Home Credit B.V.

Consolidated Annual Accounts
for the year ended 31 December 2013

Contents

Directors´ Report

Description of the Company

Home Credit B.V.

Date of incorporation:	28 December 1999
Registered office:	Netherlands, Strawinskylaan 933, 1077XX Amsterdam
Identification number:	34126597
Authorised capital:	EUR 712,500,000
Issued capital:	EUR 659,019,639
Paid up capital:	EUR 659,019,639
Principal business:	Holding company activities and financing thereof

General information

Home Credit B.V. ('HCBV') is the owner of consumer finance providers ('the Group'). There are both fully licensed banks and non-banking entities within the Group. The principal activities of HCBV are: (a) the holding of equity stakes in consumer finance companies in the countries of Central and Eastern Europe (CEE) and Asia and (b) the securing of the refinancing for these companies from the market and from the ultimate parent company.

Companies that are held by HCBV provide in-store lending to eligible mass retail customers, including first-time borrowers, and are the leading providers of such services in most countries in which they operate. They provide non-cash, non-collateralised loans for purchases of durable goods at the point of sale ("POS loans") and, in the majority of countries in which they operate, they also offer credit cards and/or cash loans. In Russia, Belarus and Kazakhstan the Group also offers selected retail banking services such as deposit accounts. As at 31 December 2013, the Group had 7.7 million active customers across its operations: the Czech Republic (operational since 1997), Slovakia (1999), the Russian Federation (2002), Kazakhstan (2005), Belarus (2007), China (2007), India (2012), Indonesia (2013), and the Philippines (2013).

PPF Group N.V. (hereinafter "PPF") is the majority shareholder (86.62%) of HCBV. PPF invests in multiple market segments and is present in sectors such as banking and financial services, telecommunications, insurance, real estate, energy, metal mining, agriculture, retail and biotechnology. PPF's reach spans from Central and Eastern Europe to Russia and across Asia. PPF Group owns assets of EUR 22.1 billion (as at 30 June 2013). Founded in 1991, PPF is a regulated financial conglomerate (as defined by the EU Directive) headquartered in the Netherlands. EMMA OMEGA LTD, an investment holding company based in Cyprus ultimately owned by Mr. Jiří Šmejc, completed the acquisition of a 13.38% stake in HCBV in September 2013.

For more information, visit www.ppf.eu*.*

While the economic environment remained challenging and the regulatory backdrop underwent a number of changes in Europe, which particularly affected the Group´s business in Russia, 2013 was another successful and profitable year for the Group. The business continued to invest, enhancing its offering through product innovation, and it originated more new loans in broader defined customer segments. The adverse market impact was partly compensated by the Group's success in diversifying its geographic operations through organic growth. The Group expanded its footprint in high potential markets in Asia, adding Indonesia and the Philippines to operations in China and India during 2013. The Home Credit franchise in Asia has been increasing its contribution to the profit of the Group through expansion into new provinces and growth of outlets. The Group retained its market share and profitability in the highly competitive markets of the Czech Republic and Slovakia. In Belarus, the Group's efforts have produced a successful conversion of the business back to profitability despite a challenging, high inflationary economic situation.

In January 2013 the Group exercised its option to purchase a majority stake in Home Credit Bank JSC (Kazakhstan) and became the 100% owner of the bank (subsequently renamed to Home Credit and Finance Bank (SB JSC)). In 2013, HCBV acquired and consolidated certain insurance companies in Russia and Belarus. For detailed information see Note 1 of the consolidated financial statements.

The Group remains focused on building long-term relationships with its customers by offering products that best suit their needs while maintaining a solid level of cost efficiency and prudent risk management. Our business philosophy promotes financial inclusion: we often work with clients who have little to no credit history, and who are underserved by traditional banks. We enable them to take advantage of all the benefits that financial services can bring them. Our relationship with our clients is built on fairness, transparency and mutual trust. As they build up a solid credit history we provide them with more sophisticated products to suit their gradually growing needs and capabilities. Along the way, we help our clients learn how to manage their finances and develop financial literacy. This is what responsible lending means to us.

Key Results

In 2013 the net loan portfolio grew by 9.8% to EUR 7,171 million: the value of new loans granted rose 20.4% to EUR 9,741 million and the number of distribution points increased by 27% to 139,612. Operating income for 2013 reflected this growth across the business rising by 43.4% to EUR 2,542 million. The operating income improvement came predominantly from Russia, Kazakhstan and China. General administrative expenses and other operating expenses rose by 41.2% as distribution points increased and the number of Group employees grew to 51.4 thousand. The Group now reaches its 7.7 million active customers through 135,459 POS and loan offices, 1,328 bank branches, 2,825 post offices and 1,440 ATMs. Overall, net profit decreased by 35.8% to EUR 324 million. The decline was predominantly driven by increased impairment losses and the tough market conditions experienced in Russia, the impact of which the Group is currently working to mitigate by developing new products and expanding the Home Credit brand presence in new ways. Given the negative market backdrop in Russia, there was an impact on the Non-Performing Loan (NPL) ratio (gross loans overdue by more than 90 days to total gross loans) which rose to 12.2% (7.6% as at 31 December 2012). Nonetheless, in line with the Group's conservative approach to risk management, the Group NPL coverage ratio (total allowance for impairment to gross non-performing loans) remained stable at 117.0% (2012: 119%).

HCBV's continuing focus on maintaining an adequate level of retail deposits in line with its business needs saw retail deposits in 2013 rise 8.1% to EUR 5,105 million. As at 31 December 2013 share of current account balances and term deposits on total liabilities was 65.6% (31 December 2012: 59.6%).

Staff development and environmental influence

In 2013 the average number of employees reached 44.7 thousand (2012: 30.6 thousand).

The impact of the Group's operations on the environment is considered insignificant.

Composition of the Board of Directors

The size and composition of the Board of Directors and the combined experience and expertise of their members should reflect the best fit for the profile and strategy of the company. This aim for the best fit, in combination with the availability of qualifying candidates, has resulted in HCBV currently having a Board of Directors in which all six members are male. In order to increase gender diversity on the Board of Directors, in accordance with article 2:276 section 2 of the Dutch Civil Code, HCBV pays close attention to gender diversity in the process of recruiting and appointing new members of the Board of Directors. HCBV will retain an active and open attitude as regards selecting female candidates.

Financial instruments and risk management

The Group's main strategic risk concerns the appropriateness of the selected business model, i.e. marketing, sales and risk strategies as well as the resources allocated to support the strategy. Such risks are mitigated through careful selection of the markets and calibrating start-up pilot projects on one hand and geographic diversification on the other hand. The Group is exposed to various risks as a result of its activities, primarily credit risk, liquidity risk, market risks (interest rate risk and currency risk), insurance risk and operational risk.

The Group's primary exposure to credit risk arises from the provision of consumer financing to private customers, which is the Group's principal business. Credit risk is managed both at the level of individual Group companies and at the Group level.

Liquidity risk arises from the general funding of the Group's activities and from the management of its positions. The Group has access to a diversified funding base. Funds are raised using a broad range of instruments including deposits, debt securities, bank loans, subordinated debt and shareholders' equity.

All financial instruments and positions are subject to market risk: the risk that future changes in market conditions may change the value of the instrument. 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 term structure of interest-bearing assets differs from that of liabilities.

The main risk faced by the Group as part of the insurance business is the difference in actual and expected claims for insurance benefits and claims. Price risk arises as insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk the Group regularly analyses profitability and makes appropriate adjustments in pricing and underwriting policies. Reserve deficiency risk arises from the uncertainty regarding the development of loss reserves in the future and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. Managing this risk is performed through regular checking of the adequacy of loss reserves and loss analysis of insurance products.

Operational risk is the risk of 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, financial reporting and generally accepted standards of corporate behaviour. 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.

For detailed information on risk management see Note 4 of the consolidated financial statements.

Future development

In 2014 the Group's focus will be on managing the business for the sustainable creation of shareholders' value against an uncertain macroeconomic backdrop. We will aim to maintain a diversified funding base and pursue cost-effectiveness whilst retaining a flexible but disciplined loan origination and distribution approach in order to respond effectively to any macroeconomic changes. The Group will focus in particular on Russia, given the current local retail banking transition and the challenging regulatory conditions. The overall objective in CEE will be to maintain market-leading positions with continued focus on improving efficiency as well as extending our retail banking offer predominantly in Kazakhstan and Belarus. In the high growth regions of Asia we will continue to implement the geographical roll-out of our franchise deepening our business penetration to further support the global diversification of the Home Credit footprint.

	Note	2013 TEUR	2012 TEUR
ASSETS			
Cash and cash equivalents	8	926,483	1,210,087
Due from banks, other financial institutions and holding companies	9	410,233	394,271
Loans to customers	10	7,171,284	6,530,641
Positive fair value of derivative instruments	11	18,908	19,590
Financial assets available-for-sale	12	158,505	701,504
Financial assets held-to-maturity		3,440	3,667
Assets classified as held for sale	5	14,724	-
Current income tax receivables		15,898	2,431
Deferred tax assets	13	49,710	19,605
Investments in associates	14	3,589	2,537
Intangible assets	15	94,913	60,656
Property and equipment	16	233,267	237,258
Other assets	17	212,413	244,066
Total assets		**9,313,367**	**9,426,313**
LIABILITIES			
Current accounts and deposits from customers	18	5,105,402	4,723,571
Due to banks and other financial institutions	19	604,421	1,310,979
Debt securities issued	20	1,120,915	1,180,154
Negative fair value of derivative instruments	21	17,962	11,435
Liabilities classified as held for sale	5	1,574	-
Current income tax liabilities		27,287	29,138
Deferred tax liabilities	13	5,014	947
Insurance and other provisions	22	130,335	-
Subordinated liabilities	23	511,461	379,747
Other liabilities	24	256,525	285,743
Total liabilities		**7,780,896**	**7,921,714**
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	25	659,020	659,020
Share premium	25	184,377	303,969
Statutory reserves	25	11,672	4,853
Foreign currency translation	25	(208,627)	(54,590)
Hedging reserve	25	(73)	(971)
Reserve for business combinations under common control	25	15,106	15,106
Revaluation reserve	25	431	462
Other reserves	25	867,649	473,962
Total equity attributable to equity holders of the parent company		**1,529,555**	**1,401,811**
Non-controlling interests		**2,916**	**102,788**
Total equity		**1,532,471**	**1,504,599**
Total liabilities and equity		**9,313,367**	**9,426,313**

	Note	2013 TEUR	2012 TEUR
Interest income	26	2,483,490	1,486,012
Interest expense	26	(721,006)	(429,033)
Net interest income		**1,762,484**	**1,056,979**
Fee and commission income	27	715,862	654,556
Fee and commission expenses	28	(97,536)	(57,998)
Net fee and commission income		**618,326**	**596,558**
Insurance income	29	**19,975**	**-**
Net losses on financial assets and liabilities	30	(16,422)	(6,993)
Other operating income	31	158,107	126,852
Operating income		**2,542,470**	**1,773,396**
Impairment losses on financial assets	32	(1,185,949)	(478,428)
General administrative expenses	33	(844,445)	(603,888)
Other operating expenses	34	(79,926)	(50,694)
Operating expenses		**(2,110,320)**	**(1,133,010)**
Gains on disposals of associates and subsidiaries		2,708	1,732
Share of earnings in associates		3,853	2,375
Profit before tax		**438,711**	**644,493**
Income tax expense	35	(114,274)	(138,810)
Net profit for the year		**324,437**	**505,683**
Profit attributable to:			
Equity holders of the parent company		326,597	506,032
Non-controlling interests		(2,160)	(349)
		324,437	**505,683**
Other comprehensive income which will be subsequently reclassified to profit or loss:			
Currency translation		(153,714)	25,676
Revaluation (losses)/gains on available-for-sale financial assets		(8,015)	5,124
Revaluation gains/(losses) on available-for-sale financial assets transferred to profit or loss		7,976	(4,203)
Cash flow hedge reserve – effective portion of changes in fair value		1,123	(971)
Income tax relating to components of other comprehensive income		(217)	(364)
Other comprehensive income for the year		**(152,847)**	**25,262**
Total comprehensive income for the year		**171,590**	**530,945**
Total comprehensive income attributable to:			
Equity holders of the parent company		173,427	531,547
Non-controlling interests		(1,837)	(602)
		171,590	**530,945**

The consolidated financial statements as set out on pages 6 to 76 were approved by the Board of Directors on 10 March 2014.

Pavel Horák
Member of the Board of Directors

Attributable to equity holders of the parent company

	Share capital TEUR	Share premium TEUR	Statutory reserves TEUR	Foreign currency translation TEUR	Reserve for business combinations under common control TEUR	Revaluation reserve TEUR	Hedging reserve TEUR	Other reserves TEUR	Total TEUR	Non-controlling interests TEUR	Total equity TEUR
Balance as at 1 January 2013	659,020	303,969	4,853	(54,590)	15,106	462	(971)	473,962	**1,401,811**	102,788	**1,504,599**
Share premium increases	-	97,000	-	-	-	-	-	-	**97,000**	-	**97,000**
Share premium reductions	-	(216,592)	-	-	-	-	-	-	**(216,592)**	-	**(216,592)**
Acquisition of non-controlling interests	-	-	-	-	-	-	-	73,759	**73,759**	(100,759)	**(27,000)**
Other changes in non-controlling interests	-	-	-	-	-	-	-	150	**150**	2,724	**2,874**
Transfers	-	-	6,819	-	-	-	-	(6,819)	-	-	-
Total	**659,020**	**184,377**	**11,672**	**(54,590)**	**15,106**	**462**	**(971)**	**541,052**	**1,356,128**	**4,753**	**1,360,881**
Currency translation	-	-	-	(154,037)	-	-	-	-	**(154,037)**	323	**(153,714)**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	-	-	(31)	-	-	**(31)**	-	**(31)**
Effect of hedge accounting, net of tax	-	-	-	-	-	-	898	-	**898**	-	**898**
Profit for the year	-	-	-	-	-	-	-	326,597	**326,597**	(2,160)	**324,437**
Total comprehensive income for the year	**-**	**-**	**-**	**(154,037)**	**-**	**(31)**	**898**	**326,597**	**173,427**	**(1,837)**	**171,590**
Total changes	**-**	**(119,592)**	**6,819**	**(154,037)**	**-**	**(31)**	**898**	**393,687**	**127,744**	**(99,872)**	**27,872**
Balance as at 31 December 2013	**659,020**	**184,377**	**11,672**	**(208,627)**	**15,106**	**431**	**(73)**	**867,649**	**1,529,555**	**2,916**	**1,532,471**

Attributable to equity holders of the parent company

	Share capital TEUR	Share premium TEUR	Statutory reserves TEUR	Foreign currency translation TEUR	Reserve for business combinations under common control TEUR	Revaluation reserve	Hedging reserve	Other reserves TEUR	Total TEUR	Non-controlling interest TEUR	Total equity TEUR
Balance as at 1 January 2012	659,020	60,253	3,754	(86,504)	-	(95)	-	194,823	**831,251**	-	**831,251**
Share premium increase	-	255,481	-	-	-	-	-	-	**255,481**	-	**255,481**
Acquisition of HC Asia, N.V.	-	-	29	5,985	15,106	-	-	(118,949)	**(97,829)**	3,233	**(94,596)**
Acquisition of Home Credit Bank JSC (Note 1)	-	-	-	-	-	-	-	-	-	100,759	100,759
Acquisition of other non-controlling interests	-	-	-	-	-	-	-	602	**602**	(602)	-
Dividends paid	-	(11,765)	-	-	-	-	-	(107,476)	**(119,241)**	-	**(119,241)**
Transfers	-	-	1,070	-	-	-	-	(1,070)	-	-	-
Total	**659,020**	**303,969**	**4,853**	**(80,519)**	**15,106**	**(95)**	-	**(32,070)**	**870,264**	**103,390**	**973,654**
Currency translation	-	-	-	25,929	-	-	-	-	**25,929**	(253)	**25,676**
Revaluation of available-for-sale financial assets, net of tax	-	-	-	-	-	557	-	-	**557**	-	**557**
Effect of hedge accounting, net of tax	-	-	-	-	-	-	**(971)**	-	**(971)**	-	**(971)**
Profit for the year	-	-	-	-	-	-	-	506,032	**506,032**	(349)	**505,683**
Total comprehensive income for the year	-	-	-	**25,929**	-	**557**	**(971)**	**506,032**	**531,547**	**(602)**	**530,945**
Total changes	-	**243,716**	**1,099**	**31,914**	**15,106**	**557**	**(971)**	**279,139**	**570,560**	**102,788**	**673,348**
Balance as at 31 December 2012	**659,020**	**303,969**	**4,853**	**(54,590)**	**15,106**	**462**	**(971)**	**473,962**	**1,401,811**	**102,788**	**1,504,599**

	Note	2013 TEUR	2012 TEUR
Operating activities			
Profit before tax		438,711	644,493
Adjustments for:			
Interest expense	26	721,006	429,033
Net loss on disposal of property, equipment and intangible assets	34	2,023	1,308
Net gain on disposal of subsidiaries and associates		(2,708)	-
Net unrealized foreign exchange loss		16,146	1,483
Impairment losses	32	1,190,425	478,430
Recognized income from excess of acquired net fair value over costs	31	(30,451)	-
Share of earnings in associates		(3,853)	-
Depreciation and amortization	34	73,071	49,152
Net operating cash flow before changes in working capital		**2,404,370**	**1,603,899**
Change in due from banks, other financial institutions and holding companies		(8,456)	(221,284)
Change in loans to customers		(1,826,592)	(3,448,969)
Change in positive fair value of derivative instruments		682	16,805
Change in other assets		144,058	(112,406)
Change in held for sale assets/liabilities		(3,798)	-
Change in current accounts and deposits from customers		374,870	2,782,858
Change in negative fair value of derivative instruments		6,527	4,015
Change in other liabilities and insurance and other provisions		(35,081)	110,970
Cash flows from the operations		**1,056,580**	**735,888**
Interest paid		(671,012)	(297,023)
Income tax paid		(161,018)	(119,961)
Cash flows from operating activities		**224,550**	**318,904**
Investing activities			
Proceeds from sale of property, equipment and intangible assets		286	15,313
Acquisition of property, equipment and intangible assets		(135,396)	(129,738)
Proceeds from sale of subsidiaries and associates		3,033	2,209
Proceeds from available-for-sale financial assets		2,029,774	953,616
Acquisition of available-for-sale financial assets		(1,459,488)	(1,339,768)
Acquisition of held-to-maturity financial assets		-	(3,667)
Acquisition of investment in subsidiaries, net of cash acquired		(33,341)	(165,239)
Cash flows from/(used in) investing activities		**404,868**	**(667,274)**
Financing activities			
Increase of capital		-	255,481
Share premium reduction		(119,592)	-
Proceeds from the issue of debt securities		371,513	774,567
Repayment of debt securities issued		(311,607)	(319,531)
Proceeds from due to banks and other financial institutions		20,206,342	16,231,441
Repayment of due to banks and other financial institutions		(20,932,758)	(15,686,426)
Dividends paid		-	(119,241)
Cash flows (used in)/from financing activities		**(786,102)**	**1,136,291**
Net (decrease)/increase in cash and cash equivalents		(156,684)	787,921
Cash and cash equivalents as at 1 January		1,210,087	409,961
Effects of exchange rate changes on cash and cash equivalents		(126,920)	12,205
Cash and cash equivalents as at 31 December	8	**926,483**	**1,210,087**

1. Description of the Group

Home Credit B.V. (the “Company”) was incorporated on 28 December 1999 in the Netherlands.

Registered office
Strawinskylaan 933
1077 XX Amsterdam
The Netherlands

Shareholders	**Country of incorporation**	**Ownership interest (%) 2013**	**2012**
PPF Group N.V.	Netherlands	86.62	100.00
EMMA OMEGA LTD	Cyprus	13.38	-

Following an agreement between PPF Group N.V. and Mr. Jiří Šmejc, EMMA OMEGA LTD with its registered office in Esperidon 12, 4th floor, 1087 Nicosia, Republic of Cyprus, completed the acquisition of a 13.38% stake in Home Credit B.V. on 20 September 2013. EMMA OMEGA LTD is an investment holding company ultimately owned by Mr. Jiří Šmejc.

The transaction has been approved by the respective regulators.

The ultimate controlling party of PPF Group N.V. is Mr. Petr Kellner.

Principal activities

The principal activities of the Company and its subsidiaries (together referred to as the “Group”) are the provision of consumer financing to private individual customers in Central European, Commonwealth of Independent States (CIS) and Asian countries as well as deposit taking, saving and current bank account service and maintenance, payments and other services.

Board of Directors

Jiří Šmejc	Chairman
Jan Cornelis Jansen	Vice-chairman
Rudolf Bosveld	Member
Pavel Horák	Member
Jean-Pascal Duvieusart	Member
Mel Gerard Carvill	Member

1. Description of the Group (continued)

Consolidated subsidiaries	Country of incorporation	Ownership interest (%) 2013	2012
Guangdong Home Credit Financing Guarantee Co., Ltd.	China	100.00	100.00
Home Credit Business Management (Tianjin) Co., Ltd. [1]	China	100.00	100.00
Sichuan Home Credit Financing Guarantee Co., Ltd.	China	100.00	100.00
Shenzhen Credis Business Consultation Co., Ltd. [2]	China	-	100.00
Shenzhen Home Credit Financial Service Co., Ltd.	China	100.00	100.00
Shenzhen Home Credit Guarantee Co., Ltd.	China	100.00	100.00
Redlione (LLC)	Cyprus	100.00	100.00
Astavedo Limited [3]	Cyprus	100.00	-
Enadoco Limited [3]	Cyprus	100.00	-
Rhaskos Finance Limited [3]	Cyprus	100.00	-
Septus Holding Limited [3]	Cyprus	100.00	-
Sylander Capital Limited [3]	Cyprus	100.00	-
Talpa Estero Limited [3]	Cyprus	100.00	-
Click Credit (LLC)	Czech Republic	100.00	100.00
Home Credit (JSC)	Czech Republic	100.00	100.00
Home Credit Advisory Asia (LLC) [1]	Czech Republic	100.00	100.00
Home Credit International (JSC)	Czech Republic	100.00	100.00
HC Broker (LLC)	Czech Republic	100.00	100.00
HC Insurance Services (LLC) [4]	Czech Republic	100.00	-
Home Credit Egypt Trade S.A.E. [1]	Egypt	100.00	100.00
Credis Invest (Hong Kong) Ltd. [1]	Hong Kong	100.00	100.00
Favour Ocean Ltd.	Hong Kong	100.00	100.00
Home Credit Asia Limited	Hong Kong	100.00	100.00
Saint World Ltd.	Hong Kong	100.00	100.00
Home Credit India Finance Private Limited [5]	India	100.00	97.97
PT. Home Credit Indonesia	Indonesia	70.00	70.00
JSC Home Credit Kazakhstan	Kazakhstan	100.00	100.00
Home Credit and Finance Bank (SB JSC) [6]	Kazakhstan	100.00	9.99
Eurasia Capital S.A. [7]	Luxemburg	0.00	0.00
Eurasia Structured Finance No.1 S.A. [1] [7]	Luxemburg	0.00	0.00
Eurasia Credit Card Company S.A. [1] [7]	Luxemburg	0.00	0.00
HC Asia N.V.	Netherlands	100.00	100.00
Home Credit India B.V.	Netherlands	100.00	100.00
Home Credit Indonesia B.V.	Netherlands	100.00	100.00
Home Credit Africa N.V.	Netherlands	100.00	100.00
HC Philippines Holdings B.V.[8]	Netherlands	100.00	100.00
Eurasia Structured Finance No.3 B.V. [4] [7]	Netherlands	0.00	-
HC Consumer Finance Philippines, Inc. [4] [9]	Philippines	85.59	-
Home Credit Bank (OJSC)	Republic of Belarus	100.00	100.00
PPF Insurance (FICJSC) [3]	Republic of Belarus	100.00	-

[1] subsidiaries in the process of liquidation/deregistration
[2] subsidiary liquidated in 2013
[3] subsidiaries acquired in 2013 in the course of a series of transactions whereby the Group acquired certain insurance operations in the CIS region
[4] subsidiaries established in 2013
[5] in June 2013 the Group`s subsidiary Rajshree Auto Finance Private Limited was renamed to Home Credit India Finance Private Limited
[6] as at 31 December 2012 the Group was a holder of a call option to purchase the remaining 90.01% stake in Home Credit Bank (JSC), and control was exercised because of the Group's potential voting rights in Home Credit Bank (JSC); in January 2013 the option was exercised, and the Group became the 100% owner of Home Credit Bank (JSC); the option exercise price paid is presented as part of cash flows used in investing activities in the consolidated statement of cash flows; in April 2013 Home Credit Bank (JSC) was renamed to Home Credit and Finance Bank (SB JSC)
[7] special purpose entities established to facilitate the Group's issues of debt securities and subordinated liabilities
[8] in May 2013 the Group`s subsidiary HC Kazakh Holdings B.V. was renamed to HC Philippines Holdings B.V.
[9] in August 2013 the Group`s subsidiary Homer HCI Holdings Philippines, Inc. was renamed to HC Consumer Finance Philippines, Inc.; the Group's share on the voting rights in HC Consumer Finance Philippines is 60.00%

1. Description of the Group (continued)

Consolidated subsidiaries	**Country of incorporation**	**Ownership interest (%) 2013**	**2012**
PPF Home Credit IFN S.A.	Romania	100.00	100.00
Home Credit and Finance Bank (LLC)	Russian Federation	100.00	100.00
Financial Innovations (LLC)	Russian Federation	100.00	100.00
Inko Technopolis (LLC)	Russian Federation	100.00	100.00
Bonus Center Operations (LLC)	Russian Federation	100.00	100.00
Home Credit Insurance (LLC) [1)]	Russian Federation	100.00	-
PPF Insurance (PSC) [1)]	Russian Federation	100.00	-
HC Finance (LLC) [2)]	Russian Federation	0.00	-
Home Credit Slovakia (JSC)	Slovak Republic	100.00	100.00
Collect-Credit (LLC)	Ukraine	100.00	100.00
Homer Software House (LLC)	Ukraine	100.00	100.00
Easy Dreams Company Limited	Vietnam	100.00	100.00

[1)] subsidiaries acquired in 2013 in the course of a series of transactions whereby the Group acquired certain insurance operations in the CIS region
[2)] special purpose entity was established in 2013 to facilitate the Group`s issues of debt securities

The special purpose entities were established by the Group with the primary objective of raising finance through the issuance of debt securities and subordinated debt including loan portfolio securitizations. These entities are run according to pre-determined criteria that are part of their initial design. The day-to-day servicing is carried out by the Group under a servicing contract; other key decisions are also made by the Group. In addition, the Group is exposed to a variability of returns from the entities through exposure to tax benefits and cost savings related to the funding activities. As a result, the Group concludes that it controls these entities.

In 2012 the Group executed agreements with its shareholder concerning the future acquisition of 100% shares in CF Commercial Consulting (Beijing) Co., Ltd., Home Credit Consumer Finance Co., Ltd. and PPF Vietnam Finance Company LLC. The transfer of ownership rights is subject to obtaining regulatory approvals by the respective regulators in China and Vietnam. Therefore, as of 31 December 2013 the three companies were not treated as consolidated subsidiaries.

Associates	**Country of incorporation**	**Ownership interest (%) 2013**	**2012**
Společnost pro informační databáze (JSC)	Czech Republic	26.00	26.00
Filcommerce Holdings, Inc. [1)]	Philippines	40.00	-
Equifax Credit Services (LLC)	Russian Federation	25.00	30.72

[1)] participation acquired in 2013

1. Description of the Group (continued)

Major acquisitions in 2013

In January 2013 the Group entered into a series of transactions whereby it acquired certain insurance operations in the CIS region. On 28 March 2013 the transactions were settled, and the following subsidiaries were acquired:

- Generali (FICJSC) (subsequently renamed to PPF Insurance (FICJSC))
- Generali PPF General Insurance (LLC) (subsequently renamed to PPF General Insurance (LLC) and then to Home Credit Insurance (LLC))
- Generali PPF Insurance (PSC) (subsequently renamed to PPF Insurance (PSC))
- Generali PPF Life Insurance (LLC) (subsequently renamed to PPF Life Insurance (LLC))

The acquisition of PPF Insurance (FICJSC) and Home Credit Insurance (LLC) was part of the Group's strategy to support the core Group's business by offering insurance services on selected markets.

PPF Insurance (PSC) and PPF Life Insurance (LLC) were not considered to be supporting the Group's strategy. However, the selling party's offer included all four companies, and the Group's decision was to accept the offer and subsequently re-sell PPF Insurance (PSC) and PPF Life Insurance (LLC).

In April 2013 the Group completed the sale of PPF Life Insurance (LLC) to the Group's parent company. The sale price was equal to the acquisition price; the transaction had no impact on the Group's profit or loss.

The sale of PPF Insurance (PSC) has not been yet completed. As at 31 December 2013 assets and liabilities of PPF Insurance (PSC) were reported as assets and liabilities classified as held for sale (Note 5).

Acquisition of Home Credit Insurance (LLC)

The acquisition price of Home Credit Insurance (LLC) was TEUR 10,300. The acquisition date fair values of identifiable assets acquired and liabilities assumed of Home Credit Insurance (LLC) are presented below:

	TEUR
ASSETS	
Cash and cash equivalents	14,180
Due from banks, other financial institutions and holding companies	11,569
Financial assets available-for-sale	27,318
Financial assets held-to-maturity	3
Current income tax receivables	583
Deferred tax assets	18,670
Intangible assets	11,234
Property and equipment	30
Other assets	118,417
Total assets	**202,004**
LIABILITIES	
Deferred tax liabilities	22,629
Insurance and other provisions	126,650
Other liabilities	15,452
Total liabilities	**164,731**

In the period since the acquisition date to 31 December 2013 Home Credit Insurance (LLC) contributed TEUR 77,327 and TEUR 10,022 to the Group's revenues and profit respectively.

The Group's management estimates that if the acquisition date had been as of the beginning of the annual period, Home Credit Insurance (LLC) would have contributed TEUR 100,675 and TEUR 11,541 to the Group's revenues and profit respectively in 2013.

1. Description of the Group (continued)

Acquisition of PPF Insurance (FICJSC) and PPF Insurance (PSC)

The aggregate acquisition price of PPF Insurance (FICJSC) and PPF Insurance (PSC) was TEUR 10,420. The acquisition date fair values of identifiable assets acquired and liabilities assumed of PPF Insurance (FICJSC) and PPF Insurance (PSC) are presented below:

	TEUR
ASSETS	
Cash and cash equivalents	1,355
Due from banks, other financial institutions and holding companies	13,132
Financial assets available-for-sale	586
Deferred tax assets	629
Intangible assets	854
Property and equipment	67
Other assets	1,980
Total assets	**18,603**
LIABILITIES	
Current accounts and deposits from customers	817
Current income tax liabilities	63
Insurance and other provisions	3,657
Other liabilities	168
Total liabilities	**4,705**

In the period since the acquisition date to 31 December 2013 PPF Insurance (FICJSC) and PPF Insurance (PSC) contributed in aggregate TEUR 7,100 and TEUR 2,200 to the Group's revenues and profit respectively.

The Group's management estimates that if the acquisition date had been as of the beginning of the annual period, PPF Insurance (FICJSC) and PPF Insurance (PSC) would have contributed in aggregate TEUR 8,091 and TEUR 2,865 to the Group's revenues and profit respectively in 2013.

Income from excess of acquired net fair value over costs of Home Credit Insurance (LLC), PPF Insurance (FICJSC) and PPF Insurance (PSC) was recognized as part of other operating income (Note 31). Such excess of acquired net fair value over costs was primarily attributable to the recognition as of the acquisition date of intangible assets representing the fair value of contractual rights and obligations acquired as well as to the dependence of the acquired entities' business on Group entities.

1. Description of the Group (continued)

Major acquisitions in 2012

HC Asia N.V.

In July 2012 the Group entered into a transaction with its shareholder whereby it purchased a 100% share in HC Asia N.V., a holding entity incorporated in the Netherlands which holds equity stakes in consumer finance companies in Asian countries. On this transaction, a reserve for business combinations under common control of TEUR 15,106 was recognized in the Group's equity.

The acquisition was part of the parent company's strategy to consolidate entities with Home Credit brand in one group.

The acquisition date fair value of identifiable assets acquired and liabilities assumed of HC Asia N.V. group are presented below:

	TEUR
ASSETS	
Cash and cash equivalents	48,920
Due from banks, other financial institutions and holding companies	10,239
Loans to customers	217,565
Positive fair value of derivative instruments	88
Current income tax receivables	403
Deferred tax assets	64
Investments in associates	632
Intangible assets	1,891
Property and equipment	3,920
Other assets	4,864
Total assets	**288,586**
LIABILITIES	
Due to banks and other financial institutions	107,984
Current income tax liabilities	2,301
Other liabilities	25,501
Total liabilities	**135,786**

Acquisition date gross balances of loans to customers were TEUR 227,604, and the estimated contractual cash flows not expected to be collected were TEUR 10,039.

1. Description of the Group (continued)

Home Credit Bank (JSC)

As at 31 December 2011 and 2012 the Group held a direct 9.99% equity stake in Home Credit Bank (JSC), a bank incorporated in the Republic of Kazakhstan. In addition, in August 2011 the Group entered into a call option agreement enabling it to purchase the remaining 90.01% stake in Home Credit Bank (JSC) from its current shareholder. As at 31 December 2011 due to regulatory uncertainties which arose in connection with changes to the banking legislation of the Republic of Kazakhstan, the ability of the Group to meet the conditions required to exercise the option was remote and not within the Group's control. Therefore, no control over Home Credit Bank (JSC) existed as at 31 December 2011. The Group reported its direct 9.99% equity stake as an available for sale asset.

In December 2012 a change in the banking legislation of the Republic of Kazakhstan took place which enabled the Group to meet the conditions required to exercise the option. Therefore, as at 31 December 2012 the Group exercised control over Home Credit Bank (JSC) and treated Home Credit Bank (JSC) as a consolidated subsidiary because of the Group's potential voting rights in Home Credit Bank (JSC). The option was exercised in January 2013 whereby the Group became the 100% owner of Home Credit Bank (JSC).

The acquisition was part of the Group's strategic plan in the CIS (the Commonwealth of Independent States) region to continue strengthening the Group's position, leverage business synergies, facilitate the transfer of expertise and increase business efficiency.

The acquisition date fair value of identifiable assets acquired and liabilities assumed of Home Credit Bank (JSC) are presented below:

	TEUR
ASSETS	
Cash and cash equivalents	34,841
Due from banks, other financial institutions and holding companies	8,335
Loans to customers	335,632
Positive value of derivative instruments	891
Intangible assets	1,883
Property and equipment	3,403
Other assets	11,917
Total assets	**396,902**
LIABILITIES	
Current accounts and deposits from customers	143,359
Due to banks and other financial institutions	121,346
Negative fair value of derivative instruments	225
Current income tax liabilities	104
Deferred tax liabilities	417
Subordinated liabilities	3,216
Other liabilities	16,285
Total liabilities	**284,952**

Acquisition date gross balances of loans to customers were TEUR 356,138, and the estimated contractual cash flows not expected to be collected were TEUR 20,506.

2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), including International Accounting Standards (IASs), promulgated by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the European Union.

The Company has also prepared the unconsolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs, including IASs, promulgated by the IASB and interpretations issued by the IFRIC of the IASB as adopted by the European Union.

(b) Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial instruments at fair value through profit or loss and financial assets available-for-sale that are measured at fair value. Financial assets and liabilities and non-financial assets and liabilities which are valued at historic cost are stated at amortized cost or historic cost, as appropriate, net of any relevant impairment.

(c) Presentation and functional currency

These financial statements are presented in Euro (EUR), which is the Company’s functional currency and Group’s reporting currency. Financial information presented in EUR has been rounded to the nearest thousand (TEUR).

(d) Changes in accounting policies and comparative figures

Subordinated debt securities issued are presented as a separate financial statement caption. Previously they were reported as part of debt securities issued.

The comparative numbers have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historic experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgments about the carrying values of assets and liabilities that cannot readily be determined from other sources. The actual values may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments made by management in preparing these consolidated financial statements in respect of impairment recognition is described in Note 3(c)(vii), Note 3(f), and Note 10.

(f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the enterprise and has the ability to affect those returns through its power over the enterprise. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control effectively commences until the date on which control effectively ceases.

Legal restructuring and mergers involving companies under common control are accounted for using consolidated net book values, consequently no adjustment is made to carrying amounts in the consolidated accounts and no goodwill arises on such transactions.

2. Basis of preparation (continued)

(ii) Associates

Associates are 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 recognized gains and losses of associates on an equity accounted basis, from the date on which significant influence effectively commences until the date on which significant influence effectively ceases. When the Group's share of losses exceeds the Group's interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Special purpose entities

The Group has established a number of special purpose entities (SPEs) for the purpose 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 unrealized gains arising from intra-group transactions, are eliminated in the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the enterprise. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Group entities.

(a) Foreign currency

(i) Foreign currency transactions

A foreign currency transaction is a transaction that is denominated in or requires settlement in a currency other than the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. For initial recognition purposes, a foreign currency transaction is translated into the functional currency using the foreign currency exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate ruling at the date on which the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are retranslated using the exchange rate ruling at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the differences arising on the retranslation of available-for-sale equity investments which are recognised in other comprehensive income (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

(ii) Financial information of foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to EUR at exchange rates ruling at the reporting date. Income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to EUR at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Income and expenses of foreign operations in hyperinflationary economies are translated to EUR at exchange rates ruling at the reporting date. Prior to translation, their financial statements for the current year are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

Foreign currency differences arising on translation are recognized in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of so that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

The functional currency of Home Credit Bank (OJSC) incorporated in the Republic of Belarus is Belarusian Ruble (BYR). In 2012 and 2013 this currency was identified as a currency of a hyperinflationary economy. Therefore, requirements of IAS 29 – Financial Reporting in Hyperinflationary Economies were applied for Home Credit Bank (OJSC).

(b) Cash and cash equivalents

The Group considers cash on hand, unrestricted balances with central banks and balances with banks and other financial institutions due within one month to be cash and cash equivalents. Minimum reserve deposits with respective central Banks are not considered to be cash equivalents if restrictions on their withdrawal are placed.

3. Significant accounting policies (continued)

(c) Financial assets and liabilities

(i) Classification

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.

When the Group is a lessor in a lease agreement that transfers substantially all of the risk and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and receivables.

Financial assets and liabilities at fair value through profit or loss are financial assets or liabilities that are classified as held for trading or those which are upon initial recognition designated by the entity as at fair value through profit or loss. Trading instruments include those that the Group principally holds for the purpose of short-term profit taking and derivative contracts that are not designated as effective hedging instruments. The Group designates financial assets and liabilities at fair value through profit or loss where either the assets or liabilities are managed, evaluated and reported internally on a fair value basis or 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 recognition.

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.

Financial assets held-to-maturity 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.

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

(ii) Recognition

Financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument. For regular purchases and sales of financial assets, the Group's policy is to recognize them using settlement date accounting. Any change in the fair value of an asset to be received during the period between the trade date and the settlement date is accounted for in the same way as if the Group used trade date accounting.

(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 amortized 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 amortized cost.

3. Significant accounting policies (continued)

(iv) Fair value measurement

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (such as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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 end of the reporting period for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the end of the reporting period.

The fair value of debt and equity securities available-for-sale is based on their quoted market price. Derivative contracts are not exchange traded and their fair value is estimated using arbitrage pricing model where key parameters are relevant foreign exchange rates and interbank interest rates ruling at the end of the reporting period.

(v) Amortized cost measurement principles

The amortized cost of a financial asset or liability is the amount in which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, net of any relevant impairment.

3. Significant accounting policies (continued)

(vi) Gains and losses on subsequent measurement

Gains and losses on financial instruments classified as at fair value through profit or loss are recognized in profit or loss.

Gains and losses on available-for-sale financial assets are recognized in other comprehensive income (except for impairment losses and foreign exchange gains and losses) until the asset is derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in profit or loss when the financial asset or liability is derecognized or impaired, and through the amortization process.

(vii) Identification and measurement of impairment

The Group has developed a provisioning policy, which describes in detail the procedures and methodology of the impairment measurement, and a write-off policy. The impairment measurement is dealt with as follows:

The Group assesses on a regular basis whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. 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.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the assets in a group of financial assets with similar risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized 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 recognized in the 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 recognized. 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 amortization, if no impairment loss had been recognized.

The write-off policy of the Group requires that the outstanding amount of a loan shall be written off if there is any installment overdue for 361 or more days. However, the loan shall remain in the company's balance sheet even after 361 days of non-payment if it is probable that the loan will be sold in a near future, or significant recoveries are expected. In such case, the loan outstanding amount shall be derecognized at the moment of the sale or later as soon as no significant recoveries are expected.

3. Significant accounting policies (continued)

(viii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial 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 recognized separately as asset or liability.

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

(ix) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(x) Securitization

For securitized 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 recognized 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 recognized 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 derecognized 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 derecognized if the Group has not retained control over the assets.

(xi) 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 statement of financial position and the counterparty liability included in amounts due to banks and other financial institutions or to customers, as appropriate. The difference between the sale and repurchase price represents interest expense and is recognized in the statement of comprehensive income over the terms of the agreement.

Securities purchased under agreements to resell are recorded as due from banks and other financial institutions or from customers as appropriate. The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

(xii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risk arising from financing activities. However, not all instruments qualify for hedge accounting in accordance with IAS 39. For derivative instruments where hedge accounting is not applied, any gain or loss on derivatives is recognized immediately in the statement of comprehensive income as net gains/losses on financial assets and liabilities.

3. Significant accounting policies (continued)

(xiii) Hedge accounting

The Group applies cash flow hedges against currency risk. To qualify for hedge accounting in accordance with IAS 39, hedges must be highly effective. Derivatives used for hedging purposes are measured at fair value in the consolidated statement of financial position.

At inception of the hedging relationship the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

In addition, at the inception of the hedge relationship a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed for effectiveness on a monthly basis. A hedge is regarded as highly effective if the changes in the fair value of cash flows attributable to the hedged risk are expected to offset in a range of 80% to 125% during the hedging period.

Where a derivative is designated as a hedge of the variability in cash flow attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised as other comprehensive income in equity. The amount recognised in equity is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued and the balance in equity is recognised immediately in profit or loss.

(d) Intangible assets

(i) Goodwill and negative goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the Group's interest in the fair value of the net identifiable assets and liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit and loss. Goodwill is stated at cost less accumulated impairment losses (refer to Note 3(f)).

In respect of associates, the carrying amount of any goodwill is included in the carrying amount of the investment in the associate.

(ii) Other intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortization and accumulated impairment losses (refer to Note 3(f)). Expenditure on internally generated goodwill and brands is recognized in the statement of comprehensive income as an expense as incurred.

(iii) Amortization

Amortization is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is not amortized; other intangible assets are amortized from the date the asset is available for use. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time a technical improvement is recognized. The estimated useful lives are as follows:

Software	1 - 10 years
Licenses	1 - 10 years
Other	2 - 7 years

3. Significant accounting policies (continued)

(e) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and accumulated impairment losses (refer to Note 3(f)). Cost includes expenditures that are directly attributable to the acquisition of the asset. 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 (refer below) and accumulated impairment losses (refer to Note 3(f)).

Property and equipment used by the Group under operating leases, whereby the risks and benefits relating to ownership of the assets remain with the lessor, are not recorded in the Group's statement of financial position. Payments made under operating leases to the lessor are charged to the statement of comprehensive income over the period of the lease.

(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 capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment and its cost can be measured reliably. All other expenditure is recognized in the statement of comprehensive income as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the individual assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Property and equipment are depreciated from the date the asset is available for use. The depreciation methods, useful lives and residual values, if not insignificant, are reassessed annually. If a material technical improvement is made to an asset during the year, its useful life and residual value are reassessed at the time a technical improvement is recognized. The estimated useful lives are as follows:

Computers and equipment	1 - 5 years
Vehicles	3 - 8 years
Furniture	1 - 12 years
Leasehold improvements	1 - 20 years
Buildings	10 - 50 years

3. Significant accounting policies (continued)

(f) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purpose of impairment testing, goodwill is allocated to cash-generating units. The recoverable amount of goodwill is estimated at each reporting date based on cash flow projections for specific cash generating units. Key assumptions are those regarding the expected business volumes, loss rates, budgeted expenses as well as discount rates for subsequent periods. Management estimates discount rates using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

The recoverable amount of other 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 recognized 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 recognized in the 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 amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed. On disposal of a subsidiary, the amount of goodwill that is attributable to the subsidiary is included in the determination of the profit or loss on disposal.

(g) Provisions

A provision is recognized in the statement of financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably 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.

(h) Insurance provisions

(i) Provisions for unearned premiums

Provisions for unearned premiums comprise that part of gross premiums written attributable to subsequent periods, calculated separately for each insurance contract.

(ii) Provisions for outstanding claims and other insurance provisions

Provisions for outstanding claims represent the total estimated cost of settling all claims arising from events which have occurred up to the reporting date, whether reported or not, less amounts already paid in respect of such claims. These provisions include claims reported by policyholders but not settled (RBNS) and claims incurred but not reported (IBNR).

Other insurance provisions contain all other insurance technical provisions not mentioned above, such as the provision for unexpired risks (also referred to as the "premium deficiency"), the provision for contractual non-discretionary bonuses and other similar provisions.

3. Significant accounting policies (continued)

(iii) Deferred acquisition costs of insurance contracts

Direct costs arising from the writing or renewing of insurance contracts, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition deferred acquisition costs are amortized over the period in which the related revenues are earned. The reinsurers' shares of deferred acquisition costs are amortized in the same manner as the underlying asset amortization is recorded.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the statement of comprehensive income.

Deferred acquisition costs are derecognized when the related insurance contracts are either settled or disposed of.

(i) Other payables

Accounts payable arise when the Group has a contractual obligation to deliver cash or another financial asset. Accounts payable are measured at amortized cost, which is normally equal to their nominal or repayment value.

(j) 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 recognized initially at fair value net of associated transaction costs, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Financial guarantee liabilities are included within other liabilities.

(k) Equity

Share capital represents the nominal value of shares issued by the Company. To the extent such shares remain unpaid as of the end of the reporting period a corresponding receivable is presented in other assets.

Dividends on share capital are recognized as a liability provided they are declared before the end of the reporting period. Dividends declared after the end of the reporting period are not recognized as a liability but are disclosed in the notes.

Non-controlling interests consist of the minority shareholders' proportion of the fair values of a subsidiary's net assets, at the date of the original combination, plus or minus their share of changes in the subsidiary's equity since that date.

(l) Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

3. Significant accounting policies (continued)

(m) Fee and commission income and expenses

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income and expense relate mainly to transaction and service fees, which are recognized as the services are rendered or received.

The Group acts as an agent for insurance providers offering their insurance products to consumer loan borrowers. Commission income from insurance represents commissions for such agency services received by the Group from such partners. It is not considered to be integral to the overall profitability of consumer loans because it is determined and recognized based on the Group's contractual arrangements with the insurance provider rather than with the borrower, the borrowers have a choice whether to purchase the policy, the interest rates for customers with and without the insurance are the same. The Group does not participate on the insurance risk, which is entirely borne by the partner. Commission income from insurance is recognized in profit or loss when the Group provides the agency service to the insurance company.

(n) Penalty fees

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

(o) Operating lease payments

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Granted lease incentives are recognized as an integral part of the total lease expense.

(p) Pensions

The governments of the countries the Group operates in are 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 governments to fund the national pension plans. Payments under these pension schemes are charged as expenses as they fall due.

(q) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for 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 realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period.

A deferred tax asset is recognized 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 utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

(r) Net profit allocated to non-controlling interests

Net profit allocated to non-controlling interests is that part of the net results of the Group attributable to interests which are not owned, directly, or indirectly through subsidiaries, by the equity holders of the parent company.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment revenues include interest income, fee and commission income and gross insurance premiums earned.

(t) Changes in accounting policies and accounting pronouncements adopted since 1 January 2013

The following revised standards effective from 1 January 2013 are mandatory and relevant for the Group and have been applied by the Group since 1 January 2013.

Annual Improvements 2009-2011 Cycle (effective from 1 January 2013)

In May 2012 the IASB published Annual Improvements to IFRSs 2009-2011 Cycle as part of its annual improvements process to make non-urgent but necessary amendments to IFRS. The new cycle of improvements contains amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34, with consequential amendments to other standards and interpretations.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective from 1 January 2013)

The Amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position; or subject to master netting arrangements or similar agreements.

Amendment to *IAS 1 Presentation of Financial Statements* (effective from 1 July 2012)

The amendments to IAS 1 titled *Presentation of Items of Other Comprehensive Income:*
- require that an entity present separately items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss;
- do not change the existing option to present profit or loss and other comprehensive income in two statements; and
- change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles.

IFRS 13 Fair Value Measurement (effective from 1 January 2013)

This new standard was issued in May 2011. It replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

In accordance with transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

3. Significant accounting policies (continued)

(u) Standards, interpretations and amendments to published standards that are not yet effective and are relevant for the Group's financial statements

A number of new Standards, amendments to Standards and Interpretations were not yet effective as of 31 December 2013, and have not been applied in preparing these 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 is in the process of analysing the likely impact on its financial statements.

IFRS 10 Consolidated Financial Statements
IFRS 12 Disclosure of Interests in Other Entities

In May 2011 IASB issued these two new standards as improvements to the accounting requirements for off balance sheet activities and joint arrangements. IASB has declared the efficiency of the standards, inclusive related standards IAS 27 and IAS 28, from 1 January 2013 but the EU requires the application from 1 January 2014.

IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees.
An investor controls an investee when:
- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is reassessed as facts and circumstances change.

IFRS 10 supersedes _IAS 27 Consolidated and Separate Financial Statements_ (as amended in 2008) and SIC-12 _Consolidation – Special Purpose Entities_.

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate:
- the nature of, and risks associated with, an entity's interests in other entities; and
- the effects of those interests on the entity's financial position, financial performance and cash flows.

IAS 27 Separate Financial Statements was issued concurrently with IFRS 10. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

IAS 28 Investments in Associates and Joint Ventures

This amended standard supersedes IAS 28 Investments in Associates (2008). IAS 28 (2011) makes the following amendments:
- IFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and
- on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or _vice versa_, the entity does not remeasure the retained interest.

IFRS 9 Financial Instruments (effective from 1 January 2015)

This new standard was published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39. It deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. In October 2010 the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities while most of the requirements in IAS 39 were carried forward unchanged to IFRS 9. IFRS 9 has not yet been adopted by the EU.

4. Financial risk management

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

- credit risk
- liquidity risk
- market risks
- insurance risk
- operational risks

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and the Group Credit Risk Department, which are responsible for developing and monitoring risk management policies in their specified areas. Both bodies report regularly to the Board of Directors 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. The Group classifies the loans to individual customers into several classes where the significant ones are POS (point of sale) loans, revolving loans, cash loans, car loans and mortgage loans. As the Group's loan portfolio consists of a large number of loans with relatively low outstanding amounts, the loan portfolio does not comprise any significant individual items. The remaining part of the Group's exposures to credit risk is related to due from banks and other financial institutions, financial assets at fair value through profit or loss, financial assets available-for-sale and other assets.

The Board of Directors has delegated responsibility for the management of credit risk to the Group Credit Risk Department. The department is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with business units covering credit assessment, underwriting policies, collection policies and risk reporting by business units and loan classes;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit's management, large exposures and new types of exposures require Group approval. The Group uses one central loan administration system to facilitate loan underwriting;
- Continuous monitoring of performance of individual Group's credit exposures by countries, product classes and distribution channels;
- Limiting concentrations of credit exposures by countries, product classes and distribution channels;
- Approving counterparty limits for financial institutions;
- Reviewing compliance of business units with agreed exposure limits;
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The Group continuously monitors the performance of individual credit exposures both on a business unit and Group level using a number of criteria including delinquency rates, default rates and collection efficiency measures. The Group has an active fraud prevention and detection program. Credit risk developments are reported by the Group Credit Risk Department to the Board of Directors on a regular basis.

As a result of recent negative development on financial markets, the credit environment in certain countries in which the Group operates has deteriorated. The Group has taken strict measures in its underwriting and collection policies in order to limit the negative impact of such market changes.

4. Financial risk management (continued)

Credit underwriting process

The credit underwriting process involves the verification of customer data, combined with complex scoring models that take into account both risk and profitability to determine whether an applicant is eligible for a product and, if so, at what price.

Information supplied by the applicant may be cross-checked with information in the Group's customer database for the relevant country. POS loans are provided with minimum documentation from the customer. Applications for other products, in particular cash loans, require more supporting documentation and verification. If the standards set by the Group are not being maintained, the Group discontinues selling through the relevant retailer's employee or the relevant retailer.

Loan collection and fraud prevention

The Group utilises multi-stage pre-collection and collection procedures to enhance collection of loans. The Group takes a pro-active approach to collection and applies a number of measures to pre-empt its accounts from entering a collection stage such as expediting repayments once accounts are overdue.

General loan collection

The Group's loan collection system follows standard steps and procedures, which can vary depending on country specific requirements and the legal or operational tools available for collection.

Pre-collections

Various forms of communication are used to remind customers how and when to pay, e.g. welcome letters or calls and SMS messages are sent to a customer a short time prior to the date of payment.

Early collection

The early collection procedures vary depending on which specific collection segment a customer is assigned to based on exposure, customer account data and previous collection behaviour. They are typically applied to payments which are five to 75 days overdue. The Group uses SMS messages, outbound calls, letters and interactive voice response tools to communicate with customers to remind them of, and procure, the overdue amounts.

Administrative and personal collection

The Group sends to the customer written correspondence including a warning that the full amount of the loan could be declared immediately due and payable, if a loan reaches a higher stage of delinquency with outstanding payments typically more than 60 to 90 days overdue (the point in time at which a loan moves from early collection to administrative and personal collection can vary). Letters are then followed by a call explaining to the customer the consequences of not repaying the debt.

Late collection

The late collection procedures usually start when a loan becomes 90 days overdue. Usage of external agencies or internal field collector methods is typically considered.

Legal collection, debt sell

Loans with outstanding repayments that have been overdue above 360 days are referred to the Group's external legal counsel, who informs the customer through formal correspondence that the loan is closed and that legal action will commence against the customer. As alternative debt sell to collection agencies may be also considered. The price setup must be approved by the ALCO.

4. Financial risk management (continued)

Exposure to credit risk

	As of 31 December 2013				
	POS loans	**Cash loans**	**Revolving loans**	**Other[1)]**	**Total**
	TEUR	TEUR	TEUR	TEUR	**TEUR**
Individually impaired					
Gross amount	-	-	-	2,835	2,835
Allowance for impairment	-	-	-	(1,264)	(1,264)
Carrying amount	**-**	**-**	**-**	**1,571**	**1,571**
Not impaired	**-**	**-**	**-**	**2,171**	**2,171**
Collectively impaired					
Gross amount	2,212,836	5,009,642	994,790	138,141	8,355,409
Current	1,885,555	3,891,297	734,614	111,251	6,622,717
Past due 1 – 90 days	135,075	464,613	112,570	6,246	718,504
Past due 91 – 360 days	174,066	606,113	121,908	8,772	910,859
Past due more than 360 days	18,140	47,619	25,698	11,872	103,329
Allowance for impairment	(219,114)	(808,836)	(136,319)	(23,598)	(1,187,867)
Carrying amount	**1,993,722**	**4,200,806**	**858,471**	**114,543**	**7,167,542**
Total carrying amount	**1,993,722**	**4,200,806**	**858,471**	**118,285**	**7,171,284**

Exposure to credit risk

	As of 31 December 2012				
	POS loans	**Cash loans**	**Revolving loans**	**Other[1)]**	**Total**
	TEUR	TEUR	TEUR	TEUR	**TEUR**
Individually impaired					
Gross amount	-	-	-	2,123	2,123
Allowance for impairment	-	-	-	(1,432)	(1,432)
Carrying amount	**-**	**-**	**-**	**691**	**691**
Not impaired	**-**	**-**	**-**	**2,429**	**2,429**
Collectively impaired					
Gross amount	1,945,888	4,299,859	716,690	209,048	7,171,485
Current	1,711,902	3,687,617	558,658	177,527	6,135,704
Past due 1 – 90 days	102,972	292,456	84,707	14,812	494,947
Past due 91 – 360 days	112,883	269,396	46,933	5,310	434,522
Past due more than 360 days	18,131	50,390	26,392	11,399	106,312
Allowance for impairment	(149,743)	(401,791)	(70,474)	(21,956)	(643,964)
Carrying amount	**1,796,145**	**3,898,068**	**646,216**	**187,092**	**6,527,521**
Total carrying amount	**1,796,145**	**3,898,068**	**646,216**	**190,212**	**6,530,641**

[1)] Includes mortgage loans, car loans, loans to corporations and other loans.

4. Financial risk management (continued)

Analysis of collateral

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

	2013		2012	
	Portfolio TEUR	**% of loan portfolio**	**Portfolio TEUR**	**% of loan portfolio**
Pledged assets	146,437	1.8	210,193	2.9
Unsecured (no collateral)	8,213,978	98.2	6,965,844	97.1
Total	**8,360,415**		**7,176,037**	

The amounts shown in the table above represent the gross balance of 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 cars. The other loan categories are unsecured.

Offsetting financial assets and financial liabilities

The Group's derivative transactions are predominantly entered into under International Derivative Swaps and Dealers Association Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement transactions.

International Derivative Swaps and Dealers Association Master Netting Agreements and similar master netting arrangements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 December 2013 the reported balances of positive and negative fair values of derivatives of TEUR 18,908 (31 December 2012: TEUR 19,590) and TEUR 17,962 (31 December 2012: TEUR 11,435) respectively do not include any amounts offset.

Loans and advances provided and received under repo operations are covered by Global Master Repurchase Agreements and similar agreements with terms similar to those of International Derivative Swaps and Dealers Association Master Netting Agreements.

Global Master Repurchase Agreements and similar agreements do not meet the criteria for offsetting in the consolidated statement of financial position. Therefore, as at 31 December 2013 the reported balances of loans and advances provided under repo operations of TEUR 190,937 (31 December 2012: TEUR 167,464) do not include any amounts offset. The remaining balance of due from banks, other financial institutions and holding companies of TEUR 219,296 (31 December 2012: TEUR 226,807) was not subject to any offsetting arrangements.

As at 31 December 2013 the Group had no balances received under repo operations (31 December 2012: TEUR 410,456). The balance of due to banks and other financial institutions of TEUR 604,421 (31 December 2012: remaining balance of TEUR 900,523) was not subject to any offsetting arrangements.

4. Financial risk management (continued)

(b) 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. All liquidity policies and procedures as well as liquidity position projections are subject to review and approval by the ALCO.

The Group's Treasury collects information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. 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 both normal and more severe market conditions. The individual scenarios focus on liquidity available on markets, the nature of related risks and magnitude of their impact on the Group's business, management tools available as well as preventive actions.

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, bank loans, loans from the Central Bank of the Russian Federation, bond issues, inter-company loans, subordinated debt and contributions by shareholders (refer to Notes 18, 19, 20, 23 and 25). The shareholder's support enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. Management strives to maintain a balance between continuity of funding and flexibility through use of liabilities with a range of maturities.

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows assets and liabilities by remaining maturity dates. The table does not include prospective cash flows related to loan commitments. Refer to Note 37 for outstanding loan commitments that may impact liquidity requirements.

	2013						2012					
TEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**No maturity**	**Total**
Cash and cash equivalents	926,483	-	-	-	-	926,483	1,210,087	-	-	-	-	1,210,087
Due from banks, other financial institutions and holding companies	207,823	92,322	22,413	534	87,141	410,233	187,047	65,140	64,215	557	77,312	394,271
Loans to customers	1,691,207	3,138,113	2,291,723	50,241	-	7,171,284	1,414,956	2,853,766	2,205,082	56,837	-	6,530,641
Positive fair value of derivative instruments	275	11,039	7,594	-	-	18,908	3,497	5,555	10,538	-	-	19,590
Financial assets available-for-sale	125,631	2,915	17,266	6,979	5,714	158,505	277,956	423,548	-	-	-	701,504
Financial assets held-to-maturity	-	3,440	-	-	-	3,440	3,667	-	-	-	-	3,667
Assets classified as held for sale	-	14,724	-	-	-	14,724	-	-	-	-	-	-
Current income tax receivables	1,068	5,245	9,585	-	-	15,898	132	455	1,844	-	-	2,431
Deferred tax assets	546	11,894	13,616	-	23,654	49,710	128	16,827	2,650	-	-	19,605
Investments in associates	-	-	-	-	3,589	3,589	-	-	-	-	2,537	2,537
Intangible assets	-	-	-	-	94,913	94,913	-	-	-	-	60,656	60,656
Property and equipment	-	-	-	-	233,267	233,267	-	-	-	-	237,258	237,258
Other assets	62,593	47,941	96,519	2,464	2,896	212,413	144,766	36,239	53,804	61	9,196	244,066
Total assets	**3,015,626**	**3,327,633**	**2,458,716**	**60,218**	**451,174**	**9,313,367**	**3,242,236**	**3,401,530**	**2,338,133**	**57,455**	**386,959**	**9,426,313**
Current accounts and deposits from customers	2,126,969	2,734,876	243,557	-	-	5,105,402	1,482,068	2,612,632	628,871	-	-	4,723,571
Due to banks and other financial institutions	115,846	442,965	45,610	-	-	604,421	926,170	344,745	40,064	-	-	1,310,979
Debt securities issued*	373,270	194,032	553,613	-	-	1,120,915	14,732	198,275	967,147	-	-	1,180,154
Negative fair value of derivative instruments	8,268	9,690	4	-	-	17,962	4,525	2,945	3,965	-	-	11,435
Liabilities classified as held for sale	-	1,574	-	-	-	1,574	-	-	-	-	-	-
Current income tax liabilities	24,643	2,644	-	-	-	27,287	-	29,138	-	-	-	29,138
Deferred tax liabilities	5,014	-	-	-	-	5,014	-	22	925	-	-	947
Insurance and other provisions	-	8,994	25	-	121,316	130,335	-	-	-	-	-	-
Subordinated liabilities*	-	9,283	358,710	143,468	-	511,461	-	6,487	-	373,260	-	379,747
Other liabilities	186,027	62,955	6,119	1,424	-	256,525	248,884	33,171	3,426	262	-	285,743
Total liabilities	**2,840,037**	**3,467,013**	**1,207,638**	**144,892**	**121,316**	**7,780,896**	**2,676,379**	**3,227,415**	**1,644,398**	**373,522**	**-**	**7,921,714**
Net position	**175,589**	**(139,380)**	**1,251,078**	**(84,674)**	**329,858**	**1,532,471**	**565,857**	**174,115**	**693,735**	**(316,067)**	**386,959**	**1,504,599**

* Debt securities and subordinated liabilities are classified considering early redemption rights (refer to Note 20 and Note 23).

4. Financial risk management (continued)

Exposure to liquidity risk

The following table shows remaining maturities of liabilities on an undiscounted cash flow basis. Only those liability items are shown for which total estimated undiscounted cash flows differ from their book values shown in the consolidated statement of financial position.

	2013					2012				
TEUR	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Current accounts and deposits from customers	2,142,670	2,872,615	275,531	-	5,290,816	1,491,580	2,756,535	738,325	-	4,986,440
Due to banks and other financial institutions	125,936	489,680	53,358	-	668,974	930,759	364,874	47,700	-	1,343,333
Debt securities issued*	384,129	220,704	625,661	-	1,230,494	24,847	242,642	1,066,319	-	1,333,808
Subordinated liabilities*	-	49,016	540,192	152,003	741,211	-	35,012	137,096	464,826	636,934
Total	**2,652,735**	**3,632,015**	**1,494,742**	**152,003**	**7,931,495**	**2,447,186**	**3,399,063**	**1,989,440**	**464,826**	**8,300,515**

* Debt securities and subordinated liabilities are classified considering early redemption rights (refer to Note 20 and Note 23).

4. Financial risk management (continued)

(c) Market risk

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

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 term structure of interest bearing assets differs from that of liabilities.

Exposure to interest rate risk
The principal risk to which the Group is exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits. As part of its management of this position, the Group may use interest rate derivatives. A summary of the Group's interest rate gap position is provided below.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100 basis point parallel fall or rise in all yield curves worldwide. In such case, the net interest income for 2013 would be TEUR 59,364 higher/lower (2012: TEUR 53,622). The above sensitivity analysis is based on amortized costs of assets and liabilities.

Exposure to 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 currency risk is managed principally through monitoring foreign currency mismatches in the structure of assets and liabilities in the individual Group's country operations. It is the Group's policy to hedge such mismatches by derivative financial instruments to eliminate the foreign currency exposure (refer to Note 36). The ALCO is the monitoring body for compliance with this rule.

Net investments in foreign operations are not hedged. As a result, the Group's financial position is adequately sensitive on movements of the relevant foreign exchange rates. Impact of such exchange rate changes on the Group's net investment in foreign operations is presented as currency translation in the consolidated statement of changes in equity.

In 2012 and 2013 the Belarusian Ruble (BYR) was identified as a currency of a hyperinflationary economy. Due to the relatively limited exposure of the Group in BYR, the risk related to its depreciation is considered not to be significant from the Group's perspective.

A summary of the Group's foreign currency position is provided below.

4. Financial risk management (continued)

Interest rate gap position based on re-pricing dates

	2013						2012					
TEUR	**Effective interest rate**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**	**Effective interest rate**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
Interest bearing financial assets												
Cash and cash equivalents	0.5%	926,483	-	-	-	926,483	0.2%	1,210,087	-	-	-	1,210,087
Due from banks, other financial institutions and holding companies	6.4%	207,823	114,609	126	534	323,092	7.8%	180,468	71,719	64,215	557	316,959
Loans to customers, net	36.3%	1,113,805	1,962,418	3,995,130	99,931	7,171,284	36.2%	1,414,957	2,853,767	2,205,080	56,837	6,530,641
Financial assets available-for-sale	4.4%	125,631	2,915	17,266	6,979	152,791	8.3%	277,956	423,548	-	-	701,504
Financial assets held-to-maturity	5.6%	-	3,440	-	-	3,440	9.0%	3,667	-	-	-	3,667
Total interest bearing financial assets	**30.7%**	**2,373,742**	**2,083,382**	**4,012,522**	**107,444**	**8,577,090**	**27.9%**	**3,087,135**	**3,349,034**	**2,269,295**	**57,394**	**8,762,858**
Interest bearing financial liabilities												
Current accounts and deposits from customers	9.2%	2,126,969	2,734,846	243,557	-	5,105,372	10.7%	1,482,069	2,612,632	628,870	-	4,723,571
Due to banks and other financial institutions	11.3%	133,334	425,477	45,610	-	604,421	5.8%	1,012,091	278,258	20,630	-	1,310,979
Debt securities issued	8.1%	373,270	194,032	553,613	-	1,120,915	7.9%	14,732	198,275	967,147	-	1,180,154
Subordinated liabilities	10.1%	-	9,283	358,710	143,468	511,461	9.4%	-	6,487	-	373,260	379,747
Total interest bearing financial liabilities	**9.3%**	**2,633,573**	**3,363,638**	**1,201,490**	**143,468**	**7,342,169**	**9.4%**	**2,508,892**	**3,095,652**	**1,616,647**	**373,260**	**7,594,451**

4. Financial risk management (continued)

Foreign currency position

TEUR	2013							
	RUB	**CZK**	**EUR**	**USD**	**CNY**	**KZT**	**Other currencies**	**Total**
Cash and cash equivalents	409,338	27,372	42,903	306,761	108,693	16,764	14,652	926,483
Due from banks, other financial institutions and holding companies	176,827	46,641	28,160	109,936	12,989	29,441	6,239	410,233
Loans to customers	5,790,855	65,405	33,732	39,471	644,497	481,305	116,019	7,171,284
Positive fair value of derivative instruments	8,185	-	-	-	-	24	10,699	18,908
Financial assets available-for-sale	49,675	-	-	108,830	-	-	-	158,505
Financial assets held-to-maturity	-	-	-	-	-	-	3,440	3,440
Assets classified as held for sale	14,724	-	-	-	-	-	-	14,724
Current income tax receivables	10,631	4,754	1	-	-	491	21	15,898
Deferred tax assets	23,654	1,282	19,722	-	4,579	356	117	49,710
Investments in associates	3,589	-	-	-	-	-	-	3,589
Intangible assets	47,852	38,534	3,857	-	1,100	2,330	1,240	94,913
Property and equipment	206,681	2,106	526	-	3,458	13,831	6,665	233,267
Other assets	99,734	28,620	68,419	953	5,204	5,380	4,103	212,413
Total assets	**6,841,745**	**214,714**	**197,320**	**565,951**	**780,520**	**549,922**	**163,195**	**9,313,367**
Current accounts and deposits from customers	4,683,116	-	53,922	114,802	-	193,719	59,843	5,105,402
Due to banks and other financial institutions	26,522	19,161	25,480	1,880	436,455	93,752	1,171	604,421
Debt securities issued	466,385	253,945	-	368,153	-	32,432	-	1,120,915
Negative fair value of derivative instruments	3,238	14,689	-	-	-	-	35	17,962
Liabilities classified as held for sale	1,574	-	-	-	-	-	-	1,574
Current income tax liabilities	-	-	2,643	-	21,888	1	2,755	27,287
Deferred tax liabilities	5,014	-	-	-	-	-	-	5,014
Insurance and other provisions	125,077	-	-	-	-	-	5,258	130,335
Subordinated liabilities	-	-	-	511,461	-	-	-	511,461
Other liabilities	101,851	49,446	30,227	938	50,962	14,000	9,101	256,525
Total liabilities	**5,412,777**	**337,241**	**112,272**	**997,234**	**509,305**	**333,904**	**78,163**	**7,780,896**
Effect of foreign currency derivatives	(388,118)	231,753	(248,405)	437,989	-	(53,860)	20,641	-
Net position	**1,040,850**	**109,226**	**(163,357)**	**6,706**	**271,215**	**162,158**	**105,673**	**1,532,471**

4. Financial risk management (continued)

Foreign currency position

TEUR	2012							
	RUB	**CZK**	**EUR**	**USD**	**CNY**	**KZT**	**Other currencies**	**Total**
Cash and cash equivalents	535,620	9,336	57,987	534,766	49,178	13,211	9,989	1,210,087
Due from banks, other financial institutions and holding companies	232,942	92,251	4,989	21,349	27,422	8,335	6,983	394,271
Loans to customers	5,497,858	108,256	133,597	51,564	329,277	335,632	74,457	6,530,641
Positive fair value of derivative instruments	5,721	-	2,444	-	-	891	10,534	19,590
Financial assets available-for-sale	548,882	-	-	152,622	-	-	-	701,504
Financial assets held-to-maturity	-	-	-	-	-	-	3,667	3,667
Current income tax receivables	-	1,771	88	-	-	-	572	2,431
Deferred tax assets	8,574	967	10,053	-	-	-	11	19,605
Investments in associates	2,537	-	-	-	-	-	-	2,537
Intangible assets	30,264	23,026	379	6	927	4,847	1,207	60,656
Property and equipment	223,904	1,785	350	110	3,145	3,403	4,561	237,258
Other assets	104,777	66,392	63,684	1,441	873	4,538	2,361	244,066
Total assets	**7,191,079**	**303,784**	**273,571**	**761,858**	**410,822**	**370,857**	**114,342**	**9,426,313**
Current accounts and deposits from customers	4,451,795	-	26,817	71,852	-	122,931	50,176	4,723,571
Due to banks and other financial institutions	830,487	82,243	124,604	2	202,112	71,531	-	1,310,979
Debt securities issued	527,742	269,083	-	383,329	-	-	-	1,180,154
Negative fair value of derivative instruments	10,670	-	506	-	-	225	34	11,435
Current income tax liabilities	16,267	10,003	2,674	-	88	104	2	29,138
Deferred tax liabilities	-	-	-	-	-	417	530	947
Subordinated liabilities	-	-	-	379,747	-	-	-	379,747
Other liabilities	157,623	52,413	25,172	1,257	30,695	16,103	2,480	285,743
Total liabilities	**5,994,584**	**413,742**	**179,773**	**836,187**	**232,895**	**211,311**	**53,222**	**7,921,714**
Effect of foreign currency derivatives	(37,563)	152,163	(162,152)	79,172	-	(45,201)	13,581	-
Net position	**1,158,932**	**42,205**	**(68,354)**	**4,843**	**177,927**	**114,345**	**74,701**	**1,504,599**

4. Financial risk management (continued)

Foreign currency risk sensitivity analysis

An analysis of sensitivity of the Group's equity to changes in currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a 5% change in RUB, USD, CZK, CNY and KZT to EUR exchange rates is shown below:

	Total effect 2013 TEUR	Total effect 2012 TEUR
Effect of 5% RUB depreciation against EUR	(52,043)	(57,947)
Effect of 5% RUB appreciation against EUR	52,043	57,947
Effect of 5% USD depreciation against EUR	(335)	(242)
Effect of 5% USD appreciation against EUR	335	242
Effect of 5% CZK depreciation against EUR	(5,461)	(2,110)
Effect of 5% CZK appreciation against EUR	5,461	2,110
Effect of 5% CNY depreciation against EUR	(13,561)	(8,896)
Effect of 5% CNY appreciation against EUR	13,561	8,896
Effect of 5% KZT depreciation against EUR	(8,108)	(6,633)
Effect of 5% KZT appreciation against EUR	8,108	6,633

(d) Insurance risk

The main risk faced by the Group as part of the insurance business is the difference in actual and expected claims for insurance benefits and claims. Insurance risk on insurance contracts is divided into price risk and the reserve deficiency risk.

Price risk
Price risk arises due to the fact that insurance premiums may not be sufficient to cover future losses and expenses on insurance contracts. To manage price risk the Group regularly analyses profitability in the context of insurance products and makes appropriate adjustments in pricing and underwriting policies of the Group.

Reserve deficiency risk
Reserve deficiency risk arises from the uncertainty regarding the development of loss reserves in the future and takes into account the likelihood that insurance reserves are insufficient to meet the Group's obligations to policyholders. Managing this risk is performed through regular checking adequacy of loss reserves and loss analysis of insurance products including sensitivity analysis of insurance reserves to changes in expected insurance contract loss rates.

Insurance risks are reduced through diversification of a large portfolio of insurance contracts, as well as the allocation of geographic regions, which is the Group's main criterion when determining insurance risk concentrations. Questions related to variable nature of risks are also addressed by careful selection and implementation of underwriting strategy, as well as through the use of reinsurance.

The Group uses reinsurance contracts as part of its program to reduce the risks. Insurance risk is transferred to reinsurance on a pro rata basis and disproportionate basis. Most reinsurance contracts are presented by proportionate reinsurance (quota/surplus reinsurance) combined with excess of loss reinsurance.

4. Financial risk management (continued)

(e) 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 behaviour. 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.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by internal audit. The individual subsidiaries have their local internal audit teams which also cooperate with the Group internal audit on PPF Group level. The results of internal audit reviews are discussed with the management of the business unit to which they relate with summaries submitted to senior management of the Group.

(f) Capital management

The Company considers share capital, share premium, statutory reserves and other reserves as part of the capital. The Company's policy is to maintain capital base adequate to its investments in subsidiaries so as to maintain investor, creditor and market confidence, sustain future development of the business and meet the capital requirements related to its funding operations. There are no regulatory capital requirements for the Company and there have been no material changes in the Company's management of capital during the year.

Some of the Company's subsidiaries maintain capital adequacy in compliance with local regulatory requirements which require the respective entities to maintain the ratio of total capital to total risk-weighted assets at or above certain minimum level. The ratios are calculated based on financial statements prepared in accordance with local accounting standards. Some of the subsidiaries also operate its capital adequacy in compliance with the methodology set out by the Bank for International Settlements in connection with commitments arising from funding operations. The Group's policy in this respect is to support the subsidiaries with capital as necessary in order to maintain the subsidiaries' full compliance with capital regulations described above.

5. Assets and liabilities classified as held for sale

Non-current assets and liabilities classified as held for sale as at 31 December 2013 represent all assets and liabilities of PPF Insurance (PSC) (Note 1) and assets acquired through court decisions on defaulted mortgages (reported under other assets in the table below). In the segment analysis (Note 6), non-current assets and liabilities classified as held for sale are presented within the Russian Federation segment. No assets or liabilities classified as held for sale were reported as at 31 December 2012.

	2013 **TEUR**
ASSETS	
Cash and cash equivalents	571
Due from banks, other financial institutions and holding companies	2,444
Financial assets available-for-sale	3,761
Deferred tax assets	624
Intangible assets	628
Property and equipment	15
Other assets	6,681
Total assets	**14,724**
LIABILITIES	
Due to banks and other financial institutions	1
Insurance and other provisions	1,431
Other liabilities	142
Total liabilities	**1,574**

6. Segment reporting

Segment information is presented in respect of the Group's geographical segments based on the Group's management and internal reporting structure. Segment information in respect of the Group's business segments is not presented as the Group's operations are concentrated in one main business segment only, consumer lending products.

The Group operates in six principal geographical areas, the Russian Federation, the Czech Republic, the Slovak Republic, the Republic of Belarus, the Republic of Kazakhstan and the People's Republic of China. The geographical segments are based on the geographical location of assets which corresponds to the geographical location of customers at the same time.

The People's Republic of China and the Republic of Kazakhstan became the Group's new segments of operation in 2012 after the Group began to exercise control over entities operating in these geographical locations in July and December 2012 respectively.

CF Commercial Consulting (Beijing) Co., Ltd., Home Credit Consumer Finance Co., Ltd. and PPF Vietnam Finance Company LLC, which as of 31 December 2013 were not treated as consolidated subsidiaries (Note 1), are not included in the segment reporting.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Inter-segment pricing is determined on an arm's length basis. The Group's senior management is the chief operating decision maker which reviews the Group's internal reporting on a regular basis to assess performance of individual segments and to allocate the Group's resources accordingly.

Information on individual segments is presented before consolidation eliminations (which are presented in a separate column). Current and deferred income tax assets and liabilities are excluded from segment assets and liabilities.

	Russian Federation	**Czech Republic**	**Slovak Republic**	**Belarus**	**Kazakhstan**	**China**	**Other**	**Unallocated [1]**	**Eliminations**	**Consolidated**
	2013 TEUR	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**
Revenue from external customers [2]	2,632,626	32,478	26,781	60,585	215,770	290,140	5,113	8,134	-	3,271,627
Inter-segment revenue	7,233	-	-	-	-	-	327	2,252	(9,812)	-
Total revenue	**2,639,859**	**32,478**	**26,781**	**60,585**	**215,770**	**290,140**	**5,440**	**10,386**	**(9,812)**	**3,271,627**
Net interest income from external customers	1,382,593	18,230	18,164	34,662	109,606	203,646	4,138	(8,555)	-	1,762,484
Inter-segment net interest income	7,233	(102)	(634)	(962)	(4,499)	-	(60)	(812)	(164)	-
Total net interest income	**1,389,826**	**18,128**	**17,530**	**33,700**	**105,107**	**203,646**	**4,078**	**(9,367)**	**(164)**	**1,762,484**

[1] Unallocated items represent items of revenue, operating expense, assets, liabilities and equity which cannot be reasonably allocated to the geographical segments.
[2] Revenue from external customers comprises interest income, fee and commission income and gross insurance premiums earned.

6. Segment reporting (continued)

	Russian Federation	Czech Republic	Slovak Republic	Belarus	Kazakhstan	China	Other	Unallocated [1]	Eliminations	Consolidated
	2013 TEUR	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**	**2013 TEUR**
Income tax expense	(67,231)	(5,672)	(8,150)	(2,696)	(14,836)	(19,247)	30	3,528	-	(114,274)
Segment result	**164,454**	**19,730**	**25,416**	**7,799**	**60,908**	**72,706**	**(43,235)**	**18,347**	**(1,688)**	**324,437**
Depreciation and amortization	(54,243)	(1,096)	(327)	(2,117)	(2,546)	(1,932)	(13,702)	-	2,892	(73,071)
Other significant non-cash expenses [2]	(1,074,931)	(6,319)	(4,237)	(4,840)	(50,541)	(47,003)	(2,554)	-	-	(1,190,425)
Capital expenditure	(80,771)	(1,169)	(410)	(4,099)	(14,215)	(2,439)	(31,583)	-	6,602	(128,084)
Segment assets [3]	**7,512,335**	**105,731**	**77,281**	**169,755**	**552,089**	**775,990**	**104,345**	**188,828**	**(238,595)**	**9,247,759**
Investments in associates	3,589	-	-	-	-	-	-	-	-	3,589
Segment liabilities [3]	**6,448,585**	**34,154**	**29,491**	**133,540**	**417,286**	**489,835**	**58,534**	**366,206**	**(229,036)**	**7,748,595**
Segment equity [3]	**1,093,021**	**76,100**	**51,978**	**33,619**	**135,311**	**268,846**	**47,642**	**(164,487)**	**(9,559)**	**1,532,471**

1 Unallocated items represent items of revenue, operating expense, assets, liabilities and equity which cannot be reasonably allocated to the geographical segments.
2 Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.
3 Consolidation adjustments are included in Eliminations.

6. Segment reporting (continued)

	Russian Federation	Czech Republic	Slovak Republic	Belarus	Kazakhstan	China	Other	Unallocated[1]	Eliminations	Consolidated
	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR	2012 TEUR
Revenue from external customers[2]	1,919,258	33,467	48,518	39,420	-	90,246	1,318	8,341	-	2,140,568
Inter-segment revenue	696	-	-	-	-	-	48	2,526	(3,270)	-
Total revenue	**1,919,954**	**33,467**	**48,518**	**39,420**	**-**	**90,246**	**1,366**	**10,867**	**(3,270)**	**2,140,568**
Net interest income from external customers	928,612	19,051	37,251	16,728	-	62,416	1,099	(8,178)	-	1,056,979
Inter-segment net interest income	696	-	(1,858)	(862)	-	-	43	1,946	35	-
Total net interest income	**929,308**	**19,051**	**35,393**	**15,866**	**-**	**62,416**	**1,142**	**(6,232)**	**35**	**1,056,979**
Income tax expense	(124,605)	(9,177)	(3,027)	(234)	-	(98)	278	(1,947)	-	(138,810)
Segment result	**477,256**	**32,612**	**19,608**	**(4,195)**	**-**	**16,529**	**(21,122)**	**(13,215)**	**(1,790)**	**505,683**
Depreciation and amortization	(35,553)	(920)	(355)	(1,963)	-	(1,150)	(13,065)	-	3,854	(49,152)
Other significant non-cash expenses[3]	(446,854)	(7,632)	(9,987)	(1,339)	-	(12,598)	(20)	-	-	(478,430)
Capital expenditure	(96,908)	(1,426)	(421)	(1,762)	-	(505)	(15,639)	(70)	3,889	(112,842)
Segment assets[4]	**8,005,922**	**184,895**	**163,863**	**120,418**	**399,866**	**411,054**	**75,397**	**197,375**	**(154,513)**	**9,404,277**
Investments in associates	2,537	-	-	-	-	-	-	-	-	2,537
Segment liabilities[4]	**6,837,236**	**97,119**	**124,507**	**98,190**	**284,431**	**240,559**	**46,574**	**308,096**	**(145,083)**	**7,891,629**
Segment equity[4]	**1,160,993**	**78,405**	**44,320**	**21,852**	**114,914**	**170,407**	**31,357**	**(108,219)**	**(9,430)**	**1,504,599**

1 Unallocated items represent items of revenue, operating expense, assets, liabilities and equity which cannot be reasonably allocated to the geographical segments.
2 Revenue from external customers comprises interest income and fee and commission income.
3 Other significant non-cash expenses are represented by impairment losses on financial and non-financial assets.
4 Consolidation adjustments are included in Eliminations.

7. Critical accounting estimates and judgements

(a) Fair values of financial instruments

The Group has performed an assessment of fair values of its financial instruments to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

As at 31 December 2013 fair values of the following financial instruments differed from their carrying amount shown in the statement of financial position:

	Note	Carrying amount 2013 TEUR	Fair Value 2013 TEUR
Loans to customers	10	7,171,284	7,155,421
Current accounts and deposits from customers	18	(5,105,402)	(5,086,384)
Debt securities issued	20	(1,120,915)	(1,124,688)
Subordinated liabilities	23	(511,461)	(515,300)

As at 31 December 2012 fair values of the following financial instruments differed from their carrying amount shown in the statement of financial position:

	Note	Carrying amount 2012 TEUR	Fair Value 2012 TEUR
Current accounts and deposits from customers	18	(4,723,571)	(4,726,542)
Due to banks and other financial institutions	19	(1,310,979)	(1,314,816)

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, typically interest rates and foreign exchange rates, (Level 2) or calculated using valuation techniques where significant model inputs are not observable in the market (Level 3):

2013	Note	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Positive fair value of derivative instruments	11	-	8,208	10,700	18,908
Financial assets available-for-sale	12	158,505	-	-	158,505
Negative fair value of derivative instruments	21	-	(17,928)	(34)	(17,962)
		158,505	**(9,720)**	**10,666**	**159,451**

2012	Note	Level 1 TEUR	Level 2 TEUR	Level 3 TEUR	Total TEUR
Positive fair value of derivative instruments	11	-	9,056	10,534	19,590
Financial assets available-for-sale	12	680,447	21,057	-	701,504
Negative fair value of derivative instruments	21	-	(11,401)	(34)	(11,435)
		680,447	**18,712**	**10,500**	**709,659**

There were no transfers between Level 1, 2 and 3 in 2013 or 2012.

7. Critical accounting estimates and judgements (continued)

Reconciliation of movements in Level 3:	**2013**	**2012**
	TEUR	**TEUR**
Financial assets		
Balance as at 1 January	10,534	60,660
Net gains/(losses) recorded in profit or loss (included in Net losses on financial assets and liabilities)	1,603	(40,327)
Net losses recorded in other comprehensive income	(1,437)	(900)
Purchases	2,379	-
Settlements	(2,379)	(8,899)
Balance as at 31 December	**10,700**	**10,534**

Fair values of derivative instruments presented in Level 3 represent foreign currency derivatives, refer to Note 11 and 21.

Valuation techniques used for Level 3 financial instruments are based on discounted cash flow models where future contractual cash flows are discounted to the present value. All the financial instruments presented under the Level 3 category were contracted in the Republic of Belarus. The availability of market data to be used for the determination of the discount rates used for these instruments is limited. Therefore, the Group estimated the discount rates based on official interest rates declared by the National Bank of the Republic of Belarus. If the level of the discount rates as of 31 December 2013 had been higher or lower than the discount rates estimated by the Group, the fair values of Level 3 assets and liabilities would have been lower or higher respectively.

The calculation of fair values of Level 3 is the responsibility of local treasury teams of respective Group entities, which on a monthly basis carry out the calculations based on a pre-determined valuation model and inputs. Heads of the local treasury teams approve the calculation outputs.

The fair value of the foreign currency derivative instruments is sensitive to changes in BYR/EUR foreign currency exchange rate and to changes in interest rates. The effect of change of BYR/EUR rate for +/- 1% on positive fair value of derivative instruments is TEUR 277/ (173) (31 December 2012: TEUR 218/(158)), the effect of change of interest rate for +/- 100 basis points is TEUR 31/ (32) (31 December 2012: TEUR 55/(56)).

8. Cash and cash equivalents

	2013 TEUR	2012 TEUR
Cash on hand	216,895	245,279
Current accounts	429,596	564,984
Current accounts with central banks	155,293	201,434
Placements with financial institutions due within one month	124,699	198,390
	926,483	**1,210,087**

9. Due from banks, other financial institutions and holding companies

	2013 TEUR	2012 TEUR
Loans and term deposits with banks, other financial institutions and holding companies due in more than one month	166,750	169,558
Loans and advances provided under repo operations	190,937	167,464
Minimum reserve deposits with central banks	52,536	57,242
Other	10	7
	410,233	**394,271**

The minimum reserve deposits are mandatory non-interest bearing deposits whose withdrawals are restricted and which are maintained in accordance with regulations issued by central banks in countries in which the Group's banking entities operate.

10. Loans to customers

	2013 TEUR	2012 TEUR
Gross amount		
Cash loan receivables	5,009,642	4,299,859
POS loan receivables	2,212,836	1,945,888
Revolving loan receivables	994,790	716,690
Mortgage loan receivables	92,411	95,725
Car loan receivables	44,315	112,565
Loans to corporations	4,504	3,812
Other	1,917	1,498
	8,360,415	**7,176,037**
Collective allowances for impairment		
Cash loan receivables	(808,836)	(401,791)
POS loan receivables	(219,114)	(149,743)
Revolving loan receivables	(136,319)	(70,474)
Mortgage loan receivables	(3,119)	(5,226)
Car loan receivables	(19,112)	(15,998)
Loans to corporations	(981)	(310)
Other	(386)	(422)
	(1,187,867)	**(643,964)**
Specific allowances for impairment		
Loans to corporations	(1,264)	(1,432)
	(1,264)	**(1,432)**
	7,171,284	**6,530,641**

In 2013 the Group experienced an increase in the balance of allowances for impairment, which was primarily attributable to an increase in customer loan delinquencies across the Russian consumer loan market.

In 2009 the Group started regular sales of pools of certain customer loan receivables to related parties. The receivables sold were derecognized by the Group and the right to receive the contingent part of the sales price was recognized as a financial asset available-for-sale and was measured at fair value.

In January 2012 the receivables sale agreements were amended. Based on the amendments, the Group sells its future receivables at a fixed price above their face value which is regularly agreed between the parties on arm’s length principles. The future contingent purchase price is no longer paid for future receivables or receivables sold in the past by the Group. The Group obtained the right to receive TEUR 56,152 in cash as a compensation for the future sales price component for the receivables assigned prior to the amendments. The gain of TEUR 26,239 recognized in 2012 in connection with the amendment of agreements is reported under other operating income, refer to Note 31.

In 2012 and 2013 the Group executed further agreements on sales of pools of loan receivables to related parties whereby the Group sells its future receivables at a fixed price above their face value which is regularly agreed between the parties on arm’s length principles.

As at 31 December 2013 cash loan receivables of TEUR 135,048 served as collateral for debt securities (Note 20). As at 31 December 2012 car loan receivables of TEUR 82,868 and revolving loan receivables of TEUR 78,897 served as collateral for bank loan facilities (Note 19).

10. Loans to customers (continued)

Analysis of movements in allowances for impairment	**Note**	**2013 TEUR**	**2012 TEUR**
Balance as at 1 January		645,396	312,806
Balance acquired by business combinations		-	30,415
Translation difference		(98,721)	5,019
Impairment losses recognized in the statement of comprehensive income	32	1,185,949	478,428
Amount related to loans written off and disposed of		(543,493)	(181,272)
Balance as at 31 December		**1,189,131**	**645,396**

The Group has estimated the impairment on loans to customers in accordance with the accounting policy described in Note 3(c)(vii). Changes in collection estimates could significantly affect the carrying amount of loans to customers and related impairment losses recognized.

11. Positive fair value of derivative instruments

	Note	**2013 TEUR**	**2012 TEUR**
Positive fair value of trading derivative instruments	36	11,266	17,491
Positive fair value of hedging derivative instruments	36	7,642	2,099
		18,908	**19,590**

Cash flows from the hedging derivative instruments are expected to occur in 2014-2016.

12. Financial assets available-for-sale

	2013 TEUR	**2012 TEUR**
Debt securities	152,791	701,504
Equity securities	5,714	-
	158,505	**701,504**

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items (netted for all jurisdictions):

	Assets		Liabilities		Net	
	2013 TEUR	2012 TEUR	2013 TEUR	2012 TEUR	2013 TEUR	2012 TEUR
Due from banks, other financial institutions and holding companies	285	10,015	(5,247)	(1,415)	(4,962)	8,600
Loans to customers	47,075	9,707	(6,801)	(7,893)	40,274	1,814
Fair value of financial assets and liabilities	648	2,134	(1,826)	(1,462)	(1,178)	(672)
Carrying value of property and equipment	99	14	(23,679)	(15,528)	(23,580)	(15,514)
Other assets	25,814	10,385	(23,133)	(7,933)	2,681	(2,452)
Debt securities issued	86	-	(746)	(907)	(660)	(907)
Tax loss carry forward	6	374	-	-	6	374
Other	35,579	24,568	(3,464)	(3,401)	32,115	21,167
Deferred tax assets/(liabilities)	109,592	57,197	(64,896)	(38,539)	44,696	18,658
Net deferred tax assets					**44,696**	**18,658**

As at 31 December 2013 the Group incurred tax losses in recent years in amount of TEUR 261,058 (31 December 2012: TEUR 221,419) available to be carried forward and off-set against future taxable income. To the extent that it is not considered likely that taxable profits will be available against which the unused tax losses can be utilized, the deferred tax assets are not recognized. The unutilized tax losses expire in the period from 2014 to 2022.

Year of expiration	**2013 TEUR**	**2012 TEUR**
2014	119	8,906
2015	10,675	19,732
2016	24,009	20,501
2017	1,376	1,967
2018	18,667	15,358
2019	11,447	11,337
2020	23,492	24,371
2021	18,412	119,247
2022	152,861	-
Total	**261,058**	**221,419**

Analysis of movements in net deferred tax assets	**2013 TEUR**	**2012 TEUR**
Net deferred tax asset as at 1 January	18,658	2,248
Deferred tax income for the year	31,947	17,083
Deferred tax recognized directly in equity	(233)	(123)
Additions from business combinations	(3,810)	(347)
Net foreign exchange differences	(1,866)	(203)
Balance as at 31 December	**44,696**	**18,658**

14. Investments in associates

As at 31 December 2013 the Group had the following investments in associates:

	Country of incorporation	Ownership interest	Carrying amount
		2013 (%)	2013 TEUR
Společnost pro informační databáze (JSC)	Czech Republic	26.00	-
Filcommerce Holdings, Inc.	Philippines	40.00	-
Equifax Credit Services (LLC)	Russian Federation	25.00	3,589
			3,589

As at 31 December 2012 the Group had the following investments in associates:

	Country of incorporation	Ownership interest	Carrying amount
		2012 (%)	2012 TEUR
Společnost pro informační databáze (JSC)	Czech Republic	26.00	-
Equifax Credit Services (LLC)	Russian Federation	30.72	2,537
			2,537

15. Intangible assets

2013	Goodwill TEUR	Software TEUR	Present value of future profits TEUR	Intangible assets not yet in use TEUR	Other intangible assets TEUR	Total TEUR
Acquisition cost						
Balance as at 1 January 2013	3,469	129,302	-	7,011	2,861	142,643
Additions through business combinations	-	1,533	9,802	-	29	11,364
Additions	-	38,496	-	24,446	397	63,339
Disposals	-	(1,653)	-	-	(121)	(1,774)
Transfers	-	14,504	-	(13,355)	(1,838)	(689)
Translation difference	-	(15,026)	(646)	(1,182)	(133)	(16,987)
Balance as at 31 December 2013	**3,469**	**167,156**	**9,156**	**16,920**	**1,195**	**197,896**
Accumulated amortization						
Balance as at 1 January 2013	-	81,338	-	-	649	81,987
Charge for the year	-	25,883	3,850	-	83	29,816
Disposals	-	(880)	-	-	-	(880)
Transfers	-	978	-	-	10	988
Translation difference	-	(8,620)	(254)	-	(54)	(8,928)
Balance as at 31 December 2013	**-**	**98,699**	**3,596**	**-**	**688**	**102,983**
Carrying amount						
at 1 January 2013	**3,469**	**47,964**	**-**	**7,011**	**2,212**	**60,656**
at 31 December 2013	**3,469**	**68,457**	**5,560**	**16,920**	**507**	**94,913**

Present value of future profits represents the net present value of the expected after-tax cash flows of the portfolio of long-term insurance contracts recognized as an intangible asset in connection with the acquisition of insurance companies in 2013 (Note 1).

15. Intangible assets (continued)

2012	Goodwill TEUR	Software TEUR	Intangible assets not yet in use TEUR	Other intangible assets TEUR	Total TEUR
Acquisition cost					
Balance as at 1 January 2012	-	89,983	6,952	692	97,627
Additions through business combinations	3,469	3,688	-	1,894	9,051
Additions	-	31,707	14,254	263	46,224
Disposals	-	(273)	(14,367)	(36)	(14,676)
Transfers	-	1,913	-	45	1,958
Translation difference	-	2,284	172	3	2,459
Balance as at 31 December 2012	**3,469**	**129,302**	**7,011**	**2,861**	**142,643**
Accumulated amortization					
Balance as at 1 January 2012	-	58,265	-	586	58,851
Additions through business combinations	-	2,500	-	4	2,504
Charge for the year	-	19,193	-	64	19,257
Disposals	-	(273)	-	(36)	(309)
Transfers	-	181	-	23	204
Translation difference	-	1,472	-	8	1,480
Balance as at 31 December 2012	**-**	**81,338**	**-**	**649**	**81,987**
Carrying amount					
at 1 January 2012	**-**	**31,718**	**6,952**	**106**	**38,776**
at 31 December 2012	**3,469**	**47,964**	**7,011**	**2,212**	**60,656**

16. Property and equipment

2013	Buildings	Equipment	Vehicles	Other tangible assets	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Acquisition cost					
Balance as at 1 January 2013	130,190	225,414	6,450	212	362,266
Additions through business combinations	15	91	16	-	122
Additions	2,777	67,533	1,400	347	72,057
Disposals	(8)	(6,282)	(953)	(1)	(7,244)
Transfers and other changes	31	432	50	-	513
Translation difference	(14,475)	(26,408)	(602)	(55)	(41,540)
Balance as at 31 December 2013	**118,530**	**260,780**	**6,361**	**503**	**386,174**
Accumulated depreciation					
Balance as at 1 January 2013	27,628	93,621	3,759	-	125,008
Charge for the year	2,574	39,773	908	-	43,255
Disposals	(1)	(4,897)	(931)	-	(5,829)
Transfers and other changes	(3)	553	11	-	561
Translation difference	(3,212)	(10,812)	(329)	-	(14,353)
Balance as at 31 December 2013	**26,986**	**118,238**	**3,418**	**-**	**148,642**
Impairment					
Balance as at 1 January 2013	-	-	-	-	-
Impairment losses recognized	4,566	-	-	-	4,566
Translation difference	(301)	-	-	-	(301)
Balance as at 31 December 2013	**4,265**	**-**	**-**	**-**	**4,265**
Carrying amount					
at 1 January 2013	**102,562**	**131,793**	**2,691**	**212**	**237,258**
at 31 December 2013	**87,279**	**142,542**	**2,943**	**503**	**233,267**

16. Property and equipment (continued)

2012	Buildings	Equipment	Vehicles	Other tangible assets	Total
	TEUR	TEUR	TEUR	TEUR	TEUR
Acquisition cost					
Balance as at 1 January 2012	129,664	122,665	6,116	281	258,726
Additions through business combinations	-	19,123	427	-	19,550
Additions	254	81,840	692	728	83,514
Disposals	-	(5,969)	(934)	(802)	(7,705)
Transfers and other movements	(4,413)	4,454	(41)	-	-
Translation difference	4,685	3,301	190	5	8,181
Balance as at 31 December 2012	**130,190**	**225,414**	**6,450**	**212**	**362,266**
Accumulated depreciation					
Balance as at 1 January 2012	24,305	57,631	3,776	-	85,712
Additions through business combinations	-	12,266	-	-	12,266
Charge for the year	2,628	26,459	808	-	29,895
Disposals	-	(4,519)	(932)	-	(5,451)
Transfers and other changes	(146)	239	(1)	-	92
Translation difference	841	1,545	108	-	2,494
Balance as at 31 December 2012	**27,628**	**93,621**	**3,759**	**-**	**125,008**
Carrying amount					
at 1 January 2012	**105,359**	**65,034**	**2,340**	**281**	**173,014**
at 31 December 2012	**102,562**	**131,793**	**2,691**	**212**	**237,258**

17. Other assets

	2013 TEUR	2012 TEUR
Deferred acquisition costs of insurance contracts	60,504	-
Trade receivables and settlement with suppliers	39,965	25,643
Acquisition of subsidiaries	34,500	34,500
Outstanding selling price for receivables	32,976	52,522
Prepaid expenses	22,199	37,475
Other taxes receivable	7,103	4,994
Non-life amounts ceded to reinsurers from insurance provisions	4,254	-
Accrued income from insurance fees	3,025	76,964
Receivable arising out of insurance and re-insurance operations	2,915	-
Goods held for resale	526	8,047
Other	4,635	3,973
	212,602	**244,118**
Specific allowances for impairment on settlement with suppliers and other assets	(189)	(52)
	212,413	**244,066**

Acquisition of subsidiaries represents the consideration paid for the acquisition of shares in CF Commercial Consulting (Beijing) Co., Ltd and Home Credit Consumer Finance Co., Ltd, which are not treated as consolidated subsidiaries because the Group is still in the process of obtaining the regulatory approvals for the acquisition of those entities (Note 1).

Deferred acquisition costs of insurance contracts were recognized as at 31 December 2013 following the acquisition by the Group of certain insurance operations (Note 1).

Analysis of movements in allowances for impairment	2013 TEUR	2012 TEUR
Balance as at 1 January	52	69
Additions resulting from business combinations	12	1
Impairment losses recognized in the statement of comprehensive income	415	2
Reversal of impairment losses recognized in the statement of comprehensive income	(505)	-
Amounts related to assets sold and written off	227	(21)
Translation difference	(12)	1
Balance as at 31 December	**189**	**52**

18. Current accounts and deposits from customers

	2013 TEUR	2012 TEUR
Term deposits	4,632,272	4,241,569
Current accounts and demand deposits	471,352	480,943
Other	1,778	1,059
	5,105,402	**4,723,571**

19. Due to banks and other financial institutions

	2013 TEUR	2012 TEUR
Unsecured loans	594,649	755,997
Secured loans	3,636	136,184
Loans received under repo operations	-	410,456
Other balances	6,136	8,342
	604,421	**1,310,979**

The following table provides an analysis of secured loans shown above by types of collateral as at 31 December:

	2013 TEUR	2012 TEUR
Car loan receivables	-	68,698
Revolving loan receivables	-	55,286
Other collateral	3,636	12,200
	3,636	**136,184**

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

As at 31 December 2013 the balance of loans received under repo operations was TEUR 0 (31 December 2012: TEUR 410,456). As at 31 December 2012 such loans were secured by financial assets available-for-sale.

20. Debt securities issued

	Interest rate	Final maturity	Amount outstanding 2013 TEUR	2012 TEUR
Unsecured RUB bonds issue 5 of MRUB 4,000	Variable	April 2013	-	100,917
Stock exchange RUB bonds issue 03 of MRUB 4,000	Variable	October 2013	-	100,576
Loan participation notes issue 6 of MUSD 500	Fixed	March 2014	368,154	383,329
Stock exchange RUB bonds issue 01 of MRUB 3,000	Variable	April 2014	67,291	75,606
Unsecured RUB bonds issue 6 of MRUB 5,000	Variable	June 2014	110,908	124,616
CZK promissory notes issue of MCZK 500	Zero-coupon	September 2014	17,543	18,169
Unsecured RUB bonds issue 7 of MRUB 5,000	Variable	April 2015	112,231	126,027
Unsecured CZK bonds issue 4 of MCZK 2,900	Zero-coupon	September 2015	94,952	96,751
Stock exchange RUB bonds issue 02 of MRUB 3,000	Fixed	February 2016	66,494	-
Unsecured CZK bonds issue 5 of MCZK 3,750	Fixed	June 2016	141,450	154,163
Cash loan receivables backed notes of MRUB 5,000	Variable	November 2021	109,460	-
Unsecured KZT bond issue 1 of MKZT 7,000	Fixed	November 2016	32,432	-
			1,120,915	**1,180,154**

USD denominated loan participation notes issue 6 were issued in March 2011 through Eurasia Capital S.A. (refer to Note 1).

RUB denominated stock exchange bonds issue 01 were issued in April 2011 with a coupon rate resettable at coupon dates.

RUB denominated bonds issue 6 were issued in June 2009 with a coupon rate resettable at option dates. In December 2012 the Group reset a new coupon rate valid till the final maturity date.

RUB denominated bonds issue 7 were issued in April 2010 with a coupon rate set for two years. In April 2012 the Group reset a new coupon rate valid till the final maturity date.

RUB denominated cash loans receivables backed notes were issued in November 2013 through HC Finance (LLC) and Eurasia Structured Finance No.3 B.V. (refer to Note 1) with a fixed coupon rate which is valid until the coupon payment date on 19 January 2017 and capped floating coupon rate from 20 January 2017 till the final maturity. The bondholders are entitled to require early redemption of the bonds in November 2016. As at 31 December 2013 cash loan receivables of TEUR 135,048 served as collateral for these notes.

21. Negative fair value of derivative instruments

	Note	2013 TEUR	2012 TEUR
Negative fair value of trading derivative instruments	36	16,095	3,465
Negative fair value of hedging derivative instruments	36	1,867	7,970
		17,962	**11,435**

Cash flows from the hedging derivative instruments are expected to occur in 2014.

22. Insurance and other provisions

	2013 TEUR	2012 TEUR
Provisions for unearned premiums	120,809	-
Provisions for outstanding claims	3,760	-
Provision for litigations	3,397	-
Other insurance provisions	176	-
Other provisions	2,193	-
	130,335	**-**

Insurance provisions were recognized as at 31 December 2013 following the acquisition by the Group of certain insurance operations (Note 1).

Other provisions were recognized in connection with a business optimisation programme launched in Russia. They represent restructuring provisions and provisions for closure of offices.

	2013 TEUR	2012 TEUR
Provisions for unearned premiums		
Balance as at 1 January	-	-
Additions through business combinations	120,108	-
Premiums written during a year	81,344	-
Premiums earned during the year	(72,451)	-
Translation difference	(8,192)	-
Balance as at 31 December	**120,809**	**-**
Provisions for outstanding claims		
Balance as at 1 January	-	-
Additions through business combinations	475	-
Claims incurred in the current year	6,768	-
Adjustments for losses incurred in previous years	(347)	-
Claims paid during the year	(2,896)	-
Translation difference	(240)	-
Balance as at 31 December	**3,760**	**-**

23. Subordinated liabilities

	Interest rate	Final maturity	Amount outstanding 2013 TEUR	2012 TEUR
Loan participation notes issue of MUSD 500	Fixed	April 2020	364,925	379,747
Loan participation notes issue of MUSD 200	Fixed	April 2021	146,536	-
			511,461	**379,747**

Subordinated loan participation notes issue of MUSD 500 were issued in October 2012 through Eurasia Capital S.A. (refer to Note 1). The Group has an early redemption option exercisable on 24 April 2018 (the reset date). After the reset date the interest rate is determined as a variable rate.

Subordinated loan participation notes issue of MUSD 200 were issued in October 2013 through Eurasia Capital S.A. (refer to Note 1). The Group has an early redemption option exercisable on 17 April 2019 (the reset date). After the reset date the interest rate is determined as a variable rate.

24. Other liabilities

	2013 TEUR	2012 TEUR
Accrued employee compensation	84,999	114,638
Settlement with suppliers	67,933	53,770
Customer loan overpayments	30,235	25,998
Other taxes payable	24,634	44,190
Accrued expenses	19,877	15,964
Deferred income and prepayments	12,927	16,934
Advances received	663	445
Other	15,257	13,804
	256,525	**285,743**

25. Equity

At 31 December 2013 the share capital of the Group comprised 1,250,000,000 (31 December 2012: 1,250,000,000) ordinary shares at a par value of EUR 0.57 (31 December 2012: EUR 0.57), of which 1,156,174,806 (31 December 2012: 1,156,174,806) shares were issued and fully paid. All issued shares bear equal voting rights. The holders of the shares are entitled to receive distributions of profits and reserves when declared by the general meeting of the Company. No distributions can be made if the total amount of the reserves to be maintained pursuant to the law or the articles of association exceeds the Company's equity and the management board has not given its approval to such distribution.

During 2013 several reductions of the Group's share premium took place:

Month	Amount of reduction TEUR	Amount per one share EUR
March	9,800	0.01
April	39,280	0.03
May	7,726	0.01
July	28,901	0.02
September	11,622	0.01
November	112,000	0.10
December	7,263	0.01
	216,592	

During 2012 dividends were paid out from share premium and other reserves as follows:

Month	Source of distribution	Amount TEUR	Amount per one share EUR
May	Other reserves	107,476	0.09
November	Share premium	11,765	0.01
		119,241	

In September 2013 the Group's sole shareholder PPF Group N.V. resolved to increase the Group's share premium by TEUR 97,000. The contribution was paid in November 2013.

In January 2013 the Group's sole shareholder PPF Group N.V. resolved to increase the Group's share premium by TEUR 70,000. The contribution is payable upon earlier of the fulfilment of the conditions for the completion of the purchase of PPF Vietnam Finance Company LLC (Note 1) or 31 December 2015. The increase in the share premium has not been recorded in equity since the conditions related to purchase of PPF Vietnam have not been met.

In July and September 2012 the Group's share premium was increased by TEUR 249,000 and TEUR 6,481 respectively.

The creation and use of the statutory reserves is limited by legislation and the articles of each company within the Group. The legal reserve fund is not available for distribution to the shareholders.

The translation reserve comprises foreign exchange differences arising from translation of the financial statements of companies within the Group with a functional currency other than the presentation currency. The translation reserve is not available for distribution to the shareholders.

The hedging reserve represents the effect of the recognition of the effective portion of changes in the fair value of hedging instruments in other comprehensive income in equity. The hedging reserve is not available for distribution to the shareholders.

25. Equity (continued)

The reserve for business combinations under common control was recognized on the acquisition of HC Asia N.V. in 2012. The reserve for business combinations under common control is not available for distribution to the shareholders.

The revaluation reserve represents the revaluation deficit or surplus, net of deferred tax, recognized on changes in the fair value of financial assets available-for-sale. The fair value reserve is not available for distribution to the shareholders.

26. Interest income and interest expense

	2013 TEUR	2012 TEUR
Interest income		
Cash loan receivables	1,645,958	902,172
POS loan receivables	468,169	315,597
Revolving loan receivables	262,830	172,543
Car loan receivables	21,974	24,162
Mortgage loan receivables	9,998	12,031
Financial assets available-for-sale	40,048	38,067
Due from banks, other financial institutions and holding companies	33,780	20,976
Financial assets held-to-maturity	396	68
Other	337	396
	2,483,490	**1,486,012**
Interest expense		
Deposits from customers	531,016	301,916
Debt securities issued	84,683	89,569
Due to banks and other financial institutions	65,856	30,949
Subordinated liabilities	39,451	6,599
	721,006	**429,033**

27. Fee and commission income

	2013 TEUR	2012 TEUR
Insurance commissions	511,678	500,880
Penalty fees	80,107	60,602
Cash transactions	61,402	59,455
Customer payment processing and account maintenance	23,385	23,517
Retailers commissions	18,710	9,393
Other	20,580	709
	715,862	**654,556**

28. Fee and commission expenses

	2013 TEUR	2012 TEUR
Cash transactions	31,127	18,226
Commissions to retailers	24,825	20,701
Payments to deposit insurance agencies	22,785	8,290
Payment processing and account maintenance	12,806	7,215
Other	5,993	3,566
	97,536	**57,998**

29. Insurance income

	2013 TEUR	2012 TEUR
Gross premiums earned	72,275	-
Earned premiums ceded	(3,448)	-
Net insurance benefits and claims	(2,096)	-
Acquisition costs	(46,756)	-
	19,975	**-**

Insurance income was recognized during 2013 following the acquisition by the Group of certain insurance operations (Note 1).

30. Net losses on financial assets and liabilities

	2013 TEUR	2012 TEUR
Net losses on trading derivative instruments	(24,470)	(7,301)
Net losses on hedging derivative instruments	(19,510)	(2,054)
Net foreign currency gains	27,900	3,039
Net trading (losses)/gains on other financial assets and liabilities	(319)	2,976
Other	(23)	(3,653)
	(16,422)	**(6,993)**

31. Other operating income

	2013 TEUR	2012 TEUR
Gains on disposal of loan receivables	109,534	111,381
Recognized income from excess of acquired net fair value over costs	30,451	-
Income from other services provided	8,374	9,533
Loss on monetary position	(3,037)	(3,711)
Other	12,785	9,649
	158,107	**126,852**

Gains on disposal of loan receivables relate to sales of customer loan receivables. In 2012 they included the gain of TEUR 26,239 recognized in connection with the amendment of the receivables sale agreements (Note 10).

Income from excess of acquired net fair value over costs was recognized on acquisitions of Home Credit Insurance (LLC), PPF Insurance (PSC) and PPF Insurance (FICJSC) (Note 1).

Loss on monetary position represents the effect of application of IAS 29 – Financial Reporting in Hyperinflationary Economies for Home Credit Bank (OJSC) incorporated in the Republic of Belarus.

32. Impairment losses on financial assets

	2013 TEUR	2012 TEUR
Cash loan receivables	834,355	348,689
POS loan receivables	217,009	87,824
Revolving loan receivables	130,423	37,893
Car loan receivables	4,198	6,597
Mortgage loan receivables	(690)	(3,109)
Other financial assets	654	534
	1,185,949	**478,428**

During 2013 the Group experienced an increase in impairment losses on financial assets, which was primarily attributable to an increase in customer loan delinquencies across the Russian consumer loan market.

33. General administrative expenses

	2013 TEUR	2012 TEUR
Employee compensation	407,933	290,243
Rental, maintenance and repairs	106,262	74,391
Payroll related taxes (including pension contributions)	80,898	55,144
Telecommunication and postage	54,368	43,884
Professional services	53,222	29,199
Advertising and marketing	38,150	40,277
Information technologies	21,648	19,457
Taxes other than income tax	20,005	10,387
Travel expenses	19,456	14,498
Other	42,503	26,408
	844,445	**603,888**

34. Other operating expenses

	2013 TEUR	2012 TEUR
Depreciation and amortization	73,071	49,152
Net impairment losses on property, plant and equipment	4,566	-
Loss on disposal of property and equipment and intangible assets	2,379	1,540
Impairment (reversals)/losses on other non-financial assets	(90)	2
	79,926	**50,694**

35. Income tax expense

	2013 TEUR	2012 TEUR
Current tax expense	146,221	155,893
Deferred tax benefit	(31,947)	(17,083)
Total income tax expense in the statement of comprehensive income	**114,274**	**138,810**

Reconciliation of effective tax rate	**2013 TEUR**	**2012 TEUR**
Profit before tax	**438,711**	**644,493**
Income tax using the domestic tax rate of 25%	(109,678)	(161,123)
Effect of deferred tax assets not recognized	(11,738)	(7,515)
Non-deductible costs	(27,721)	(7,072)
Withholding tax	(10,296)	(3,710)
Non-taxable income	8,721	1,191
Effect of tax rates in foreign jurisdictions	20,522	35,328
Other	15,916	4,091
Total income tax expense	**(114,274)**	**(138,810)**

36. Derivative financial instruments

As at 31 December 2013 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount (in thousands of purchased currency)	Fair value TEUR
Currency derivatives – trading				
Foreign currency forward contracts				
	RUB/USD	1 month to 3 months	6,499	12
	EUR/CZK	1 month to 3 months	195	(13)
	RUB/USD	3 months to 1 year	7,221	35
	KZT/USD	3 months to 1 year	35,528	(308)
Foreign currency swap contracts				
	RUB/USD	less than 1 month	57,768	147
	USD/RUB	less than 1 month	18,053	1
	EUR/BYR	less than 1 month	14,841	(23)
	KZT/EUR	less than 1 month	3,168	24
	EUR/CZK	1 month to 3 months	100,462	(6,096)
	KZT/USD	1 month to 3 months	15,164	(322)
	EUR/BYR	1 month to 3 months	464	21
	USD/BYR	1 month to 3 months	516	12
	EUR/CZK	3 months to 1 year	131,096	(8,580)
	RUB/USD	3 months to 1 year	67,120	(395)
	USD/RUB	3 months to 1 year	66,772	78
	EUR/BYR	3 months to 1 year	4,569	10,128
	USD/BYR	3 months to 1 year	251	528
	USD/EUR	3 months to 1 year	54	-
Currency derivatives - hedging				
Foreign currency forward contracts				
	RUB/USD	1 month to 3 months	2,166	48
Foreign currency swap contracts				
	RUB/USD	1 month to 3 months	64,989	(1,754)
	RUB/USD	3 months to 1 year	14,442	(113)
	RUB/USD	more than 1 year	180,526	5,137
Cross currency interest rate swaps				
	fixed RUB/ floating USD	more than 1 year	72,210	2,456
Interest rate derivatives				
Interest rate swap contracts				
	fixed/floating (RUB)	3 months to 1 year	33,095	(72)
	fixed/floating (RUB)	more than 1 year	6,619	(5)
				946

36. Derivative financial instruments (continued)

As at 31 December 2012 the following derivative contracts were outstanding:

Contract type	Sell/Buy	Maturity	Notional amount (in thousands of purchased currency)	Fair value TEUR
Currency derivatives – trading				
Foreign currency forward contracts				
	RUB/USD	less than 1 month	6	-
	EUR/CZK	1 month to 3 months	277	1
Foreign currency swap contracts				
	USD/RUB	less than 1 month	223,672	573
	EUR/CZK	less than 1 month	19,551	174
	EUR/USD	less than 1 month	9,993	18
	EUR/BYR	less than 1 month	7,436	15
	USD/RUB	1 month to 3 months	103,479	2,491
	RUB/USD	1 month to 3 months	103,479	(2,495)
	EUR/CZK	1 month to 3 months	30,988	38
	KZT/USD	1 month to 3 months	28,229	(282)
	KZT/EUR	1 month to 3 months	10,973	(119)
	EUR/KZT	1 month to 3 months	8,252	(387)
	EUR/CZK	3 months to 1 year	127,127	2,149
	CZK/EUR	3 months to 1 year	25,780	26
	KZT/EUR	3 months to 1 year	14,251	891
	EUR/RUB	3 months to 1 year	4,242	230
	USD/BYR	3 months to 1 year	564	(34)
	EUR/BYR	more than 1 year	5,290	9,969
	USD/BYR	more than 1 year	291	550
Currency derivatives - hedging				
Foreign currency forward contracts				
	RUB/USD	1 month to 3 months	13,179	(170)
	RUB/USD	3 months to 1 year	3,766	(4)
Foreign currency swap contracts				
	RUB/USD	3 months to 1 year	75,312	2,099
	RUB/USD	more than 1 year	105,434	(4,249)
Cross currency interest rate swaps				
	fixed RUB/ floating USD	more than 1 year	67,780	(3,547)
Interest rate derivatives				
Interest rate swap contracts				
	fixed/floating (RUB)	3 months to 1 year	37,193	253
	fixed/floating (RUB)	more than 1 year	44,632	(35)
				8,155

37. Commitments

The Group has outstanding commitments to extend credit. These commitments take the form of approved credit limits related to customer revolving loan accounts, POS loan facilities, cash loan facilities and overdraft facilities.

	2013 TEUR	2012 TEUR
Revolving loan commitments	964,884	1,403,059
POS loan commitments	39,777	37,684
Cash loan commitments	18,810	37,460
Undrawn overdraft facilities	-	8,877
	1,023,471	**1,487,080**

The total outstanding contractual commitments to extend credit indicated above do not necessarily represent future cash requirements as many of these commitments will expire or terminate without being funded.

As at 31 December 2013 the Group reported contractual commitments for the acquisition of property and equipment and intangible assets of TEUR 385 (31 December 2012: TEUR 0).

As at 31 December 2013 the balance of loan guarantees issued by the Group was TEUR 120,554 (31 December 2012: TEUR 136,427).

38. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2013 TEUR	2012 TEUR
Less than one year	55,515	48,872
Between one and five years	116,787	103,732
More than five years	11,521	12,973
	183,823	**165,577**

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.

During 2013 TEUR 77,441 (2012: TEUR 58,787) was recognized as an expense in the statement of comprehensive income in respect of operating leases.

39. Contingencies

Taxation

The taxation systems in the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan and the People's Republic of China are relatively new and are characterized by frequent changes in legislation which are 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 several subsequent calendar years. Recent events within the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan and the People's Republic of China suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

The facts mentioned above may create tax risks in respective countries 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, Belarusian, Kazakhstan and Chinese tax legislation, official pronouncements and court decisions.

40. Related party transactions

The Group has a related party relationship with its ultimate parent company PPF Group N.V., its subsidiaries and associates, the Group's key management personnel and other related parties. Related party transactions are executed on an arm's length basis. Related party transactions arise primarily from funding and treasury transactions as well as from sales of loan receivables reported under other operating income (Note 31) and insurance commissions reported under fee and commission income.

(a) Transactions with the parent company

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

	Note	**2013 TEUR**	**2012 TEUR**
Positive fair value of derivative instruments		-	230
Due from banks, other financial institutions and holding companies		85,679	114,809
Intangible assets		-	70
Other assets	17	34,500	34,500
Subordinated liabilities		(78,424)	(115,768)
Other liabilities		-	(441)
		41,755	**33,400**

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

	2013 TEUR	**2012 TEUR**
Interest income	7,550	7,750
Interest expense	(9,947)	(2,245)
Net (losses)/gains on financial assets and liabilities	(351)	221
Other operating income	-	(6,962)
General administrative expenses	(308)	(302)
	(3,056)	**(1,538)**

40. Related party transactions (continued)

(b) Transactions with fellow subsidiaries

Balances included in the statement of financial position in relation to transactions with fellow subsidiaries are as follows:

	2013 TEUR	2012 TEUR
Cash and cash equivalents	39,064	10,968
Due from banks, other financial institutions and holding companies	20,157	7,718
Loans to customers	7,249	4,165
Positive fair value of derivative instruments	660	4,993
Financial assets held-to-maturity	3,440	3,667
Other assets	41,143	57,192
Current accounts and deposit from customers	(38,616)	(2,723)
Due to banks and other financial institutions	(125,486)	(108,720)
Debt securities issued	(92,398)	(87,414)
Negative fair value of derivative instruments	(14,959)	(738)
Subordinated liabilities	(2,065)	(1,678)
Other liabilities	(18,356)	(12,370)
	(180,167)	**(124,940)**

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

	2013 TEUR	2012 TEUR
Interest income	1,065	2,898
Interest expense	(19,305)	(5,058)
Fee and commission income	56,837	2,118
Fee and commission expense	(325)	(306)
Net (losses)/gains on financial assets and liabilities	(21,179)	5,770
Other operating income	132,349	128,079
General administrative expenses	(11,864)	(8,160)
	137,578	**125,341**

Interest income presented in the table above does not include transaction costs integral to the effective interest rate and incurred with fellow subsidiaries. Such transactions had a negative impact on interest income of TEUR 8,345 (2012: TEUR 12,032).

As disclosed in Note 10, the Group sold receivables to related parties. The related transactions and balances are included in other assets (31 December 2013: TEUR 32,976, 31 December 2012: TEUR 52,522) and other operating income (2013: TEUR 109,534, 2012: TEUR 111,381).

40. Related party transactions (continued)

(c) Transactions with the parent company's associates

Balances included in the statement of financial position in relation to transactions with the parent company's associates are as follows:

	2013 TEUR	2012 TEUR
Other assets	971	57,212
Current accounts and deposits from customers	-	(43,069)
Debt securities issued	(262,265)	(179,570)
Subordinated liabilities	-	(1,722)
Other liabilities	(856)	(1,396)
	(262,150)	**(168,545)**

Amounts included in the statement of comprehensive income in relation to transactions with the parent company's associates are as follows:

	2013 TEUR	2012 TEUR
Interest income	-	198
Interest expense	(10,724)	(17,458)
Fee and commission income	17,695	340,358
Insurance income	(1,303)	-
Other operating income	14	94
General administrative expenses	(1,026)	(2,425)
	4,656	**320,767**

40. Related party transactions (continued)

(d) Transactions with key management personnel and other related parties

Amounts included in the statement of comprehensive income in relation to transactions with members of key management are long-term benefits of TEUR 4,116 (2012: TEUR 14,910) and short-term benefits of TEUR 23,942 (2012: TEUR 22,630) comprising salaries, bonuses and non-monetary benefits.

As at 31 December 2013 the balance of loans to members of the key management was TEUR 10 (31 December 2012: TEUR 8).

The members of the Board of Directors of the Company and key management of its subsidiaries are considered as the key management of the Group.

In 2013 the Group concluded a consultancy service agreement with a company controlled by one of the members of its Board of Directors. The consultancy fees of TEUR 7,998 charged in 2013 in relation to this agreement are recorded under general administrative expenses, while the related liability of TEUR 2,498 as of 31 December 2013 is recorded under other liabilities.

As at 31 December 2013 the balances due from holding companies included an unsecured loan of TEUR 22,287 (31 December 2012: TEUR 0) provided by the Group to a company controlled by one of the members of its Board of Directors.

41. Workforce

In 2013 the average number of the Group’s employees was 44,674 (2012: 30,604 employees), of which three employees were employed in the Netherlands (2012: one employee).

42. Subsequent event

In February 2014 the National Bank of Kazakhstan reduced currency interventions supporting the KZT exchange rate and announced a devaluation of KZT. As a result, the KZT exchange rate depreciated by nearly 20%. As the devaluation occurred after the reporting date, these consolidated financial statements have not been adjusted for the rate change. The Group carried out a sensitivity analysis of the Group’s equity to a 20% depreciation of KZT based on positions existing as at 31 December 2013. Based on the analysis, the negative impact on the Group’s equity would be TEUR 32,432.

Other Information

Certain information required by Article 392 the Civil Code of the Netherlands, to the extent it is applicable to the Company or the Group, as well as the Auditor's Report is included in this part of the Consolidated Annual Accounts.

1. Profit appropriation

The general meeting is authorised to appropriate the profits that follow from the adoption of the annual accounts or to determine how a deficit will be accounted for, as well as to resolve upon distributions, provided that the Company's equity exceeds the total amount of the reserves to be maintained pursuant to the law or the articles of association. A resolution on any distribution has no consequences if the management board has not given its approval to such distribution.

During 2013 the Company's share premium reserves were reduced by TEUR 216,592. No decision or proposal on the appropriation of the net profit available for distribution has been taken as of the date of the issue of these financial statements.

2. Subsequent events

Refer to the Notes to the Consolidated Financial Statements, Note 42.

Independent auditor’s report

To: the Board of Directors of Home Credit B.V.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements for the year ended on 31 December 2013 which are part of the financial statements of Home Credit B.V., Amsterdam, and comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of the significant accounting policies and other explanatory information.

Management’s responsibility

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the directors' report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 give a true and fair view of the financial position of Home Credit B.V. as at 31 December 2013 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the directors' report, to the extent we can assess, is consistent with the consolidated financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 10 March 2014

KPMG Accountants N.V.

B.M. Herngreen RA