rate increase	-	1
- 1% rate decrease	-	(1)

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 2010 and 2009 and a simplified scenario of a 1% symmetrical fall or rise in all yield curves is as follows:

	<b>2010</b> <b>Total effect</b> <b>on equity</b> <b>MRUB</b>	<b>2009</b> <b>Total effect</b> <b>on equity</b> <b>MRUB</b>
+ 1% rate increase	44	101
- 1% rate decrease	(47)	(106)

## 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.

MRUB	2010					2009				
	USD	EUR	RUB	Other currencies	Total	USD	EUR	RUB	Other currencies	Total
<b>Assets</b>										
Cash and cash equivalents	1,986	51	5,374	5	7,416	7,647	110	5,395	178	13,330
Placements with banks and other financial institutions	4,076	-	238	-	4,314	-	-	109	-	109
Loans to customers	3,350	-	71,925	-	75,275	4,751	-	54,178	-	58,929
Financial assets at fair value through profit or loss	-	-	14	-	14	-	-	182	-	182
Financial assets available for sale	-	-	5,841	-	5,841	4,659	284	8,388	2,185	15,516
Property, equipment and intangible assets	-	-	6,653	-	6,653	-	-	6,993	-	6,993
Investment in associate	-	-	63	-	63	-	-	25	-	25
Deferred tax asset	-	-	142	-	142	-	-	272	-	272
Current income tax receivable	-	-	205	-	205	-	-	226	-	226
Other assets	-	-	934	242	1,176	17	6	754	117	894
<b>Total assets</b>	<b>9,412</b>	<b>51</b>	<b>91,389</b>	<b>247</b>	<b>101,099</b>	<b>17,074</b>	<b>400</b>	<b>76,522</b>	<b>2,480</b>	<b>96,476</b>
<b>Liabilities</b>										
Debt securities issued	16,984	-	17,168	-	34,152	18,983	-	18,005	-	36,988
Due to banks and other financial institutions	11	52	7,404	-	7,467	2,024	-	15,185	4	17,213
Current accounts and deposits from customers	250	337	23,198	-	23,785	141	164	13,273	-	13,578
Financial liabilities at fair value through profit or loss	-	-	95	-	95	-	-	142	-	142
Other liabilities	-	19	2,504	58	2,581	-	34	1,646	42	1,722
<b>Total liabilities</b>	<b>17,245</b>	<b>408</b>	<b>50,369</b>	<b>58</b>	<b>68,080</b>	<b>21,148</b>	<b>198</b>	<b>48,251</b>	<b>46</b>	<b>69,643</b>
Effect of foreign currency derivatives	7,513	351	(7,855)	(9)	-	4,487	(284)	(1,887)	(2,316)	-
<b>Net position as of 31 December</b>	<b>(320)</b>	<b>(6)</b>	<b>33,165</b>	<b>180</b>	<b>33,019</b>	<b>413</b>	<b>(82)</b>	<b>26,384</b>	<b>118</b>	<b>26,833</b>

## 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 2010 and 2009 and a simplified scenario of a 5% change in USD and EUR to Russian Rouble exchange rates is as follows:

	<b>2010</b>	<b>2009</b>
	<b>Total effect</b>	<b>Total effect</b>
	<b>on net profit/</b>	<b>on net profit/</b>
	<b>equity</b>	<b>equity</b>
	<b>MRUB</b>	<b>MRUB</b>
Effect of 5% RUB depreciation against USD	(13)	16
Effect of 5% RUB appreciation against USD	13	(16)
Effect of 5% RUB depreciation against EUR	-	(3)
Effect of 5% RUB appreciation against EUR	-	3

### (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)

### (c) Liquidity risk

The following table shows assets and liabilities 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.

MRUB	2010							2009						
	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
<b>Assets</b>														
Cash and cash equivalents	7,418	-	-	-	-	-	7,418	13,336	-	-	-	-	-	13,336
Placements with banks and other financial institutions	-	1,591	2,625	-	-	188	4,404	-	-	-	-	-	109	109
Loans to customers	6,512	17,268	45,120	31,534	4,674	-	105,108	8,686	14,118	32,223	19,213	11,511	-	85,751
Financial assets at fair value through profit or loss	-	14	-	-	-	-	14	42	-	140	-	-	-	182
Financial assets available for sale	5	30	6,358	-	-	-	6,393	12	435	16,838	-	-	-	17,285
Property, equipment and intangible assets	-	-	-	-	-	6,653	6,653	-	-	-	-	-	6,993	6,993
Investment in associate	-	-	-	-	-	63	63	-	-	-	-	-	25	25
Deferred tax asset	-	-	-	-	-	142	142	-	-	-	-	-	272	272
Current income tax receivable	-	-	205	-	-	-	205	-	-	226	-	-	-	226
Other assets	502	-	650	-	-	24	1,176	358	-	535	-	-	-	893
<b>Total assets</b>	<b>14,437</b>	<b>18,903</b>	<b>54,958</b>	<b>31,534</b>	<b>4,674</b>	<b>7,070</b>	<b>131,576</b>	<b>22,434</b>	<b>14,553</b>	<b>49,962</b>	<b>19,213</b>	<b>11,511</b>	<b>7,399</b>	<b>125,072</b>
<b>Liabilities</b>														
Debt securities issued	247	666	25,496	10,611	-	-	37,020	253	3,851	28,462	7,777	-	-	40,343
Due to banks and other financial institutions	2,385	1,157	3,180	926	78	-	7,726	10,681	3,101	3,899	-	-	-	17,681
Current accounts and deposits from customers	8,532	4,756	11,658	348	-	-	25,294	5,501	924	7,747	-	-	-	14,172
Financial liabilities at fair value through profit or loss	76	19	-	-	-	-	95	2	-	140	-	-	-	142
Other liabilities	1,288	1,293	-	-	-	-	2,581	1,494	230	-	-	-	-	1,724
<b>Total liabilities</b>	<b>12,528</b>	<b>7,891</b>	<b>40,334</b>	<b>11,885</b>	<b>78</b>	<b>-</b>	<b>72,716</b>	<b>17,931</b>	<b>8,106</b>	<b>40,248</b>	<b>7,777</b>	<b>-</b>	<b>-</b>	<b>74,062</b>
Irrevocable credit related commitments	1,380	-	-	3	-	-	1,383	1,984	5	110	0	-	-	2,099
<b>Net position</b>	<b>529</b>	<b>11,012</b>	<b>14,624</b>	<b>19,646</b>	<b>4,596</b>	<b>7,070</b>	<b>57,477</b>	<b>2,519</b>	<b>6,442</b>	<b>9,604</b>	<b>11,436</b>	<b>11,511</b>	<b>7,399</b>	<b>48,911</b>
<b>Cumulative net position</b>	<b>529</b>	<b>11,541</b>	<b>26,165</b>	<b>45,811</b>	<b>50,407</b>	<b>57,477</b>	<b>57,477</b>	<b>2,519</b>	<b>8,961</b>	<b>18,565</b>	<b>30,001</b>	<b>41,512</b>	<b>48,911</b>	<b>48,911</b>

## 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 Group's 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 of the Group. 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 fair values of the following financial instruments differ from their carrying amounts shown in the consolidated statement of financial position as follows:

	Note	Carrying amount 2010	Fair value 2010	Carrying amount 2009	Fair value 2009
		MRUB	MRUB	MRUB	MRUB
Debt securities issued	18	(34,152)	(34,942)	(36,988)	(37,388)

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

The fair value of debt securities issued is determined by reference to the open market prices at the reporting date.



## 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 2010:

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

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 2009:

	<b>Level 1 MRUB</b>	<b>Level 2 MRUB</b>	<b>Total MRUB</b>
<b>Assets</b>			
Financial assets at fair value through profit or loss	-	182	182
Financial assets available for sale	15,376	-	15,376
	<b>15,376</b>	<b>182</b>	<b>15,558</b>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	-	142	142
	<b>-</b>	<b>142</b>	<b>142</b>

## 25. Derivative financial instruments

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

Contract type	Maturity	Sell/Buy	Notional amount	Fair value
			(in RUB equivalent) 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	-

As at 31 December 2009 the following derivative contracts were outstanding:

Contract type	Maturity	Sell/Buy	Notional amount (in RUB equivalent) MRUB	Fair value MRUB
Foreign currency swap contracts	less than 1 month	RUB/USD	907	4
		EUR/USD	284	2
		CZK/USD	2,316	34
	3 months to 1 year	RUB/USD	2,803	(126)
		USD/RUB	1,824	126
				<b>40</b>

## 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.

	2010 MRUB	2009 MRUB
Credit card commitments	12,707	11,984
Consumer loan commitments	1,380	1,288
Undrawn overdraft facilities	3	811
	<b>14,090</b>	<b>14,083</b>

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:

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
Less than one year	592	702
Between one and five years	883	1,630
More than five years	19	-
	<u><b>1,494</b></u>	<u><b>2,332</b></u>

The decrease in the amount of lease payments was a result of renegotiation of contracts with lessors.

During the year MRUB 568 (2009: MRUB 671) 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:

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
Interest income	102	109
Interest expense	(12)	(194)
Loss from foreign exchange revaluation of financial assets and liabilities	(193)	(213)
General administrative expenses	(80)	(89)
	<u><b>(183)</b></u>	<u><b>(387)</b></u>

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

	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>MRUB</b>	<b>MRUB</b>
Financial assets available for sale	15	-	2,185
Other liabilities		(19)	(34)
Due to banks and other financial institutions		-	(1,064)
Revaluation reserve for financial assets available for sale		-	11
		<u><b>(19)</b></u>	<u><b>1,098</b></u>

As at 31 December 2009 the effective interest rate on financial assets available for sale shown above was 10.3%.

As at 31 December 2009 the amounts due to banks shown above included a subordinated loan at an effective interest rate of 6.0%.

## 29. Related party transactions (continued)

### (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:

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
Interest income	146	46
Interest expense	(87)	(110)
Fee and commission income	5	18
Fee and commission expense	(1)	-
Gain from foreign exchange revaluation of financial assets and liabilities	4	20
Net gain on spot transactions and derivatives	97	716
General administrative expenses	(526)	(580)
	<b>(362)</b>	<b>110</b>

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

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
Placements with banks and other financial institutions	1,024	-
Cash and cash equivalents	267	545
Loans to customers	183	233
Property, equipment and intangible assets	71	-
Financial assets at fair value through profit or loss	10	-
Other assets	199	115
Debt securities issued	(1,038)	(160)
Due to banks and other financial institutions	(24)	(8)
Other liabilities	(91)	(64)
	<b>601</b>	<b>661</b>

As at 31 December 2010 placements with banks and other financial institutions shown above included term deposit in the amount of MRUB 1,024 at the effective interest rate of 4.67% with the maturity of 3 months (31 December 2009: nil).

As at 31 December 2010 loans to customers shown above included loan origination agent fees paid totalling MRUB 183 which form an integral part of loans to customers and are to be amortised within 17 months (31 December 2009: MRUB 21).

As at 31 December 2009 loans to customers shown above included loans to corporations of MRUB 212 at the effective interest rate of 17.0% with the maturity of one month.

The effective interest rate on debt securities issued shown above was 8.8% and the maturity was six months to two years as at 31 December 2010 (31 December 2009: 12.4% and three months to one year respectively).

As at 31 December 2009 amounts due to banks and other financial institutions shown above included term deposits in the amount of MRUB 4 at the effective interest rate of 1.1% with the maturity of one month. The remaining part comprised loro accounts.

## 29. Related party transactions (continued)

### (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 537 (2009: MRUB 150) 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.

In implementing current capital requirements the CBR requires the Group to maintain the ratio of total capital to total risk-weighted assets at or above the minimum level of 10%. The ratio is calculated based on financial statements prepared in accordance with Russian Banking Accounting Standards ("RBAS") and the risk weighting is determined in accordance with the CBR's credit risk ratios specific for individual classes of assets.

The Group also operates its capital adequacy in compliance with the methodology set out by the Bank of International Settlements, using the definition of capital adopted by the CBR. Tier I capital is represented by the Group's equity, Tier II capital is represented by subordinated loans, up to the limit of 50% of Tier I capital as presented in these financial statements. In connection with the USD denominated loan participation notes described in Note 18 the Group is committed to maintain its Tier I capital adequacy ratio at or above the minimum level of 15%.

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

	<b>2010</b>	<b>2009</b>
	<b>MRUB</b>	<b>MRUB</b>
<b>Risk weighted assets</b>	<b>98,523</b>	<b>76,140</b>
Tier I capital	33,019	26,832
Tier II capital	-	881
<b>Total capital</b>	<b>33,019</b>	<b>27,713</b>
Tier I ratio	33.5%	35.2%
Capital Adequacy Ratio	33.5%	36.4%

## 31. Segment analysis

The Group's 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 treasury function to major segments. Performance of individual segments is assessed by the Committee based on segment profit or loss. A reconciliation of the total of the segment's profit to the profit before tax is provided below.

### 31. Segment analysis (continued)

Total segment assets mainly consist of 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.

	<b>Consumer loans MRUB</b>	<b>Credit card loans MRUB</b>	<b>Cash loans MRUB</b>	<b>Other segments MRUB</b>	<b>Total MRUB</b>
<b>Year ended</b>					
<b>31 December 2010</b>					
External interest income	12,277	4,986	5,483	2,602	<b>25,348</b>
Fee and commission income	3,811	1,254	1,836	111	<b>7,012</b>
Inter segment revenue	-	-	-	4,281	<b>4,281</b>
<b>Total revenues</b>	<b>16,088</b>	<b>6,240</b>	<b>7,319</b>	<b>6,994</b>	<b>36,641</b>
External interest expense	-	-	-	(6,234)	<b>(6,234)</b>
Inter segment interest expense	(2,319)	(1,045)	(894)	-	<b>(4,258)</b>
Inter segment other operating expense, net	(12)	(6)	(5)	-	<b>(23)</b>
Fee and commission expense	-	(166)	-	(18)	<b>(184)</b>
Other operating expense, net	(2,071)	-	-	247	<b>(1,824)</b>
Impairment losses	(1,953)	(672)	(497)	(445)	<b>(3,567)</b>
<b>Total expenses</b>	<b>(6,355)</b>	<b>(1,889)</b>	<b>(1,396)</b>	<b>(6,450)</b>	<b>(16,090)</b>
<b>Segment profit</b>	<b>9,733</b>	<b>4,351</b>	<b>5,923</b>	<b>544</b>	<b>20,551</b>
<b>Year ended</b>					
<b>31 December 2009</b>					
External interest income	11,407	7,611	5,511	4,049	<b>28,578</b>
Fee and commission income	3,485	1,840	867	97	<b>6,289</b>
Inter segment revenue	-	-	-	6,987	<b>6,987</b>
<b>Total revenues</b>	<b>14,892</b>	<b>9,451</b>	<b>6,378</b>	<b>11,133</b>	<b>41,854</b>
External interest expense	(385)	(315)	-	(9,432)	<b>(10,132)</b>
Inter segment interest expense	(2,753)	(2,067)	(1,208)	-	<b>(6,028)</b>
Inter segment other operating expense, net	(438)	(329)	(192)	-	<b>(959)</b>
Fee and commission expense	-	(276)	-	(20)	<b>(296)</b>
Other operating expense, net	-	-	-	(653)	<b>(653)</b>
Impairment losses	(2,660)	(3,194)	(2,398)	(621)	<b>(8,873)</b>
<b>Total expenses</b>	<b>(6,236)</b>	<b>(6,181)</b>	<b>(3,798)</b>	<b>(10,726)</b>	<b>(26,941)</b>
<b>Segment profit</b>	<b>8,656</b>	<b>3,270</b>	<b>2,580</b>	<b>407</b>	<b>14,913</b>

### 31. Segment analysis (continued)

**Segment assets**

<b>MRUB</b>	<b>Consumer loans</b>	<b>Credit card loans</b>	<b>Cash loans</b>	<b>Other segments</b>	<b>Total</b>
Carrying amount at 31 December 2010	40,355	10,467	17,293	20,253	<b>88,368</b>
Carrying amount at 31 December 2009	25,919	15,186	8,393	32,494	<b>81,992</b>

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

	<b>2010 MRUB</b>	<b>2009 MRUB</b>
<b>Segment profit for reportable segments</b>	<b>20,551</b>	<b>14,913</b>
Unallocated fee income	673	608
Unallocated fee expense	(171)	(117)
Unallocated other operating income	86	68
General administrative expenses	(9,281)	(8,911)
<b>Profit before tax</b>	<b>11,858</b>	<b>6,561</b>

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

	<b>2010 MRUB</b>	<b>2009 MRUB</b>
<b>Total segment assets</b>	<b>88,368</b>	<b>81,992</b>
Cash and cash equivalents (excluded from Other segments)	4,492	6,074
Property, equipment and intangible assets	6,653	6,993
Investment in subsidiaries and associates	63	25
Income tax asset	347	498
Other assets	1,176	894
<b>Total assets</b>	<b>101,099</b>	<b>96,476</b>