# VTB Bank

## Interim Condensed Consolidated Financial Statements with Independent Auditors' Report on Review of Interim Condensed Consolidated Financial Statements

*30 June 2014*

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Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

# Report on review of interim condensed consolidated financial statements

To the Shareholders and Supervisory Council of VTB Bank

*Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group") as at 30 June 2014, comprising of the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated income statement, interim consolidated statement of comprehensive income for the three-month and six-month periods then ended, interim consolidated statements of cash flows and changes in shareholders' equity for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

*Scope of review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

20 August 2014

*(in billions of Russian Roubles)*

| | Note | 30 June 2014 (unaudited) | 31 December 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash and short-term funds | 5 | 639.6 | 354.3 |
| Mandatory cash balances with central banks | | 66.2 | 58.7 |
| Financial assets at fair value through profit or loss | 6 | 363.0 | 411.1 |
| Financial assets pledged under repurchase agreements | 7 | 564.3 | 466.6 |
| Due from other banks | 8 | 328.7 | 443.4 |
| Loans and advances to customers | 9 | 6,687.5 | 5,969.0 |
| Investment financial assets | | | |
| - available-for-sale | 10 | 129.3 | 135.4 |
| - held-to-maturity | | 0.4 | 0.7 |
| Investments in associates and joint ventures | 11 | 78.4 | 87.6 |
| Assets of disposal groups held for sale | 12 | 38.4 | 36.7 |
| Land, premises and equipment | | 219.0 | 170.3 |
| Investment property | | 179.2 | 160.7 |
| Goodwill and other intangible assets | | 159.9 | 162.5 |
| Deferred income tax asset | | 48.6 | 45.5 |
| Other assets | | 252.8 | 266.0 |
| **Total assets** | | **9,755.3** | **8,768.5** |
| **Liabilities** | | | |
| Due to other banks | 13 | 658.2 | 666.6 |
| Customer deposits | 14 | 5,020.4 | 4,341.4 |
| Liabilities of disposal groups held for sale | 12 | 12.4 | 20.7 |
| Other borrowed funds | 15 | 1,826.3 | 1,485.9 |
| Debt securities issued | 16 | 698.6 | 738.2 |
| Deferred income tax liability | | 15.1 | 15.0 |
| Other liabilities | | 299.9 | 262.6 |
| **Total liabilities before subordinated debt** | | **8,530.9** | **7,530.4** |
| Subordinated debt | | 290.4 | 291.0 |
| **Total liabilities** | | **8,821.3** | **7,821.4** |
| **Equity** | | | |
| Share capital | | 138.1 | 138.1 |
| Share premium | | 433.8 | 433.8 |
| Perpetual loan participation notes | | 75.7 | 73.6 |
| Treasury shares and bought back perpetual loan participation notes | | (2.4) | (3.6) |
| Other reserves | 17 | 36.7 | 35.6 |
| Retained earnings | | 244.1 | 262.0 |
| **Equity attributable to shareholders of the parent** | | **926.0** | **939.5** |
| **Non-controlling interests** | | **8.0** | **7.6** |
| **Total equity** | | **934.0** | **947.1** |
| **Total liabilities and equity** | | **9,755.3** | **8,768.5** |

Approved for issue and signed on 20 August 2014.

A.L. Kostin
President – Chairman of the Management Board

Herbert Moos
Chief Financial Officer – Deputy Chairman of the Management Board

*(in billions of Russian Roubles)*

| | | *For the three-month period ended 30 June* | | *For the six-month period ended 30 June* | |
|---|---|---|---|---|---|
| | ***Note*** | ***2014*** | ***2013*** | ***2014*** | ***2013*** |
| Interest income | 18 | 200.1 | 167.4 | 388.3 | 324.6 |
| Interest expense | 18 | (112.8) | (90.9) | (211.1) | (174.3) |
| **Net interest income** | | **87.3** | **76.5** | **177.2** | **150.3** |
| Provision charge for impairment of debt financial assets | 24 | (45.2) | (28.7) | (92.8) | (50.7) |
| **Net interest income after provision for impairment** | | **42.1** | **47.8** | **84.4** | **99.6** |
| **Net fee and commission income** | **19** | **14.5** | **14.1** | **28.8** | **25.6** |
| Gains net of losses / (losses net of gains) arising from financial instruments at fair value through profit or loss | 20 | 9.9 | (6.9) | 5.5 | (7.8) |
| Gains net of losses / (losses net of gains) from available-for-sale financial assets | | 0.3 | (0.9) | 0.8 | (0.2) |
| (Losses net of gains) / gains net of losses arising from foreign currencies | 21 | (3.2) | 2.6 | (11.4) | (0.3) |
| Gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers | 22 | 1.6 | 0.3 | 1.7 | 2.9 |
| Share in (loss)/profit of associates and joint ventures | | (0.3) | 0.9 | 0.3 | 0.9 |
| Gain/(loss) from disposal of subsidiaries and associates | 11, 34 | 0.3 | (0.3) | 9.3 | 0.8 |
| Gains net of losses / (losses net of gains) arising from extinguishment of liability | | 0.2 | (1.2) | (0.8) | (2.2) |
| Provision charge for impairment of other assets, credit related commitments and legal claims | 24 | (3.5) | (0.7) | (3.9) | (2.0) |
| Excess of fair value of acquired net asset over cost | | – | 1.3 | – | 1.5 |
| Other operating income | | 3.3 | 2.0 | 6.4 | 3.4 |
| **Non-interest gains/(losses)** | | **8.6** | **(2.9)** | **7.9** | **(3.0)** |
| Net insurance premiums earned | | 11.5 | 5.7 | 22.9 | 11.1 |
| Net insurance claims incurred and movement in liabilities to policyholders | | (7.2) | (2.5) | (15.0) | (5.3) |
| Revenue from non-banking activities | | 6.1 | 9.8 | 13.3 | 18.1 |
| Cost of sales and other expenses from non-banking activities | | (8.9) | (8.1) | (18.4) | (14.8) |
| **Revenues less expenses from non-banking operations** | | **1.5** | **4.9** | **2.8** | **9.1** |
| Impairment of goodwill | | – | – | (0.5) | – |
| Staff costs and administrative expenses | 23 | (56.2) | (51.4) | (109.0) | (97.3) |
| **Non-interest expenses** | | **(56.2)** | **(51.4)** | **(109.5)** | **(97.3)** |
| **Profit before tax** | | **10.5** | **12.5** | **14.4** | **34.0** |
| Income tax expense | | (7.0) | (3.6) | (12.4) | (9.4) |
| **Net profit after tax** | | **3.5** | **8.9** | **2.0** | **24.6** |
| Profit after tax from subsidiaries acquired exclusively with a view to resale | | 1.1 | 3.0 | 3.0 | 3.0 |
| **Net profit** | | **4.6** | **11.9** | **5.0** | **27.6** |
| **Net profit/(loss) attributable to:** | | | | | |
| **Shareholders of the parent** | | **1.9** | **12.6** | **4.3** | **27.9** |
| **Non-controlling interests** | | **2.7** | **(0.7)** | **0.7** | **(0.3)** |
| **Basic and diluted earnings per share (expressed in Russian Roubles per share)** | 27 | **(0.0003)** | **0.0006** | **(0.0001)** | **0.0021** |
| **Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian Roubles per share)** | 27 | **(0.0004)** | **0.0003** | **(0.0004)** | **0.0018** |

*(in billions of Russian Roubles)*

| | *For the three-month period ended 30 June* | | *For the six-month period ended 30 June* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| **Net profit** | **4.6** | **11.9** | **5.0** | **27.6** |
| **Other comprehensive income:** | | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | | |
| Net result on financial assets available-for-sale, net of tax | 2.5 | 0.1 | (2.0) | 0.6 |
| Cash flow hedges, net of tax | (0.8) | – | 0.2 | – |
| Share in other comprehensive income of associates and joint ventures | 0.1 | – | – | 0.1 |
| Exchange differences on translation of foreign operations | (3.0) | 0.2 | 3.7 | 0.9 |
| *Total other comprehensive income to be reclassified to profit or loss in subsequent periods* | (1.2) | 0.3 | 1.9 | 1.6 |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | | |
| Actuarial losses net of gains arising from difference between pension plan assets and obligations | (0.2) | – | (0.2) | – |
| *Total other comprehensive income not to be reclassified to profit or loss in subsequent periods* | (0.2) | – | (0.2) | – |
| **Other comprehensive income, net of tax** | **(1.4)** | **0.3** | **1.7** | **1.6** |
| **Total comprehensive income** | **3.2** | **12.2** | **6.7** | **29.2** |
| **Total comprehensive income attributable to:** | | | | |
| **Shareholders of the parent** | **1.0** | **12.7** | **5.9** | **29.2** |
| **Non-controlling interests** | **2.2** | **(0.5)** | **0.8** | **–** |

*(in billions of Russian Roubles)*

| | Note | *For the six-month period ended 30 June* 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 373.4 | 310.3 |
| Interest paid | | (186.9) | (147.6) |
| Income received on operations with financial assets at fair value through profit or loss | | 3.6 | 10.9 |
| Income received from extinguishment of liability | | 0.1 | – |
| (Loss incurred)/ income received on dealing in foreign currency | | (2.4) | 16.1 |
| Fees and commissions received | | 37.9 | 33.1 |
| Fees and commissions paid | | (8.2) | (7.1) |
| Other operating income received | | 4.2 | 3.4 |
| Staff costs, administrative expenses paid | | (103.7) | (90.6) |
| Income received from non-banking activities | | 21.5 | 11.9 |
| Expenses paid in non-banking activities | | (18.2) | (14.8) |
| Insurance premium received | | 27.0 | 17.2 |
| Net insurance claims paid | | (16.2) | (4.5) |
| Income tax paid | | (7.7) | (11.0) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **124.4** | **127.3** |
| **Net decrease/(increase) in operating assets** | | | |
| Net increase in mandatory cash balances with central banks | | (7.5) | (24.0) |
| Net decrease/(increase) in restricted cash | | 0.6 | (0.8) |
| Net decrease in correspondent accounts in precious metals | | 0.9 | 1.0 |
| Net decrease/(increase) in financial assets at fair value through profit or loss | | 68.0 | (90.7) |
| Net decrease/(increase) in due from other banks | | 124.8 | (7.4) |
| Net increase in loans and advances to customers | | (878.5) | (568.8) |
| Net increase in other assets | | (0.8) | (7.8) |
| **Net (decrease) increase in operating liabilities** | | | |
| Net (decrease)/increase in due to other banks | | (6.6) | 41.2 |
| Net increase in customer deposits | | 653.8 | 472.7 |
| Net (decrease)/increase in debt securities issued other than bonds issued | | (11.3) | 26.5 |
| Net increase in other liabilities | | 11.5 | 28.1 |
| **Net cash from/(used in) operating activities** | | **79.3** | **(2.7)** |
| **Cash flows used in investing activities** | | | |
| Dividends and other distributions received | | 0.3 | 0.5 |
| Proceeds from sales or maturities of financial assets available-for-sale | | 126.5 | 65.5 |
| Purchase of financial assets available-for-sale | | (162.0) | (105.9) |
| Purchase of subsidiaries, net of cash | | 0.9 | (78.2) |
| Disposal of subsidiaries, net of cash | | 3.4 | 0.1 |
| Purchase of and contributions to associates and joint ventures | | (0.7) | (1.5) |
| Proceeds from sale of associates | | 4.0 | 1.6 |
| Proceeds from distribution to shareholders of associates | | 1.4 | – |
| Proceeds from redemption of investment securities held-to-maturity | | 0.3 | 0.2 |
| Purchase of land, premises and equipment | | (21.3) | (14.9) |
| Proceeds from sale of land, premises and equipment | | 1.7 | 1.7 |
| Purchase or construction of investment property | | (13.3) | (8.2) |
| Proceeds from sale of investment property | | 1.6 | 1.2 |
| Purchase of intangible assets | | (2.1) | (2.0) |
| Proceeds from sale of intangible assets | | 0.3 | 0.4 |
| **Net cash used in investing activities** | | **(59.0)** | **(139.5)** |

_(in billions of Russian Roubles)_

| | Note | For the six-month period ended 30 June 2014 | For the six-month period ended 30 June 2013 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Dividends paid | | (0.9) | (0.6) |
| Proceeds from issuance of local bonds | | 8.5 | 47.5 |
| Repayment of local bonds | | (13.6) | (52.2) |
| Buy-back of local bonds | | (10.6) | (22.2) |
| Proceeds from sale of previously bought-back local bonds | | 10.5 | 14.1 |
| Proceeds from issuance of Eurobonds | | 7.5 | 30.3 |
| Repayment of Eurobonds | | (35.3) | (24.7) |
| Buy-back of Eurobonds | | (18.4) | (5.2) |
| Proceeds from sale of previously bought-back Eurobonds | | 8.6 | 14.1 |
| Proceeds from syndicated loans | | 1.2 | 62.1 |
| Repayment of syndicated loans | | (0.2) | – |
| Proceeds from other borrowings and funds from local central banks | | 3,002.6 | 1,385.2 |
| Repayment of other borrowings and funds from local central banks | | (2,677.5) | (1,387.6) |
| Repayment of subordinated debt | | (4.3) | (0.3) |
| Buy-back of subordinated debt | | (0.9) | (0.6) |
| Proceeds from sale of previously bought-back subordinated debt | | 1.0 | – |
| Proceeds from share issue, less transaction costs | | – | 100.3 |
| Cash received from sale of treasury shares | | 11.2 | 20.1 |
| Cash paid for treasury shares | | (10.0) | (17.7) |
| Cash paid for purchase of non-controlling interests in subsidiaries and non-parent interests in consolidated funds | | (8.3) | – |
| Buy-back of perpetual loan participation notes | | (1.7) | (3.3) |
| Proceeds from sale of previously bought-back perpetual loan participation notes | | 1.7 | 3.2 |
| Amounts paid on perpetual loan participation notes | 25 | (3.7) | (3.4) |
| **Net cash from financing activities** | | **267.4** | **159.1** |
| Effect of exchange rate changes on cash and cash equivalents | | (0.2) | 23.5 |
| Effect of hyperinflation | | (0.7) | (0.3) |
| **Net increase in cash and cash equivalents** | | **286.8** | **40.1** |
| **At the beginning of period** | 5 | **348.6** | **560.9** |
| **At the end of period** | 5 | **635.4** | **601.0** |

_(in billions of Russian Roubles)_

| | *Attributable to shareholders of the parent* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Share premium* | *Perpetual loan participation notes* | *Treasury shares and bought back perpetual loan participation loan notes* | *Other reserves (Note 17)* | *Retained earnings* | *Total* | *Non-controlling interests* | *Total equity* |
| **Balance at 1 January 2013** | **113.1** | **358.5** | **68.3** | **(13.7)** | **33.9** | **193.7** | **753.8** | **12.3** | **766.1** |
| Net result from treasury shares transactions | – | – | – | 9.3 | – | (6.9) | **2.4** | – | **2.4** |
| Profit for the period | – | – | – | – | – | 27.6 | **27.6** | – | **27.6** |
| Other comprehensive income | – | – | – | – | 1.2 | 0.4 | **1.6** | – | **1.6** |
| **Total comprehensive income for the period** | – | – | – | – | **1.2** | **28.0** | **29.2** | – | **29.2** |
| Transfer of land and premises revaluation reserve upon disposal or depreciation | – | – | – | – | (0.4) | 0.4 | **–** | – | – |
| Share issue | 25.0 | 75.3 | – | – | – | – | **100.3** | – | **100.3** |
| Share-based payments | – | – | – | – | – | 0.4 | **0.4** | – | **0.4** |
| Acquisition of subsidiaries | – | – | – | – | – | – | **–** | (1.2) | **(1.2)** |
| Acquisition of non-controlling interests and other capital transactions | – | – | – | – | – | (0.1) | **(0.1)** | (0.1) | **(0.2)** |
| Foreign exchange translation of perpetual loan participation notes | – | – | 5.2 | – | – | (5.2) | **–** | – | **–** |
| Amounts paid and due on perpetual loan participation notes (Note 25) | – | – | – | – | – | (6.9) | **(6.9)** | – | **(6.9)** |
| Tax effect recognised on perpetual loan participation notes | – | – | – | – | – | 2.4 | **2.4** | – | **2.4** |
| Dividends declared (Note 25) | – | – | – | – | – | (15.0) | **(15.0)** | (0.6) | **(15.6)** |
| **Balance at 30 June 2013** | **138.1** | **433.8** | **73.5** | **(4.4)** | **34.7** | **190.8** | **866.5** | **10.4** | **876.9** |
| **Balance at 1 January 2014** | **138.1** | **433.8** | **73.6** | **(3.6)** | **35.6** | **262.0** | **939.5** | **7.6** | **947.1** |
| Net result from treasury shares transactions | – | – | – | 1.2 | – | – | **1.2** | – | **1.2** |
| Profit for the period | – | – | – | – | – | 4.3 | **4.3** | 0.7 | **5.0** |
| Other comprehensive income | – | – | – | – | 1.7 | (0.1) | **1.6** | 0.1 | **1.7** |
| **Total comprehensive income for the period** | **–** | **–** | **–** | **–** | **1.7** | **4.2** | **5.9** | **0.8** | **6.7** |
| Transfer of land and premises revaluation reserve upon disposal or depreciation | – | – | – | – | (0.6) | 0.6 | **–** | – | **–** |
| Share-based payments | – | – | – | – | – | (0.2) | **(0.2)** | – | **(0.2)** |
| Increase in share capital of subsidiaries | – | – | – | – | – | – | **–** | 0.1 | **0.1** |
| Acquisition of subsidiaries | – | – | – | – | – | – | **–** | 0.5 | **0.5** |
| Acquisition of non-controlling interests | – | – | – | – | – | – | **–** | 0.3 | **0.3** |
| Amounts paid and due on perpetual loan participation notes (Note 25) | – | – | – | – | – | (7.3) | **(7.3)** | – | **(7.3)** |
| Foreign exchange translation of perpetual loan participation notes | – | – | 2.1 | – | – | (2.1) | **–** | – | **–** |
| Tax effect recognized on perpetual loan participation notes | – | – | – | – | – | 1.9 | **1.9** | – | **1.9** |
| Dividends declared (Note 25) | – | – | – | – | – | (15.0) | **(15.0)** | (1.3) | **(16.3)** |
| **Balance at 30 June 2014** | **138.1** | **433.8** | **75.7** | **(2.4)** | **36.7** | **244.1** | **926.0** | **8.0** | **934.0** |

## 1. Principal Activities

VTB Bank and its subsidiaries (the "Group") comprise Russian and foreign commercial banks, insurance, leasing and other companies and entities controlled by the Group.

VTB Bank, formerly known as Vneshtorgbank (the "Bank", or "VTB"), was formed as Russia's foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganizations, VTB was reorganized into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. In March 2007, the Bank for Foreign Trade was renamed into "VTB Bank" (Open Joint-Stock Company).

On 2 January 1991, VTB received a general banking license (number 1000) from the Central Bank of the Russian Federation (CBR). In addition, VTB holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian Group banks are regulated and supervised by the CBR. Foreign Group banks operate under the bank regulatory regimes of their respective countries.

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Deposit Insurance Agency" (DIA). The Group subsidiary banks in Russia: "Bank VTB 24", CJSC, "Bank of Moscow", OJSC and "Leto Bank", OJSC are also members of the obligatory deposit insurance system provided by DIA. The State deposit insurance scheme implies that DIA guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 700 thousand with a 100% compensation of deposited amount from 1 October 2008.

On 5 October 2005, VTB re-registered its legal address to 29 Bolshaya Morskaya Street, Saint-Petersburg 190000, Russian Federation. VTB's Head Office is located in Moscow.

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks with its network of 77 full service branches, including 23 branches of VTB, 44 branches of "Bank VTB 24", CJSC, 10 branches of "Bank of Moscow", OJSC located in major Russian regions.

The Group operates outside Russia through 15 bank subsidiaries, located in Austria, Germany, France, Great Britain, Cyprus, Serbia, Armenia, Belarus (2 banks), Kazakhstan, Azerbaijan, Ukraine (2 banks), Georgia and Angola; through 2 representative offices located in Italy and China; through 2 VTB branches in China and India and 2 branches of "VTB Capital", Plc in Singapore and Dubai. The Group investment banking division also performs broker/dealer operations in the United States of America, securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

VTB's majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 60.9% of VTB's issued and outstanding shares at 30 June 2014 (31 December 2013: 60.9%).

The number of employees of the Group at 30 June 2014 was 109,741 (31 December 2013: 103,808).

Unless otherwise noted herein, all amounts are expressed in billions of Russian Roubles rounded off to one decimal.

## 2. Operating Environment of the Group

Russia is continuing economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

In the first half of 2014, the economic and political uncertainty in Ukraine increased. These uncertainties have been taken into consideration in valuing the Group's assets and liabilities related to its activities in Ukraine. At 30 June 2014, the Group's investments in Ukrainian sovereign and municipal securities as well as loans to Ukrainian government fully or majority owned enterprises amounted to less than 0.3% of the Group's total assets. The Group continues to monitor the situation in Ukraine and take appropriate actions in order to minimize the effects of these risks. In July and August 2014, several countries imposed limited sectoral sanctions on the Group. The Group is assessing the effect of these sanctions on its financial position and its financial performance. Further significant negative developments in Ukraine could adversely impact the results and financial position of the Group and or the Group's Ukrainian subsidiaries in a manner not currently determinable.

## 3. Basis of Preparation

These interim condensed consolidated financial statements ("financial statements") have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. As a result, they do not include all of the information required by International Financial Reporting Standards (IFRS) for a complete set of financial statements. Operating results for the six-month period ended 30 June 2014 are not necessarily indicative of the results that may be expected for the year ending 31 December 2014. The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These interim condensed consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with International Accounting Standard 34 *Interim Financial Reporting.*

These interim condensed consolidated financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, revaluation of premises and investment property, available-for-sale financial assets, and financial instruments categorized as at fair value through profit or loss.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates. Judgments and significant estimates in these financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2013. Income tax expense in respect of the current tax assets and liabilities is recognized based on the income tax rates enacted by the end of the reporting period in relevant tax jurisdictions where the Group operates. Income tax expense in respect of the deferred tax assets and liabilities is measured at the income tax rates that are expected to apply to the period when deferred assets are realized or liability are settled based on the income tax rates officially enacted by the end of the reporting period.

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements as of 31 December 2013.

These interim condensed consolidated financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at 30 June 2014, the principal closing rate of exchange used for translating balances in USD to Russian Roubles was USD 1 to RUR 33.6306 (at 31 December 2013: USD 1 to RUR 32.7292), and the principal closing rate of exchange used for translating balances in Euro was EUR 1 to RUR 45.8251 (at 31 December 2013: EUR 1 to RUR 44.9699).

## 4. Adoption of New or Revised Standards and Interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations as of 1 January 2014 noted below:

***Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014).*** The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. These amendments had no impact on the Group's financial position since the parent and consolidated entities do not qualify as investment entities.

***Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

***Recoverable Amount Disclosures for Non-financial Assets – Amendments to IAS 36 (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period).*** These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position.

*(in billions of Russian Roubles)*

## 4. Adoption of New or Revised Standards and Interpretations (continued)

***Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).*** The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. These amendments had no impact on the Group's financial position since the Group has no novation of its derivatives during the current period.

***IFRIC 21 – Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014).*** The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. This IFRIC had no impact on the Group's financial position.

## 5. Cash and Short-Term Funds

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| Cash on hand | 136.2 | 116.9 |
| Cash balances (other than mandatory) with central banks | 300.3 | 120.4 |
| Correspondent accounts with other banks | | |
| - Russia | 169.0 | 44.3 |
| - OECD | 26.2 | 70.0 |
| - Other countries | 7.9 | 2.7 |
| **Total cash and short-term funds** | **639.6** | **354.3** |
| Less: correspondent accounts in precious metals | (2.9) | (3.8) |
| Less: restricted cash | (1.3) | (1.9) |
| **Total cash and cash equivalents** | **635.4** | **348.6** |

## 6. Financial Assets at Fair Value through Profit or Loss

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| Financial assets held for trading | 319.7 | 377.1 |
| Financial assets designated as at fair value through profit or loss | 43.3 | 34.0 |
| **Total financial assets at fair value through profit or loss** | **363.0** | **411.1** |

Financial assets designated as at fair value through profit or loss are managed on a fair value basis, in accordance with the risk management or investment strategies adopted by each Group member and the information provided to key management personnel.

*(in billions of Russian Roubles)*

## 6. Financial Assets at Fair Value through Profit or Loss (continued)

### Financial assets held for trading

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| *Debt securities* | | |
| -Bonds and eurobonds of Russian companies and banks | 106.4 | 159.1 |
| -Bonds and eurobonds of foreign companies and banks | 32.7 | 47.5 |
| -Bonds and eurobonds of foreign governments | 18.7 | 14.4 |
| -Russian municipal bonds and eurobonds | 4.3 | 5.0 |
| -Russian Federal loan bonds (OFZ) | 2.2 | 4.4 |
| -Promissory notes of Russian companies and banks | 0.8 | 1.1 |
| -Eurobonds of the Russian Federation | 0.2 | 1.6 |
| *Total debt securities* | *165.3* | *233.1* |
| *Derivative financial assets* (Note 29) | *99.5* | *80.2* |
| *Trading credit products* | *50.9* | *49.0* |
| *Equity securities* | *4.0* | *14.8* |
| **Total financial assets held for trading** | **319.7** | **377.1** |

At 30 June 2014, bonds and eurobonds of Russian companies and banks are represented mostly by debt securities issued by oil companies, banks and metal companies; equity securities are represented mostly by securities issued by Russian metal, car manufacturing companies and foreign insurance company.

### Reclassifications

During the six-month period ended 30 June 2014, the Group reclassified certain financial assets that met the definition of loans and receivables from the financial assets at fair value through profit or loss to loans and advances to customers. The Group considered holding these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers' credit risk. Information about the reclassified financial assets is presented in the table below:

| | *30 June 2014 (unaudited)* |
|---|---|
| Fair value as at the date of reclassification | 12.2 |
| Carrying amount as at 30 June | 11.7 |
| Fair value as at 30 June | 12.2 |
| Fair value gain/(loss) recognized up to the date of reclassification | (0.2) |
| Fair value gain/(loss) that would have been recognized on the assets reclassified in 2014 for the six-month period ended 30 June 2014 if the reclassification had not been made | (0.1) |
| Gain/(loss), income/(expense) recognized after reclassification in profit or loss for the six-month period ended 30 June 2014 | 0.2 |

### Financial assets designated as at fair value through profit or loss

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| *Equity securities* | *28.1* | *16.9* |
| *Reverse sale and repurchase agreements to maturity* | *12.0* | *11.4* |
| *Debt securities* | | |
| -Bonds and eurobonds of foreign companies and banks | 3.0 | 5.5 |
| -Bonds and eurobonds of Russian companies and banks | 0.2 | 0.2 |
| *Total debt securities* | *3.2* | *5.7* |
| **Total financial assets designated as at fair value through profit or loss** | **43.3** | **34.0** |

As at 30 June 2014, equity securities are represented mostly by securities issued by Russian and foreign retail and foreign mass-media companies.

*(in billions of Russian Roubles)*

## 7. Financial Assets Pledged under Repurchase Agreements

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| ***Financial assets at fair value through profit or loss*** | | |
| *Financial assets held for trading* | | |
| Debt securities | | |
| - Bonds and eurobonds of Russian companies and banks | 135.7 | 133.7 |
| - Russian Federal loan bonds (OFZ) | 1.7 | 0.8 |
| - Russian municipal bonds | 1.4 | – |
| - Bonds and eurobonds of foreign companies and banks | 0.7 | 0.8 |
| - Bonds and eurobonds of foreign governments | 0.3 | 0.8 |
| - Eurobonds of the Russian Federation | – | 0.2 |
| Equity securities | 16.7 | 8.7 |
| *Total financial assets held for trading* | *156.5* | *145.0* |
| ***Total financial assets at fair value through profit or loss*** | **156.5** | ***145.0*** |
| ***Financial assets available-for-sale*** | | |
| - Bonds and eurobonds of Russian companies and banks | 51.2 | 11.2 |
| - Russian Federal loan bonds (OFZ) | 12.5 | 12.8 |
| - Eurobonds of the Russian Federation | 5.4 | 4.1 |
| - Bonds and eurobonds of foreign governments | 1.0 | – |
| ***Total financial assets available-for-sale*** | ***70.1*** | ***28.1*** |
| ***Financial assets classified as due from other banks*** | **2.8** | **2.8** |
| Financial assets classified as loans and advances to customers | 335.1 | 290.6 |
| Less: Allowance for impairment (Note 24) | (0.2) | – |
| ***Total financial assets classified as loans and advances to customers*** | ***334.9*** | ***290.6*** |
| ***Investment securities held-to-maturity*** | **–** | ***0.1*** |
| **Total financial assets pledged under repurchase agreements** | **564.3** | **466.6** |

As at 30 June 2014, bonds and eurobonds of Russian companies and banks included in financial assets pledged under repurchase agreements are represented mostly by debt securities issued by Russian oil companies and banks.

As at 30 June 2014, financial assets classified as loans and advances to customers pledged under repurchase agreements are represented mostly by federal loan bonds with debt amortization (OFZ-AD) with the carrying amount of RUR 265.5 billion (31 December 2013: RUR 259.2 billion) which were purchased by “Bank of Moscow”, OJSC in September 2011 from proceeds of loan from DIA.

## 8. Due from Other Banks

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| OECD | 171.0 | 303.9 |
| Russia | 131.9 | 99.8 |
| Other countries | 28.9 | 42.5 |
| **Total gross due from other banks** | **331.8** | **446.2** |
| Less: Allowance for impairment (Note 24) | (3.1) | (2.8) |
| **Total due from other banks** | **328.7** | **443.4** |

*(in billions of Russian Roubles)*

## 9. Loans and Advances to Customers

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| **Loans to legal entities** | | |
| Current activity financing | 3,607.4 | 3,196.8 |
| Project finance and other | 1,335.7 | 1,125.5 |
| Finance leases | 267.0 | 277.6 |
| Reverse sale and repurchase agreements | 202.8 | 209.4 |
| **Total gross loans to legal entities** | **5,412.9** | **4,809.3** |
| **Loans to individuals** | | |
| Consumer loans and other | 846.8 | 758.6 |
| Mortgages | 639.9 | 539.9 |
| Car loans | 128.3 | 133.2 |
| Credit cards | 99.7 | 86.2 |
| Reverse sale and repurchase agreements | 2.8 | 2.9 |
| **Total gross loans to individuals** | **1,717.5** | **1,520.8** |
| Less: Allowance for impairment (Note 24) | (442.9) | (361.1) |
| **Total loans and advances to customers** | **6,687.5** | **5,969.0** |

Finance leases represent loans to leasing companies and net investment in leases. As at 30 June 2014, included in gross loans are finance lease receivables of RUR 173.5 billion (31 December 2013: RUR 192.0 billion), equal to the net investment in lease before allowance for impairment.

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

| | *30 June 2014 (unaudited)* | | *31 December 2013* | |
|---|---|---|---|---|
| | *Amount* | *%* | *Amount* | *%* |
| Individuals | 1,717.5 | 24.1 | 1,520.8 | 24.0 |
| Building construction | 848.1 | 11.9 | 725.6 | 11.5 |
| Manufacturing | 761.5 | 10.7 | 649.0 | 10.3 |
| Trade and commerce | 591.5 | 8.3 | 556.6 | 8.8 |
| Metals | 538.8 | 7.6 | 519.4 | 8.2 |
| Oil and gas | 535.4 | 7.5 | 297.0 | 4.7 |
| Finance | 476.1 | 6.7 | 536.7 | 8.5 |
| Chemical | 345.1 | 4.8 | 305.3 | 4.8 |
| Energy | 297.9 | 4.2 | 320.7 | 5.1 |
| Transport | 275.6 | 3.9 | 269.5 | 4.3 |
| Government bodies | 242.6 | 3.4 | 150.5 | 2.4 |
| Telecommunications and media | 132.5 | 1.9 | 107.2 | 1.7 |
| Food and agriculture | 114.2 | 1.6 | 109.1 | 1.7 |
| Coal mining | 109.8 | 1.5 | 130.3 | 2.1 |
| Aircraft | 9.6 | 0.1 | 12.2 | 0.2 |
| Other | 134.2 | 1.8 | 120.2 | 1.7 |
| **Total gross loans and advances to customers** | **7,130.4** | **100.0** | **6,330.1** | **100.0** |

Finance industry includes loans issued to holding companies of industrial groups, mergers and acquisitions financing, and loans to leasing, insurance and other non-bank financial companies.

As at 30 June 2014, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 1,363.4 billion, or 18.3% of the gross loan portfolio and loans pledged under repurchase agreements (31 December 2013: RUR 1,189.2 billion or 18.0%).

As at 30 June 2014, the gross amount of non-performing loans which the Group defines as impaired loans with repayments overdue by over 90 days was RUR 439.9 billion or 5.9 % of the aggregate of the gross loan portfolio and loans pledged under repurchase agreements (31 December 2013: RUR 312.7 billion, or 4.7%).

*(in billions of Russian Roubles)*

## 10. Investment Financial Assets Available-for-Sale

| | ***30 June 2014 (unaudited)*** | ***31 December 2013*** |
|---|---|---|
| *Debt securities* | | |
| - Bonds and eurobonds of foreign governments | 36.6 | 32.3 |
| - Bonds and eurobonds of Russian companies and banks | 32.5 | 36.2 |
| - Russian Federal loan bonds (OFZ) | 22.4 | 26.3 |
| - Bonds and eurobonds of foreign companies and banks | 12.2 | 9.3 |
| - Promissory notes of Russian companies and banks | 1.5 | 1.3 |
| - Eurobonds of the Russian Federation | – | 5.3 |
| *Total debt securities* | *105.2* | *110.7* |
| *Equity securities* | *24.1* | *24.7* |
| **Total investment financial assets available-for-sale** | **129.3** | **135.4** |

As at 30 June 2014, bonds and eurobonds of foreign governments are represented mostly by bonds issued by German government and municipal bodies.

As at 30 June 2014, bonds and eurobonds of Russian companies and banks are represented mostly by bonds of banks and bonds issued by oil, railway transportation and metal companies; equity securities are represented mostly by shares of Russian metal, manufacturing and building construction companies and a foreign retail company.

### Reclassifications

During the six-month period ended 30 June 2014, the Group reclassified certain financial assets that met the definition of loans and receivables out of investment financial assets available-for-sale to loans and advances to customers. The Group considered holding these investments in foreseeable future or till maturity, due to low market liquidity and price transparency as well as positive outlook for issuer's credit risk. Information about the reclassified financial assets is presented in the table below:

| | ***30 June 2014 (unaudited)*** |
|---|---|
| Fair value as at the date of reclassification | 70.6 |
| Carrying amount as at 30 June | 70.6 |
| Fair value as at 30 June | 71.8 |
| Fair value gain/(loss) recognized up to the date of reclassification | (0.2) |
| Fair value gain/(loss) that would have been recognized on the assets reclassified in 2014 for the six-month period ended 30 June 2014 if the reclassification had not been made | (0.8) |
| Gain/(loss), income/(expense) recognized after reclassification in profit or loss for the six-month period ended 30 June 2014 | 1.2 |

## 11. Investments in Associates and Joint Ventures

| | ***30 June 2014 (unaudited)*** | ***31 December 2013*** |
|---|---|---|
| Investments in associates and joint ventures designated as at fair value through profit or loss | 56.6 | 55.2 |
| Investments in associates and joint ventures accounted under the equity method | 21.8 | 32.4 |
| **Total investments in associates and joint ventures** | **78.4** | **87.6** |

In March 2014, "Lenta Limited", the Group's associate accounted under the equity method, completed initial public offering (IPO). As a result of the IPO, the Group reduced its stake in "Lenta Limited" from 11.73% to 9.10% and discontinued equity accounting of its investment in "Lenta Limited" as the Group lost its significance influence. The Group designated its remaining investment in "Lenta Limited" as at fair value though profit or loss. As a result of the IPO, the Group recognized RUR 1.7 billion gain on partial disposal of its investment in "Lenta Limited" and RUR 6.2 billion gain on revaluation of the remaining stake at the transaction date.

*(in billions of Russian Roubles)*

**11. Investments in Associates and Joint Ventures (continued)**

In January 2014, the Group acquired a 22.5% equity stake in Lagartino Partners Inc., a parent company of Russian Fitness Group ("RFG"), for USD 19.3 million (RUR 0.7 billion) and designated this investment as at fair value through profit or loss.

In January 2014, the Group sold a 12.2% stake in Burger King Russia (Cyprus) Ltd. for USD 25 million (RUR 0.9 billion) to a financial investor. As a result, the stake of Golden Star Investment Ltd. in Burger King Russia (Cyprus) Ltd. decreased to 36.6%.

In April 2014, the Group acquired a 29.75% equity stake in Perovskoe, OJSC for non-cash consideration of RUR 0.4 billion and accounted this investment using the equity method.

As at 30 June 2014, the fair value of the Group's investments in T2 (Netherlands) B.V., a joint venture designated as at fair value through profit or loss, was RUR 53.1 billion (31 December 2013: RUR 53.1 billion).

**12. Disposal Groups Held for Sale**

The Group has investments in the disposal groups held for sale, including subsidiaries acquired exclusively with a view to resale, accounted for in accordance with IFRS 5. The Management of the Group is committed to dispose of these investments in the near future, generally within one year from the initial classification as a disposal group.

| | | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|---|
| **Assets of disposal groups held for sale** | | | |
| Segezha Pulp and Paper Mill, OJSC | 100% owned subsidiary | 15.7 | 17.2 |
| Mariisky NPZ, CJSC | 99.3% owned subsidiary | 8.2 | 6.1 |
| Derevoobrabotka - Proekt, LLC | 100% owned subsidiary | 6.2 | n/a |
| Tower B of Skylight Business Centre | non-current asset held for sale | 5.8 | 5.2 |
| Gorki-8, Ltd. | 74.9% owned subsidiary | 1.5 | n/a |
| BM Bank, Ltd., Ukraine | 100% owned subsidiary | n/a | 7.0 |
| Other | | 1.0 | 1.2 |
| **Total assets of disposal groups held for sale** | | **38.4** | **36.7** |
| **Liabilities of disposal groups held for sale** | | | |
| Segezha Pulp and Paper Mill, OJSC | 100% owned subsidiary | 5.0 | 12.7 |
| Derevoobrabotka - Proekt, LLC | 100% owned subsidiary | 4.3 | n/a |
| Gorki-8, Ltd. | 74.9% owned subsidiary | 1.8 | n/a |
| Mariisky NPZ, CJSC | 99.3% owned subsidiary | 0.2 | 0.4 |
| BM Bank, Ltd., Ukraine | 100% owned subsidiary | n/a | 6.9 |
| Other | | 1.1 | 0.7 |
| **Total liabilities of disposal groups held for sale** | | **12.4** | **20.7** |

In February 2014, the Group obtained 100% share in Derevoobrabotka-Proekt, LLC for non-cash consideration of RUR 4.0 billion. This investment is disclosed within segment "Other".

In the first quarter 2014, the Group ceased to classify BM Bank, Ltd., Ukraine as a disposal group held for sale as significantly increased economic and political uncertainty in Ukraine did not allow the Group to classify the sale of BM Bank, Ltd., as highly probable.

In June 2014, the Group located a third-party buyer for Gorki-8, Ltd., and the acquisition transaction was completed in July 2014. As a result the Group disposed of its 74.9% share in Gorki-8, Ltd. and acquired additional investments in the buyer, and accounted for these investments within associates and joint ventures.

**13. Due to Other Banks**

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| Term loans and deposits | 357.2 | 345.5 |
| Correspondent accounts and overnight deposits of other banks | 199.3 | 214.7 |
| Sale and repurchase agreements with other banks | 101.7 | 106.4 |
| **Total due to other banks** | **658.2** | **666.6** |

*(in billions of Russian Roubles)*

## 14. Customer Deposits

| | ***30 June 2014 (unaudited)*** | ***31 December 2013*** |
|---|---|---|
| **Government bodies** | | |
| Current/settlement deposits | 137.8 | 126.9 |
| Term deposits | 618.3 | 258.9 |
| **Other legal entities** | | |
| Current/settlement deposits | 704.3 | 751.5 |
| Term deposits | 1,682.6 | 1,398.7 |
| **Individuals** | | |
| Current/settlement deposits | 347.1 | 337.2 |
| Term deposits | 1,519.3 | 1,456.2 |
| **Sale and repurchase agreements** | 11.0 | 12.0 |
| **Total customer deposits** | **5,020.4** | **4,341.4** |

As at 30 June 2014, term deposits of other legal entities include RUR 32.2 billion (31 December 2013: RUR 70.2 billion) of promissory notes issued, which represent in-substance deposit relationships.

As at 30 June 2014, the Group's 10 largest groups of interrelated customers had aggregated balances amounting to RUR 1,508.3 billion or 30.0% of total customer deposits (31 December 2013: RUR 1,060.6 billion or 24.4%).

## 15. Other Borrowed Funds

| | ***30 June 2014 (unaudited)*** | ***31 December 2013*** |
|---|---|---|
| Funds from local central banks | 1,349.8 | 1,028.5 |
| Syndicated loans | 184.7 | 179.1 |
| Other borrowings | 291.8 | 278.3 |
| **Total other borrowed funds** | **1,826.3** | **1,485.9** |

As at 30 June 2014, funds from local central banks include short-term repurchase facilities as well as special funding facilities collateralised by loans and sureties. As at 30 June 2014, the special funding facilities in the amount of RUR 598.0 billion (31 December 2013: RUR 547.7 billion) were secured by pledged loans to customers in the amount of RUR 867.2 billion (31 December 2013: RUR 625.6 billion).

In September 2011, "Bank of Moscow", OJSC received a RUR 294.8 billion loan from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support of "Bank of Moscow", OJSC earlier signed by CBR and DIA. The Group recognized the loan initially at fair value. As at 30 June 2014, the carrying amount of the loan of RUR 161.4 billion was included in other borrowings (31 December 2013: RUR 159.0 billion). The loan was secured by pledged loans to customers in the amount of RUR 200.4 billion (31 December 2013: RUR 205.4 billion).

## 16. Debt Securities Issued

| | ***30 June 2014 (unaudited)*** | ***31 December 2013*** |
|---|---|---|
| Bonds | 562.1 | 592.1 |
| Promissory notes | 123.6 | 133.4 |
| Deposit certificates | 12.9 | 12.7 |
| **Total debt securities issued** | **698.6** | **738.2** |

Promissory notes represent notes primarily issued by VTB in the local market as an alternative to customer/bank deposits.

*(in billions of Russian Roubles)*

## 16. Debt Securities Issued (continued)

The bonds represent eurobonds issued mostly under EMTN and ECP programs and local bonds issued by VTB and other Group members with the carrying amounts at the end of the reporting periods as follows:

| | *Rates, p.a.* | *Maturity* | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|---|---|
| USD Eurobonds (EMTN) | 2.04% to 6.88% | 2014-2035 | 245.6 | 249.2 |
| CHF Eurobonds (EMTN) | 2.90% to 5.00% | 2015-2018 | 45.8 | 43.9 |
| ECP | n/a | 2014-2015 | 8.0 | 21.7 |
| Other Eurobonds | 1.80% to 13.23% | 2014-2034 | 87.6 | 97.6 |
| Local bonds | 0.01% to 9.40% | 2014-2046 | 175.1 | 179.7 |
| **Total bonds** | | | **562.1** | **592.1** |

## 17. Other Reserves

Movements in other reserves were as follows (unaudited):

| | *Unrealized gain on financial assets available-for-sale and cash flow hedge* | *Land and premises revaluation reserve* | *Currency translation difference* | *Total* |
|---|---|---|---|---|
| **Balance at 1 January 2013** | **4.3** | **20.8** | **8.8** | **33.9** |
| Total comprehensive income for the period | 0.6 | – | 0.6 | **1.2** |
| Transfer of land and premises revaluation reserve upon disposal or depreciation | – | (0.4) | – | **(0.4)** |
| **Balance at 30 June 2013** | **4.9** | **20.4** | **9.4** | **34.7** |
| **Balance at 1 January 2014** | **3.0** | **20.1** | **12.5** | **35.6** |
| Total comprehensive income for the period | (1.8) | – | 3.5 | **1.7** |
| Transfer of land and premises revaluation reserve upon disposal or depreciation | – | (0.6) | – | **(0.6)** |
| **Balance at 30 June 2014** | **1.2** | **19.5** | **16.0** | **36.7** |

## 18. Interest Income and Expense

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| **Interest income** | | | | |
| **Financial assets at fair value through profit or loss** | **8.1** | **9.2** | **16.9** | **17.8** |
| Loans and advances to customers | 188.5 | 156.0 | 364.8 | 301.0 |
| Due from other banks | 2.1 | 1.3 | 3.9 | 3.4 |
| Other financial assets, including securities | 1.4 | 0.9 | 2.7 | 2.4 |
| **Financial assets not at fair value through profit or loss** | **192.0** | **158.2** | **371.4** | **306.8** |
| **Total interest income** | **200.1** | **167.4** | **388.3** | **324.6** |
| **Interest expense** | | | | |
| Customer deposits | (61.7) | (54.2) | (114.2) | (101.0) |
| Due to other banks and other borrowed funds | (33.5) | (18.0) | (61.2) | (37.3) |
| Debt securities issued | (11.9) | (13.1) | (24.5) | (25.0) |
| Subordinated debt | (5.7) | (5.6) | (11.2) | (11.0) |
| **Total interest expense** | **(112.8)** | **(90.9)** | **(211.1)** | **(174.3)** |
| **Net interest income** | **87.3** | **76.5** | **177.2** | **150.3** |

*(in billions of Russian Roubles)*

## 19. Fee and Commission Income and Expense

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| Commission on settlement transactions | 12.7 | 10.5 | 24.1 | 19.9 |
| Commission on guarantees issued and trade finance | 3.0 | 2.6 | 5.9 | 4.9 |
| Commission on operations with securities and capital markets | 1.1 | 2.3 | 2.8 | 3.4 |
| Commission on cash transactions | 1.0 | 1.4 | 2.0 | 2.4 |
| Other | 1.0 | 1.2 | 2.4 | 2.1 |
| **Total fee and commission income** | **18.8** | **18.0** | **37.2** | **32.7** |
| Commission on settlement transactions | (3.0) | (2.1) | (5.5) | (4.7) |
| Commission on cash transactions | (0.6) | (0.8) | (1.3) | (1.1) |
| Other | (0.7) | (1.0) | (1.6) | (1.3) |
| **Total fee and commission expense** | **(4.3)** | **(3.9)** | **(8.4)** | **(7.1)** |
| **Net fee and commission income** | **14.5** | **14.1** | **28.8** | **25.6** |

## 20. Gains Net of Losses / (Losses Net of Gains) Arising from Financial Instruments at Fair Value Through Profit or Loss

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| Losses net of gains arising from trading financial instruments | (4.6) | (6.7) | (2.7) | (8.2) |
| Gains net of losses / (losses net of gains) arising from financial instruments designated as at fair value through profit or loss | 6.3 | (0.3) | (0.3) | 0.3 |
| Gains net of losses arising from associates and joint-ventures designated as at fair value through profit or loss | 0.6 | 0.1 | 0.9 | 0.1 |
| Gains from puttable financial instruments arising from non-parent interests in consolidated funds | 7.6 | – | 7.6 | – |
| **Total gains net of losses / (losses net of gains) arising from financial instruments at fair value through profit or loss** | **9.9** | **(6.9)** | **5.5** | **(7.8)** |

In June 2014, the Group acquired for RUR 8.3 billion from certain third-party holders 51.8% interests in the consolidated VTB − Long term investments, Closed-end Unit Investment Fund which were previously accounted for within other liabilities, and as a result, the Group recognised a RUR 7.6 billion gain from puttable financial instruments arising from non-parent interests in consolidated funds.

## 21. (Losses Net of Gains) / Gains Net of Losses Arising from Foreign Currencies

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| (Losses net of gains) / gains net of losses arising from dealing in foreign currencies | (13.7) | 20.4 | 2.7 | 26.3 |
| Foreign exchange translation gains net of losses / (losses net of gains) | 10.5 | (17.8) | (14.1) | (26.6) |
| **Total (losses net of gains) / gains net of losses arising from foreign currencies** | **(3.2)** | **2.6** | **(11.4)** | **(0.3)** |

_(in billions of Russian Roubles)_

## 22. Gains on Initial Recognition of Financial Instruments, Restructuring and Other Gains on Loans and Advances to Customers

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | ***2014*** | ***2013*** | ***2014*** | ***2013*** |
| Net gains / (losses) on initial recognition of financial instruments | 0.3 | (0.1) | 0.2 | (0.3) |
| Other gains on loans and advances to customers | 1.3 | 0.4 | 1.5 | 3.2 |
| **Total gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers** | **1.6** | **0.3** | **1.7** | **2.9** |

## 23. Staff Costs and Administrative Expenses

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | ***2014*** | ***2013*** | ***2014*** | ***2013*** |
| Staff costs | 29.2 | 26.4 | 57.4 | 50.9 |
| Defined contribution pension expense | 3.0 | 2.8 | 6.5 | 5.9 |
| Depreciation and other expenses related to premises and equipment | 5.9 | 5.1 | 11.5 | 9.2 |
| Leasing and rent expenses | 2.7 | 2.5 | 5.4 | 4.9 |
| Advertising expenses | 2.4 | 1.7 | 3.6 | 2.7 |
| Payments to deposit insurance system | 1.7 | 1.5 | 3.4 | 2.8 |
| Taxes other than on income | 2.0 | 2.0 | 3.3 | 4.1 |
| Professional services | 1.6 | 1.7 | 3.0 | 2.8 |
| Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit and customer loan intangibles | 1.4 | 1.2 | 2.6 | 2.1 |
| Amortization of core deposit and customer loan intangibles | 1.2 | 1.2 | 2.5 | 2.5 |
| Post and telecommunication expenses | 1.3 | 0.8 | 2.1 | 1.5 |
| Security expenses | 0.9 | 0.7 | 1.7 | 1.4 |
| Transport expenses | 0.9 | 0.8 | 1.7 | 1.2 |
| Charity | 0.5 | 1.3 | 1.1 | 1.7 |
| Insurance costs | 0.2 | 0.3 | 0.3 | 0.6 |
| Other | 1.3 | 1.4 | 2.9 | 3.0 |
| **Total staff costs and administrative expenses** | **56.2** | **51.4** | **109.0** | **97.3** |

*(in billions of Russian Roubles)*

## 24. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks, loans and advances to customers including loans pledged under repurchase agreements, investment securities held-to-maturity, credit related commitments, other assets and legal claims were as follows (unaudited):

| | *Due from other banks* | *Loans and advances to customers including loans pledged under repurchase Agreements* | *Investment securities held-to-maturity* | *Credit related commitments* | *Other assets* | *Legal claims* | *Total* |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2013 (audited)** | **2.2** | **323.3** | **2.0** | **0.9** | **2.7** | **1.9** | **333.0** |
| Provision / (reversal of provision) for impairment during the period | 0.1 | 50.6 | – | (0.3) | 1.8 | 0.5 | **52.7** |
| Write-offs | – | (11.2) | – | – | (0.2) | – | **(11.4)** |
| Recoveries of amounts written-off in previous periods | – | 0.3 | – | – | 0.1 | – | **0.4** |
| Effect of translation | 0.1 | 9.0 | – | – | – | – | **9.1** |
| Reclassification to assets of disposal groups held for sale (IFRS 5) | – | (0.3) | – | – | – | – | **(0.3)** |
| **Balance at 30 June 2013** | **2.4** | **371.7** | **2.0** | **0.6** | **4.4** | **2.4** | **383.5** |
| **Balance at 1 January 2014 (audited)** | **2.8** | **361.1** | **–** | **0.8** | **3.3** | **2.8** | **370.8** |
| Provision / (reversal of provision) for impairment during the period | 0.3 | 92.5 | – | 4.0 | 1.8 | (1.9) | **96.7** |
| Write-offs | – | (13.7) | – | – | (0.8) | (0.3) | **(14.8)** |
| Effect of translation | – | (0.3) | – | 0.2 | 0.2 | (0.6) | **(0.5)** |
| Reclassification from assets of disposal groups held for sale (IFRS 5) | – | 3.9 | – | – | – | – | **3.9** |
| Disposal of subsidiaries | – | (0.4) | – | – | – | – | **(0.4)** |
| **Balance at 30 June 2014** | **3.1** | **443.1** | **–** | **5.0** | **4.5** | **–** | **455.7** |

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for legal claims and credit-related commitments are recorded in liabilities. In accordance with the Group policies and procedures based on Russian legislation, loans may only be written off with the approval of the authorized management body and, in certain cases, with the respective decision of the court.

## 25. Dividends and Amounts Paid and Due under Perpetual Loan Participation Notes

In June 2014, Annual General Meeting of VTB shareholders declared dividends of RUR 15.0 billion for 2013 (RUR 0.00116 per share) which were paid in July-August 2014.

In June 2013, Annual General Meeting of VTB shareholders declared dividends of RUR 15.0 billion for 2012 (RUR 0.00143 per share) which were paid in July-August 2013.

In June 2014, VTB paid USD 106.9 million (RUR 3.7 billion) due under Perpetual Loan Participation Notes. The amounts due of USD 106.9 million (RUR 3.6) under Perpetual Loan Participation Notes payable in the next six months period became mandatory after declaration of dividends by Annual General Meeting of VTB shareholders.

In June 2013, VTB paid USD 106.9 million (RUR 3.4 billion) due under Perpetual Loan Participation Notes. The amounts due of USD 106.9 million (RUR 3.5) under Perpetual Loan Participation Notes payable in the next six months period became mandatory after declaration of dividends by Annual General Meeting of VTB shareholders.

## 26. Share-Based Payments

*Shares Plan.* As at 30 June 2014 the total value of the award granted under the Shares Plan was RUR 1.2 billion (31 December 2013: RUR 1.6 billion) represented by 20.5 billion shares of VTB (31 December 2013: 24.7 billion).

*(in billions of Russian Roubles)*

## 26. Share-Based Payments (continued)

*GDRs Plan.* As at 30 June 2014 the total value of the award granted under the GDRs Plan was RUR 1.4 billion (31 December 2013: RUR 1.3 billion) represented by 11.3 million GDRs of VTB (31 December 2013: 9.7 million). Each GDR contains 2,000 VTB shares.

For the three-month and six-month periods ended 30 June 2014, the Group recognized in Staff costs the amount of RUR 0.1 billion and RUR 0.5 billion, respectively (for the three-month and six-month periods ended 30 June 2013: RUR 0.3 billion and RUR 0.7 billion, respectively) as expenses related to the above equity-settled share-based payment transactions.

## 27. Basic and Diluted Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

| | *For the three-month period ended 30 June (unaudited)* | | *For the six-month period ended 30 June (unaudited)* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| Weighted average number of ordinary shares in issue | 12,916,202,356,172 | 11,463,520,024,479 | 12,908,141,603,687 | 10,901,470,991,895 |
| Net profit attributable to shareholders of the parent | 1.9 | 12.6 | 4.3 | 27.9 |
| Amounts due on perpetual loan participation notes, net of tax | (5.9) | (5.5) | (5.9) | (5.5) |
| **Total net (loss)/profit attributable to shareholders of the parent** | **(4.0)** | **7.1** | **(1.6)** | **22.4** |
| **Basic and diluted earnings per share (expressed in Russian Roubles per share)** | **(0.0003)** | **0.0006** | **(0.0001)** | **0.0021** |
| Profit after tax from subsidiaries acquired exclusively with a view to resale | 1.1 | 3.0 | 3.0 | 3.0 |
| **Basic and diluted earnings per share (expressed in Russian Roubles per share)** | **0.0001** | **0.0003** | **0.0002** | **0.0003** |
| Total net (loss) / profit attributable to shareholders of the parent less profit after tax from subsidiaries acquired exclusively with a view to resale | (5.1) | 4.1 | (4.6) | 19.4 |
| **Basic and diluted earnings per share (expressed in Russian Roubles per share)** | **(0.0004)** | **0.0003** | **(0.0004)** | **0.0018** |

## 28. Income Tax

Income tax expense comprises the following:

| | *For the three-month period ended 30 June* | | *For the six-month period ended 30 June* | |
|---|---|---|---|---|
| | *2014* | *2013* | *2014* | *2013* |
| Current tax expense | 9.1 | 4.9 | 13.8 | 10.6 |
| Deferred tax expense due to the origination and reversal of temporary differences | (2.1) | (1.3) | (1.4) | (1.2) |
| **Income tax expense for the period** | **7.0** | **3.6** | **12.4** | **9.4** |

*(in billions of Russian Roubles)*

**28. Income Tax (continued)**

The Group's effective income tax rate for the first six months of 2014 was 86.1% (the first six months of 2013: 27.6%). The effective income tax rate for the first six months of 2014 differs from the theoretical tax rate mainly due to unrecognised deferred tax assets of Ukrainian subsidiaries and due to differences associated with non-deductible expenses and income taxed at different rates.

The following tables provide disclosure of income tax effects relating to each component of other comprehensive income for the three months and six months ended 30 June 2014 and 2013:

| | *For the three-month period ended 30 June (unaudited)* | | | | | |
|---|---|---|---|---|---|---|
| | *2014* | | | *2013* | | |
| | *Before tax* | *Tax (expense)/ credit* | *Net of tax* | *Before tax* | *Tax expense* | *Net of tax* |
| Net result on financial assets available-for-sale | 3.1 | (0.6) | **2.5** | 0.1 | – | **0.1** |
| Cash flow hedges | (1.0) | 0.2 | **(0.8)** | – | – | **–** |
| Exchange differences on translation of foreign operations | (3.0) | – | **(3.0)** | 0.2 | – | **0.2** |
| Share in other comprehensive income of associates and joint ventures | 0.1 | – | **0.1** | – | – | **–** |
| Actuarial losses net of gains arising from difference between pension plan assets and obligations | (0.2) | – | **(0.2)** | – | – | **–** |
| **Other comprehensive income** | **(1.0)** | **(0.4)** | **(1.4)** | **0.3** | **–** | **0.3** |

| | *For the six-month period ended 30 June (unaudited)* | | | | | |
|---|---|---|---|---|---|---|
| | *2014* | | | *2013* | | |
| | *Before tax* | *Tax (expense)/ credit* | *Net of tax* | *Before tax* | *Tax expense* | *Net of tax* |
| Net result on financial assets available-for-sale | (2.1) | 0.1 | **(2.0)** | 0.8 | (0.2) | **0.6** |
| Cash flow hedges | 0.2 | – | **0.2** | – | – | **–** |
| Exchange differences on translation of foreign operations | 3.7 | – | **3.7** | 0.9 | – | **0.9** |
| Share in other comprehensive income of associates and joint ventures | – | – | **–** | 0.1 | – | **0.1** |
| Actuarial losses net of gains arising from difference between pension plan assets and obligations | (0.2) | – | **(0.2)** | – | – | **–** |
| **Other comprehensive income** | **1.6** | **0.1** | **1.7** | **1.8** | **(0.2)** | **1.6** |

**29. Contingencies, Commitments and Derivative Financial Instruments**

***Legal proceedings.*** From time to time and in the normal course of business, claims against the Group are received. Management assessed probable outflow of resources and is of the opinion that there would be no material outflow of resources and accordingly no material provision has been made in these Interim condensed consolidated financial statements (31 December 2013: RUR 2.8 billion).

***Tax contingencies.*** Major part of the Group's business activity is carried out in the Russian Federation. Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and late payment interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

*(in billions of Russian Roubles)*

## 29. Contingencies, Commitments and Derivative Financial Instruments (continued)

The Russian transfer pricing legislation allows the Russian tax authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market price unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions supported by appropriate available transfer pricing documentation and proper reporting to the Russian tax authorities. In 2014, the Group determined its tax liabilities arising from “controlled” transactions using actual transaction prices. Management believes that the Group complies with the Russian transfer pricing legislation requirements in respect to “controlled” transactions, including a duly prepared notification submitted to the tax authorities and transfer pricing documentation confirming application of market prices by the Group with respect to its “controlled” transactions.

The Group also operates in various jurisdictions and includes companies incorporated outside of Russia that are taxed at different rates and under different legislation. Tax liabilities of the Group are determined on the basis that these companies do not have a permanent establishment in Russia and hence are not subject to Russian profits tax except for Russian tax withheld at source (i.e. dividend, interest, certain capital gains, etc.). Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities, some or all of the foreign companies of the Group may be treated as being subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

As at 30 June 2014, management believes that its interpretation of the relevant legislation is appropriate and that the Group’s tax, currency and customs positions will be sustained.

***Credit related commitments***

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

| | *30 June 2014 (unaudited)* | *31 December 2013* |
|---|---|---|
| Guarantees issued | 1,079.5 | 975.2 |
| Letters of credit | 44.5 | 46.0 |
| Undrawn credit lines | 33.0 | 28.0 |
| Commitments to extend credit | 3.1 | 2.6 |
| Less: provision for impairment on credit related commitments (Note 24) | (5.0) | (0.8) |
| **Total credit related commitments** | **1,155.1** | **1,051.0** |

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 30 June 2014 is RUR 251.7 billion (31 December 2013: RUR 109.0 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 8.7 billion (31 December 2013: RUR 10.5 billion).

As at 30 June 2014, included in guarantees issued are guarantees issued for a related Russian entity of RUR 98.1 billion or 9.1% of the guarantees issued. (31 December 2013: RUR 52.9 billion or 5.4% of the guarantees issued).

***Purchase commitments.*** As at 30 June 2014, the Group had RUR 35.2 billion of outstanding commitments for the purchase of precious metals (31 December 2013: RUR 27.8 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognized on these contracts.

***Derivative financial instruments.*** Foreign exchange and other financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardized contractual terms and conditions.

*(in billions of Russian Roubles)*

## 29. Contingencies, Commitments and Derivative Financial Instruments (continued)

The table below includes derivative contracts outstanding at 30 June 2014 and 31 December 2013:

| | *30 June 2014 (unaudited)* | | *31 December 2013* | |
|---|---|---|---|---|
| | ***Positive fair value*** | ***Negative fair value*** | ***Positive fair value*** | ***Negative fair value*** |
| **Derivative financial instruments at fair value through profit or loss held for trading** | | | | |
| *Foreign exchange and precious metals contracts* | | | | |
| Forwards | 6.2 | (3.7) | 4.6 | (4.3) |
| Futures | 1.6 | (0.4) | 0.1 | (0.7) |
| Swaps | 17.3 | (8.2) | 13.4 | (10.2) |
| Options | 11.8 | (10.9) | 3.1 | (4.9) |
| *Contracts with securities* | | | | |
| Forward with securities | 0.1 | – | – | – |
| Swap with securities | – | – | 0.2 | (0.2) |
| Options | 3.9 | (4.8) | 4.2 | (8.1) |
| *Interest Rate contracts* | | | | |
| Single currency interest rate swaps | 11.6 | (11.3) | 10.1 | (10.0) |
| Cross currency interest rate swaps | 34.3 | (28.8) | 34.1 | (23.4) |
| Cap/Floor | 0.3 | (0.8) | 0.6 | (0.9) |
| *Contracts with other basic variables* | | | | |
| Sale of credit default swaps | 4.5 | (0.8) | 3.2 | (1.4) |
| Purchase of credit default swaps | 0.4 | (2.5) | 0.6 | (1.9) |
| Futures on Indexes | 0.1 | – | 0.1 | – |
| Options on Indexes | 2.8 | (1.9) | 1.7 | (1.2) |
| Commodity swaps | 0.3 | (0.6) | 0.4 | (0.2) |
| Commodity futures | 0.6 | (0.2) | 0.5 | (0.5) |
| Commodity options | – | (0.2) | 0.1 | (0.2) |
| *Embedded derivatives on structured instruments* | | | | |
| Embedded derivatives on foreign exchange instruments | 1.2 | (0.2) | 1.9 | – |
| Embedded derivatives on interest rate instruments | 2.3 | – | 1.0 | – |
| Embedded derivatives on securities instruments | – | (0.2) | – | (0.1) |
| Embedded derivatives on indexes | – | (0.8) | – | (0.9) |
| Embedded derivatives on credit risk | 0.2 | – | 0.3 | – |
| **Total derivative financial instruments at fair value through profit or loss held for trading** | **99.5** | **(76.3)** | **80.2** | **(69.1)** |
| **Derivative financial instruments designated as hedging instruments** | | | | |
| *Derivatives held as fair value hedges* | | | | |
| Interest rate swaps | – | (1.8) | 0.1 | (2.4) |
| Foreign exchange swaps | 0.4 | – | – | – |
| *Derivatives held as cash flow hedges* | | | | |
| Interest rate swaps | 0.1 | – | 0.2 | (0.1) |
| Foreign exchange swaps | 1.1 | – | 0.8 | – |
| Forward sale of equity securities | 8.7 | – | 7.8 | – |
| **Total derivative financial instruments designated as hedging instruments** | **10.3** | **(1.8)** | **8.9** | **(2.5)** |
| **Total derivative financial instruments** | **109.8** | **(78.1)** | **89.1** | **(71.6)** |

## 30. Analysis by Segment

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Group Managing Committee.

## 30. Analysis by Segment (continued)

In accordance with IFRS 8, *Operating Segments*, the Group defined as the major operating segments the global business lines. On this basis, the Group aggregated these operating segments in accordance with IFRS 8 into the following reportable segments: Corporate-Investment banking (CIB) – Investment banking, Loans and Deposits, Transaction banking subsegments; Mid-Corporate banking (MCB) – Investment banking, Loans and Deposits, Transaction banking subsegments; Retail business – Retail banking and Insurance subsegments; Treasury, Corporate Centre and Other.

During the six-month period ended 30 June 2014, the Group introduced a new reportable segment *Mid-Corporate banking (MCB)* previously combined in CIB following introduction of a new global business line of Mid-Corporate banking and subsequent client segmentation on the base of the clients' revenue and global business line geographical scope.

The segment information as at 31 December 2013 and for the six months ended 30 June 2013 was not retrospectively restated to reflect the change in segment composition because the necessary information was not readily available and the cost to develop it would be excessive. Accordingly, the segment information as at 30 June 2014 and for the six months then ended is not comparable to the preceding year and six months ended 30 June 2013.

*(in billions of Russian Roubles)*

## 30. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 30 June 2014 (unaudited) and results for the six months ended 30 June 2014 (unaudited) is set out below:

| | *Corporate-Investment banking (CIB)* | | | | | *Mid-Corporate banking (MCB)* | | | | | *Retail business (RB)* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ***Invest-ment banking*** | ***Loans and deposits*** | ***Transac-tion banking*** | ***Inter-CIB elimi-nations*** | ***Total CIB*** | ***Invest-ment banking*** | ***Loans and deposits*** | ***Transac-tion banking*** | ***Inter-MCB elimi-nations*** | ***Total MCB*** | ***Retail banking*** | ***Insurance*** | ***Inter-RB elimi-nations*** | ***Total RB*** | ***Treasury*** | ***Corporate centre*** | ***Other*** | ***Total before Inter-segment elimi-nations*** | ***Inter-segment elimi-nations*** | ***Total*** |
| ***For the six months ended 30 June 2014:*** | | | | | | | | | | | | | | | | | | | | |
| **Revenues from:** | | | | | | | | | | | | | | | | | | | | |
| External customers | *51.5* | *141.1* | *4.2* | – | 196.8 | *0.3* | *41.0* | *6.7* | – | 48.0 | *169.2* | *23.6* | – | 192.8 | 23.8 | – | 22.7 | 484.1 | – | 484.1 |
| Other segments | *33.6* | *14.7* | *6.6* | *(0.5)* | 54.4 | – | *8.3* | *5.0* | – | 13.3 | *23.6* | *1.4* | *(0.7)* | 24.3 | 193.4 | – | 2.4 | 287.8 | (287.8) | – |
| **Total revenues** | ***85.1*** | ***155.8*** | ***10.8*** | ***(0.5)*** | **251.2** | ***0.3*** | ***49.3*** | ***11.7*** | **–** | **61.3** | ***192.8*** | ***25.0*** | ***(0.7)*** | **217.1** | **217.2** | **–** | **25.1** | **771.9** | **(287.8)** | **484.1** |
| **Segment income and expense** | | | | | | | | | | | | | | | | | | | | |
| Interest income | *78.9* | *152.0* | *6.4* | *(0.1)* | 237.2 | *0.1* | *48.8* | *5.0* | – | 53.9 | *166.7* | *0.8* | *(0.4)* | 167.1 | 213.5 | – | 0.6 | 672.3 | (284.0) | **388.3** |
| Interest expense | *(63.0)* | *(121.3)* | *(1.1)* | *0.1* | (185.3) | *(0.1)* | *(39.2)* | *(1.0)* | – | (40.3) | *(74.7)* | *(0.2)* | *0.2* | (74.7) | (184.9) | – | (9.4) | (494.6) | 283.5 | **(211.1)** |
| Treasury result allocation | *0.1* | *0.1* | – | – | 0.2 | – | *4.3* | – | – | 4.3 | *1.5* | – | – | 1.5 | (13.1) | – | 7.1 | – | – | **–** |
| **Net interest income** | ***16.0*** | ***30.8*** | ***5.3*** | **–** | **52.1** | **–** | ***13.9*** | ***4.0*** | **–** | **17.9** | ***93.5*** | ***0.6*** | ***(0.2)*** | **93.9** | **15.5** | **–** | **(1.7)** | **177.7** | **(0.5)** | **177.2** |
| **(**Provision charge) / reversal of provision for impairment of debt financial assets | *(1.4)* | *(29.3)* | – | – | (30.7) | – | *(11.4)* | – | – | (11.4) | *(52.0)* | – | *(0.2)* | (52.2) | 1.6 | – | (0.1) | (92.8) | – | **(92.8)** |
| **Net interest income after provision for impairment** | ***14.6*** | ***1.5*** | ***5.3*** | **–** | **21.4** | **–** | ***2.5*** | ***4.0*** | **–** | **6.5** | ***41.5*** | ***0.6*** | ***(0.4)*** | **41.7** | **17.1** | **–** | **(1.8)** | **84.9** | **(0.5)** | **84.4** |
| Net fee and commission income/(expense) | *2.6* | *0.4* | *4.2* | *(0.1)* | 7.1 | – | – | *5.5* | – | 5.5 | *15.3* | – | – | 15.3 | 0.6 | – | 0.2 | 28.7 | 0.1 | **28.8** |
| Other gains less losses arising from financial instruments and foreign currencies | *(0.4)* | *(1.6)* | – | – | (2.0) | *0.2* | *(0.1)* | – | – | 0.1 | *2.9* | *0.1* | – | 3.0 | (14.1) | – | 7.3 | (5.7) | 1.5 | **(4.2)** |
| Share in income of associates and joint ventures | *(0.2)* | – | – | – | (0.2) | – | *0.2* | – | – | 0.2 | – | – | – | – | 0.3 | – | – | 0.3 | – | **0.3** |
| Profit from disposal of subsidiaries and associates | *7.9* | *1.2* | – | – | 9.1 | – | – | – | – | – | – | – | – | – | (0.1) | – | 0.3 | 9.3 | – | **9.3** |
| Other operating income/(expense) items | *0.4* | *4.0* | – | – | 4.4 | – | *(0.3)* | *(4.3)* | – | (4.6) | *1.0* | *8.0* | *0.4* | 9.4 | (0.2) | – | (1.7) | 7.3 | (2.5) | **4.8** |
| **Net operating income** | ***24.9*** | ***5.5*** | ***9.5*** | ***(0.1)*** | **39.8** | ***0.2*** | ***2.3*** | ***5.2*** | **–** | **7.7** | ***60.7*** | ***8.7*** | **–** | **69.4** | **3.6** | **–** | **4.3** | **124.8** | **(1.4)** | **123.4** |
| Staff costs and administrative expenses | *(12.7)* | *(10.1)* | *(3.5)* | *0.1* | (26.2) | – | *(7.8)* | *(6.2)* | – | (14.0) | *(53.9)* | *(3.5)* | *0.4* | (57.0) | (3.6) | (8.1) | (2.9) | (111.8) | 2.8 | **(109.0)** |
| **Segment results: profit before taxation** | ***12.2*** | ***(4.6)*** | ***6.0*** | **–** | **13.6** | ***0.2*** | ***(5.5)*** | ***(1.0)*** | **–** | **(6.3)** | ***6.8*** | ***5.2*** | ***0.4*** | **12.4** | **–** | **(8.1)** | **1.4** | **13.0** | **1.4** | **14.4** |
| Income tax expense | *(2.3)* | *(3.7)* | *(1.2)* | – | (7.2) | – | *(0.3)* | *0.2* | – | (0.1) | *(2.1)* | *(1.5)* | – | (3.6) | – | 1.3 | (2.8) | (12.4) | – | **(12.4)** |
| **Net profit after tax** | ***9.9*** | ***(8.3)*** | ***4.8*** | **–** | **6.4** | ***0.2*** | ***(5.8)*** | ***(0.8)*** | **–** | **(6.4)** | ***4.7*** | ***3.7*** | ***0.4*** | **8.8** | **–** | **(6.8)** | **(1.4)** | **0.6** | **1.4** | **2.0** |
| Profit after tax from subsidiaries acquired exclusively with a view to resale | – | *(0.1)* | – | – | (0.1) | – | – | – | – | – | – | – | – | – | – | – | 2.5 | 2.4 | 0.6 | **3.0** |
| **Net profit** | ***9.9*** | ***(8.4)*** | ***4.8*** | **–** | **6.3** | ***0.2*** | ***(5.8)*** | ***(0.8)*** | **–** | **(6.4)** | ***4.7*** | ***3.7*** | **0.4** | **8.8** | **–** | **(6.8)** | **1.1** | **3.0** | **2.0** | **5.0** |

*(in billions of Russian Roubles)*

## 30. Analysis by Segment (continued)

| | ***Corporate-Investment banking (CIB)*** | | | | | ***Mid-Corporate banking (MCB)*** | | | | | ***Retail business (RB)*** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***30 June 2014*** | ***Invest-ment banking*** | ***Loans and deposits*** | ***Trans-action banking*** | ***Inter-CIB elimi-nations*** | ***Total CIB*** | ***Invest-ment banking*** | ***Loans and deposits*** | ***Trans-action banking*** | ***Inter-MCB elimi-nations*** | ***Total MCB*** | ***Retail banking*** | ***Insurance*** | ***Inter-RB elimi-nations*** | ***Total RB*** | ***Treasury*** | ***Corporate centre*** | ***Other*** | ***Total before Inter-segment elimi-nations*** | ***Inter-segment elimi-nations*** | ***Total*** |
| Cash and short-term funds | *32.7* | *0.5* | – | – | 33.2 | – | – | *1.5* | – | 1.5 | *145.1* | *0.4* | – | 145.5 | 458.8 | – | 0.6 | 639.6 | – | **639.6** |
| Mandatory cash balances with central banks | – | – | – | – | – | – | – | – | – | – | *18.1* | – | – | 18.1 | 48.1 | – | – | 66.2 | – | **66.2** |
| Due from other banks | *84.3* | *92.9* | – | – | 177.2 | – | – | – | – | – | *7.9* | *2.2* | – | 10.1 | 138.2 | – | 3.2 | 328.7 | – | **328.7** |
| Loans and advances to customers | *769.9* | *3,303.1* | – | – | 4,073.0 | *0.4* | *803.7* | – | – | 804.1 | *1,788.8* | – | – | 1,788.8 | 21.2 | – | 0.4 | 6,687.5 | – | **6,687.5** |
| Other financial instruments | *491.6* | *8.3* | – | – | 499.9 | *2.4* | *2.2* | – | – | 4.6 | *98.2* | *7.0* | – | 105.2 | 418.6 | – | 28.7 | 1,057.0 | – | **1,057.0** |
| Investments in associates and joint ventures | *64.7* | *4.8* | – | – | 69.5 | – | *2.3* | – | – | 2.3 | – | – | – | – | 6.1 | – | 0.5 | 78.4 | – | **78.4** |
| Other assets items | *70.3* | *126.0* | *18.6* | – | 214.9 | – | *121.7* | *28.7* | – | 150.4 | *101.3* | *26.1* | – | 127.4 | 18.7 | – | 386.5 | 897.9 | – | **897.9** |
| Net amount of intersegment settlements | *146.2* | – | *376.1* | *(522.3)* | – | – | – | *273.1* | *(273.1)* | – | *494.0* | *22.3* | – | 516.3 | 2,301.6 | – | – | 2,817.9 | (2,817.9) | **–** |
| **Segment assets** | ***1,659.7*** | ***3,535.6*** | ***394.7*** | ***(522.3)*** | **5,067.7** | ***2.8*** | ***929.9*** | ***303.3*** | ***(273.1)*** | **962.9** | ***2,653.4*** | ***58.0*** | **–** | **2,711.4** | **3,411.3** | **–** | **419.9** | **12,573.2** | **(2,817.9)** | **9,755.3** |
| Due to other banks | *90.9* | *23.7* | *0.3* | – | 114.9 | – | *0.9* | – | – | 0.9 | *7.2* | – | – | 7.2 | 535.2 | – | – | 658.2 | – | **658.2** |
| Customer deposits | *1,234.1* | *388.5* | *386.1* | – | 2,008.7 | – | *208.0* | *265.8* | – | 473.8 | *2,196.3* | – | – | 2,196.3 | 337.1 | – | 4.5 | 5,020.4 | – | **5,020.4** |
| Other borrowed funds | *18.1* | *100.3* | – | – | 118.4 | – | – | – | – | – | *149.5* | *1.2* | – | 150.7 | 1,554.0 | – | 3.2 | 1,826.3 | – | **1,826.3** |
| Debt securities issued | *32.2* | *54.6* | – | – | 86.8 | – | *11.1* | – | – | 11.1 | *49.9* | – | – | 49.9 | 548.9 | – | 1.9 | 698.6 | – | **698.6** |
| Subordinated debt | – | – | – | – | – | – | – | – | – | – | *6.3* | – | – | 6.3 | 284.1 | – | – | 290.4 | – | **290.4** |
| Other liabilities items | *131.0* | *19.8* | *2.5* | – | 153.3 | – | *3.9* | *6.8* | – | 10.7 | *18.1* | *42.8* | – | 60.9 | 27.4 | – | 75.1 | 327.4 | – | **327.4** |
| Net amount of intersegment settlements | – | *2,732.1* | – | *(522.3)* | 2,209.8 | *2.5* | *544.1* | – | *(273.1)* | 273.5 | – | – | – | – | – | – | 334.6 | 2,817.9 | (2,817.9) | **–** |
| **Segment liabilities** | ***1,506.3*** | ***3,319.0*** | ***388.9*** | ***(522.3)*** | **4,691.9** | ***2.5*** | ***768.0*** | ***272.6*** | ***(273.1)*** | **770.0** | ***2,427.3*** | ***44.0*** | **–** | **2,471.3** | **3,286.7** | **–** | **419.3** | **11,639.2** | **(2,817.9)** | **8,821.3** |

*(in billions of Russian Roubles)*

## 30. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2013 and results for the six months ended 30 June 2013 (unaudited) is set out below:

| | *Corporate-Investment banking (CIB)* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ***Investment banking*** | ***Loans and deposits*** | ***Transaction banking*** | ***Inter-CIB eliminations*** | ***Total CIB*** | ***Retail banking*** | ***Treasury*** | ***Other*** | ***Total before inter-segment eliminations*** | ***Inter-segment eliminations*** | ***Total*** |
| ***For the six months ended 30 June 2013:*** | | | | | | | | | | | |
| **Revenues from:** | | | | | | | | | | | |
| External customers | *34.2* | *163.4* | *10.1* | – | 207.7 | 128.6 | 37.3 | 31.8 | **405.4** | – | **405.4** |
| Other segments | *29.8* | *22.8* | *12.8* | *(0.7)* | 64.7 | 30.6 | 163.5 | 3.4 | **262.2** | (262.2) | **–** |
| **Total revenues** | ***64.0*** | ***186.2*** | ***22.9*** | ***(0.7)*** | **272.4** | **159.2** | **200.8** | **35.2** | **667.6** | **(262.2)** | **405.4** |
| **Segment income and expense** | | | | | | | | | | | |
| Interest income | *50.8* | *181.0* | *12.7* | *(0.2)* | 244.3 | 134.4 | 197.5 | 0.9 | **577.1** | (252.5) | **324.6** |
| Interest expense | *(45.3)* | *(146.0)* | *(2.8)* | *0.1* | (194.0) | (63.9) | (160.5) | (7.9) | **(426.3)** | 252.0 | **(174.3)** |
| Treasury result allocation | *0.5* | *5.1* | – | – | 5.6 | 8.2 | (13.8) | – | **–** | – | **–** |
| **Net interest income** | ***6.0*** | ***40.1*** | ***9.9*** | ***(0.1)*** | **55.9** | **78.7** | **23.2** | **(7.0)** | **150.8** | **(0.5)** | **150.3** |
| (Provision charge) / reversal of provision for impairment of debt financial assets | *(0.2)* | *(18.7)* | – | – | (18.9) | (24.6) | (7.0) | – | **(50.5)** | (0.2) | **(50.7)** |
| **Net interest income after provision for impairment** | ***5.8*** | ***21.4*** | ***9.9*** | ***(0.1)*** | **37.0** | **54.1** | **16.2** | **(7.0)** | **100.3** | **(0.7)** | **99.6** |
| Net fee and commission income/(expense) | *3.6* | *0.5* | *9.0* | – | 13.1 | 17.6 | (0.2) | 0.4 | **30.9** | (5.3) | **25.6** |
| Other gains less losses arising from financial instruments and foreign currencies | *7.9* | *0.5* | – | – | 8.4 | 1.1 | (12.3) | (5.9) | **(8.7)** | 1.1 | **(7.6)** |
| Share in income of associates and joint ventures | *0.2* | *0.5* | – | – | 0.7 | – | 0.2 | – | **0.9** | – | **0.9** |
| Profit from disposal of subsidiaries and associates | *0.1* | – | – | – | 0.1 | – | – | 0.7 | **0.8** | – | **0.8** |
| Other operating income/(expense) items | *0.1* | *1.8* | – | – | 1.9 | 0.6 | – | 8.3 | **10.8** | 1.2 | **12.0** |
| **Operating income** | ***17.7*** | ***24.7*** | ***18.9*** | ***(0.1)*** | **61.2** | **73.4** | **3.9** | **(3.5)** | **135.0** | **(3.7)** | **131.3** |
| Staff costs and administrative expenses | *(11.6)* | *(20.6)* | *(12.1)* | – | (44.3) | (47.9) | (3.9) | (4.2) | **(100.3)** | 3.0 | **(97.3)** |
| **Segment results: Profit before taxation** | ***6.1*** | ***4.1*** | ***6.8*** | ***(0.1)*** | **16.9** | **25.5** | **–** | **(7.7)** | **34.7** | **(0.7)** | **34.0** |
| Income tax expense | *(1.5)* | *(0.9)* | *(1.7)* | – | (4.1) | (4.9) | – | (0.6) | **(9.6)** | 0.2 | **(9.4)** |
| **Net profit after tax** | ***4.6*** | ***3.2*** | ***5.1*** | ***(0.1)*** | **12.8** | **20.6** | **–** | **(8.3)** | **25.1** | **(0.5)** | **24.6** |
| Profit after tax from subsidiaries acquired exclusively with a view to resale | *2.8* | – | – | *0.1* | 2.9 | – | – | – | **2.9** | 0.1 | **3.0** |
| **Net profit** | ***7.4*** | ***3.2*** | ***5.1*** | **–** | **15.7** | **20.6** | **–** | **(8.3)** | **28.0** | **(0.4)** | **27.6** |

*(in billions of Russian Roubles)*

## 30. Analysis by Segment (continued)

| | *Corporate-Investment banking (CIB)* | | | | | *Retail business (RB)* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***As at 31 December 2013*** | ***Investment banking*** | ***Loans and deposits*** | ***Transaction banking*** | ***Inter-CIB elimi-nations*** | ***Total CIB*** | ***Retail banking*** | ***Insurance*** | ***Inter-RB elimi-nations*** | ***Total RB*** | ***Treasury*** | ***Corporate centre*** | ***Other*** | ***Total before Inter-segment elimi-nations*** | ***Inter-segment elimi-nations*** | ***Total*** |
| Cash and short-term funds | *39.6* | *0.4* | *1.9* | – | 41.9 | *142.2* | *0.3* | – | 142.5 | 169.6 | – | 0.3 | **354.3** | – | **354.3** |
| Mandatory cash balances with central banks | – | – | – | – | – | *17.4* | – | – | 17.4 | 41.3 | – | – | **58.7** | – | **58.7** |
| Due from other banks | *62.7* | *28.2* | – | – | 90.9 | *3.7* | *3.1* | – | 6.8 | 345.4 | – | 0.3 | **443.4** | – | **443.4** |
| Loans and advances to customers | *454.4* | *3,810.9* | – | – | 4,265.3 | *1,629.8* | – | – | 1,629.8 | 43.8 | – | 30.1 | **5,969.0** | – | **5,969.0** |
| Other financial instruments | *505.9* | *7.6* | – | – | 513.5 | *43.7* | *8.0* | – | 51.7 | 416.6 | – | 32.0 | **1,013.8** | – | **1,013.8** |
| Investments in associates and joint ventures | *75.0* | *6.8* | – | – | 81.8 | – | – | – | – | 5.8 | – | – | **87.6** | – | **87.6** |
| Other assets items | *71.1* | *224.0* | *48.0* | – | 343.1 | *120.8* | *19.6* | – | 140.4 | 19.3 | – | 338.9 | **841.7** | – | **841.7** |
| Net amount of intersegment settlements | *164.3* | – | *652.1* | *(816.4)* | – | *527.9* | *17.0* | – | 544.9 | 1,874.3 | – | – | **2,419.2** | (2,419.2) | **–** |
| **Segment assets** | ***1,373.0*** | ***4,077.9*** | ***702.0*** | ***(816.4)*** | ***5,336.5*** | ***2,485.5*** | ***48.0*** | **–** | **2,533.5** | **2,916.1** | **–** | **401.6** | **11,187.7** | **(2,419.2)** | **8,768.5** |
| Due to other banks | *97.4* | *10.4* | – | – | 107.8 | *26.9* | – | – | 26.9 | 531.5 | – | 0.4 | **666.6** | – | **666.6** |
| Customer deposits | *943.3* | *482.3* | *649.8* | – | 2,075.4 | *2,099.9* | – | – | 2,099.9 | 161.4 | – | 4.7 | **4,341.4** | – | **4,341.4** |
| Other borrowed funds | *61.3* | *88.3* | – | – | 149.6 | *52.1* | *1.2* | – | 53.3 | 1,277.6 | – | 5.4 | **1,485.9** | – | **1,485.9** |
| Debt securities issued | *39.6* | *64.6* | – | – | 104.2 | *54.2* | – | – | 54.2 | 577.9 | – | 1.9 | **738.2** | – | **738.2** |
| Subordinated debt | – | – | – | – | – | *10.4* | – | – | 10.4 | 280.6 | – | – | **291.0** | – | **291.0** |
| Other liabilities items | *113.8* | *23.5* | *6.2* | – | 143.5 | *21.2* | *38.9* | – | 60.1 | 8.5 | – | 86.2 | **298.3** | – | **298.3** |
| Net amount of intersegment settlements | – | *2,950.5* | – | *(816.4)* | *2,134.1* | – | – | – | – | – | – | 285.1 | **2,419.2** | (2,419.2) | **–** |
| **Segment liabilities** | ***1,255.4*** | ***3,619.6*** | ***656.0*** | ***(816.4)*** | ***4,714.6*** | ***2,264.7*** | ***40.1*** | **–** | **2,304.8** | **2,837.5** | **–** | **383.7** | **10,240.6** | **(2,419.2)** | **7,821.4** |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgment in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement of a financial instrument in its entirety.

The following table shows an analysis of financial instruments recorded at recurring fair value by level of the fair value hierarchy as at 30 June 2014 (unaudited):

| | *Quoted prices in active markets* | *Significant observable inputs* | *Significant unobservable inputs* | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| **Financial assets measured at fair value** | | | | |
| **Non-derivative financial assets at fair value through profit or loss** | | | | |
| *Financial assets held for trading* | | | | |
| Debt securities | 79.3 | 73.0 | 13.0 | **165.3** |
| Trading credit products | – | 48.5 | 2.4 | **50.9** |
| Equity securities | 3.2 | 0.6 | 0.2 | **4.0** |
| *Financial assets designated as at fair value through profit or loss* | | | | |
| Equity securities | 18.1 | – | 10.0 | **28.1** |
| Reverse sale and repurchase agreements to maturity | 12.0 | – | – | **12.0** |
| Debt securities | – | 0.4 | 2.8 | **3.2** |
| **Derivative financial assets at fair value through profit or loss** | | | | |
| *Trading derivative financial instruments* | | | | |
| Interest rate contracts | – | 46.2 | – | **46.2** |
| Foreign exchange and precious metals contracts | – | 31.6 | 5.3 | **36.9** |
| Contracts with other basic variables | – | 8.7 | – | **8.7** |
| Contracts with securities | – | 4.0 | – | **4.0** |
| Embedded derivatives on structured instruments | – | 3.7 | – | **3.7** |
| *Hedging derivative financial instruments* | | | | |
| Derivatives held as fair value hedges | – | 0.4 | – | **0.4** |
| Derivatives held as cash flow hedges | – | 1.2 | 8.7 | **9.9** |
| **Financial assets pledged under repurchase agreements** | 68.2 | 157.3 | 1.1 | **226.6** |
| **Investment financial assets available-for-sale** | | | | |
| Debt securities | 45.3 | 57.7 | 2.2 | **105.2** |
| Equity securities | 0.1 | – | 24.0 | **24.1** |
| Investments in associates and joint ventures at fair value through profit or loss | – | – | 56.6 | **56.6** |
| **Financial liabilities measured at fair value** | | | | |
| Financial liabilities | | | | |
| *Trading derivative financial instruments* | | | | |
| Interest rate contracts | – | (40.9) | – | **(40.9)** |
| Foreign exchange and precious metals contracts | (0.1) | (23.1) | – | **(23.2)** |
| Contracts with securities | – | (0.8) | (4.0) | **(4.8)** |
| Contracts with other basic variables | – | (6.2) | – | **(6.2)** |
| Embedded derivatives on structured instruments | – | (1.2) | – | **(1.2)** |
| *Hedging derivative financial instruments* | | | | |
| Derivatives held as fair value hedges | – | (1.8) | – | **(1.8)** |
| Derivatives held as cash flow hedges | – | – | – | **–** |
| *Obligation to deliver securities* | (26.6) | (2.8) | – | **(29.4)** |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2013:

| | *Quoted prices in active markets Level 1* | *Significant observable inputs Level 2* | *Significant unobservable inputs Level 3* | *Total* |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| **Non-derivative financial assets at fair value through profit or loss** | | | | |
| *Financial assets held for trading* | | | | |
| Debt securities | 170.9 | 58.1 | 4.1 | **233.1** |
| Trading credit products | – | 49.0 | – | **49.0** |
| Equity securities | 9.4 | 5.4 | – | **14.8** |
| *Financial assets designated as at fair value through profit or loss* | | | | |
| Equity securities | – | 1.4 | 15.5 | **16.9** |
| Reverse sale and repurchase agreements to maturity | 11.4 | – | – | **11.4** |
| Debt securities | 0.4 | – | 5.3 | **5.7** |
| **Derivative financial assets at fair value through profit or loss** | | | | |
| *Trading derivative financial instruments* | | | | |
| Interest rate contracts | – | 44.8 | – | **44.8** |
| Foreign exchange and precious metals contracts | – | 16.1 | 5.1 | **21.2** |
| Contracts with other basic variables | – | 6.6 | – | **6.6** |
| Contracts with securities | – | 4.4 | – | **4.4** |
| Embedded derivatives on structured instruments | – | 3.2 | – | **3.2** |
| *Hedging derivative financial instruments* | | | | |
| Derivatives held as fair value hedges | – | 0.1 | – | **0.1** |
| Derivatives held as cash flow hedges | – | 1.0 | 7.8 | **8.8** |
| **Financial assets pledged under repurchase agreements** | 101.7 | 71.1 | 0.3 | **173.1** |
| **Investment financial assets available-for-sale** | | | | |
| Debt securities | 56.0 | 54.1 | 0.6 | **110.7** |
| Equity securities | 0.1 | 0.7 | 23.9 | **24.7** |
| Investments in associates and joint ventures at fair value through profit or loss | – | – | 55.2 | **55.2** |
| Financial assets measured at fair value within assets of disposal group held for sale | – | 0.2 | – | **0.2** |
| **Financial liabilities measured at fair value** | | | | |
| Financial liabilities | | | | |
| *Trading derivative financial instruments* | | | | |
| Interest rate contracts | – | (34.3) | – | **(34.3)** |
| Foreign exchange and precious metals contracts | – | (20.1) | – | **(20.1)** |
| Contracts with securities | – | (2.0) | (6.3) | **(8.3)** |
| Contracts with other basic variables | – | (5.4) | – | **(5.4)** |
| Embedded derivatives on structured instruments | – | (1.0) | – | **(1.0)** |
| *Hedging derivative financial instruments* | | | | |
| Derivatives held as fair value hedges | – | (2.4) | – | **(2.4)** |
| Derivatives held as cash flow hedges | – | (0.1) | – | **(0.1)** |
| *Obligation to deliver securities* | (25.5) | (1.4) | – | **(26.9)** |

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets at fair value through profit or loss are mainly dependent on the change of input variables used to determine fair value, such as interest rates, credit spreads, and foreign exchange rates. A significant portion of the available-for-sale financial assets in Level 3 is invested in shares of non-listed companies which are valued based on non-market observable information. Changes in assumptions can lead to adjustments in the fair value of these investments.

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

### *Movement in Level 3 financial assets and liabilities measured at fair value*

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the six months ended 30 June 2014 (unaudited) is as follows:

| | *Financial assets at fair value through profit or loss including* | | | | | |
|---|---|---|---|---|---|---|
| | *Financial assets held for trading including pledged under repurchase agreements* | *Financial assets designated as at fair value through profit or loss* | *Financial assets available-for-sale* | *Investments in associates and joint ventures at fair value through profit or loss* | *Derivative financial instruments* | *Derivative financial instruments designated as hedging instrument* |
| **Fair value at 1 January 2014** | **4.4** | **20.8** | **24.5** | **55.2** | **(1.2)** | **7.8** |
| Gains less losses arising from financial instruments at fair value through profit or loss | (0.3) | (0.9) | – | 0.7 | (3.4) | – |
| Gains less losses recognized in net result on financial assets available-for-sale and cash flow hedge | – | – | 0.6 | – | – | 0.9 |
| Initial recognition – purchase | 4.2 | – | 1.2 | 0.7 | | |
| Derecognition – sale | (0.2) | (7.1) | (1.2) | – | 5.9 | – |
| Derecognition – settlement | – | – | – | – | – | – |
| Acquisition of subsidiaries | – | – | – | – | – | – |
| Transfers into Level 3 | 11.8 | – | 2.6 | – | – | – |
| Transfers out of Level 3 including reclassifications to other categories | (3.2) | – | (1.5) | – | – | – |
| **Fair value at 30 June 2014** | **16.7** | **12.8** | **26.2** | **56.6** | **1.3** | **8.7** |
| **Unrealized gains less losses recognized in net result on financial assets available-for-sale and cash flow hedge in other comprehensive income** | **–** | **–** | **1.1** | **–** | **–** | **0.3** |
| **Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss** | **(0.3)** | **3.7** | **–** | **0.7** | **(3.4)** | **–** |
| **Gains less losses from available-for-sale financial assets** | **–** | **–** | **(0.6)** | **–** | **–** | **0.6** |

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the six months ended 30 June 2013 (unaudited) is as follows:

| | *Financial assets at fair value through profit or loss* | | | | |
|---|---|---|---|---|---|
| | *Financial assets held for trading* | *Financial assets designated as at fair value through profit or loss* | *Financial assets available-for-sale* | *Investments in associates at fair value through profit or loss* | *Derivative financial instruments* |
| **Fair value at 1 January 2013** | **1.9** | **9.5** | **40.0** | **1.3** | **7.0** |
| Gains less losses arising from financial instruments at fair value through profit or loss | – | 0.5 | (1.7) | 0.1 | 0.4 |
| Gains less losses recognized in net result on financial assets available-for-sale | – | – | 3.2 | – | – |
| Initial recognition (purchase or issue) | 2.1 | – | 0.2 | – | – |
| Derecognition (sale or settlement) | – | – | (7.3) | – | (2.6) |
| Transfers out of Level 3 to other Levels | (2.1) | – | (7.8) | – | – |
| **Fair value at 30 June 2013** | **1.9** | **10.0** | **26.6** | **1.4** | **4.8** |
| **Unrealized gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income** | **–** | **–** | **0.3** | **–** | **–** |
| **Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss** | **–** | **0.5** | **(1.7)** | **0.1** | **0.4** |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

### *Transfers between levels*

| *During the six months ended 30 June 2014 (unaudited)* | *Reason for transfer (valuation at the reporting date)* | *Financial assets at fair value through profit or loss including pledged under repurchase agreements* | *Financial assets designated as at fair value through profit or loss* | *Financial assets available-for-sale including pledged under repurchase agreements* | *Total* |
|---|---|---|---|---|---|
| **From Level 1:** | | | | | |
| - to Level 2 | valuation models with market observable inputs | 128.7 | 0.3 | 43.8 | **172.8** |
| - to Level 3 | valuation models with non- market-observable inputs | 2.3 | – | 0.5 | **2.8** |
| **From Level 2:** | | | | | |
| - to Level 1 | active market quotes | 22.1 | 1.1 | 0.3 | **23.5** |
| - to Level 3 | valuation models with non- market-observable inputs | 9.5 | – | 2.1 | **11.6** |
| **From Level 3:** | | | | | |
| - to Level 2 | valuation models with market observable inputs | 0.6 | – | 1.5 | **2.1** |
| **Total** | | **163.2** | **1.4** | **48.2** | **212.8** |

| *During the six months ended 30 June 2013 (unaudited)* | *Reason for transfer (valuation at the reporting date)* | *Financial assets held for trading* | *Financial assets available-for-sale* | *Total* |
|---|---|---|---|---|
| **From Level 1:** | | | | |
| - to Level 2 | valuation models with market observable inputs | 37.6 | 25.6 | **63.2** |
| **From Level 2:** | | | | |
| - to Level 1 | active market quotes | 1.4 | – | **1.4** |
| **From Level 3:** | | | | |
| - to Level 1 | active market quotes | – | 7.6 | **7.6** |
| - to Level 2 | valuation models with market observable inputs | 2.1 | 0.2 | **2.3** |
| **Total** | | **41.1** | **33.4** | **74.5** |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

### *Impact on fair value of Level 3 financial instruments of changes to key assumptions*

The following table shows the quantitative information as at 30 June 2014 (unaudited) about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

| | *Carrying amount* | *Valuation techniques* | *Unobservable input description* | *Input* |
|---|---|---|---|---|
| ***Financial assets at fair value through profit or loss*** | | | | |
| ***Equity securities*** | | | | |
| Other economic sectors | 0.2 | Other | n/a | n/a |
| ***Debt securities*** | | | | |
| Banks and finance companies | 7.2 | Discounted Cash flow | Credit spread | -1.64% - 6.18% (4.6%) |
| Mortgage lending agency | 4.8 | Discounted Cash flow | Credit spread | 0% - 1.2% (0.6%) |
| Other economic sectors | 2.1 | Other | n/a | n/a |
| ***Trading credit products*** | | | | |
| Other finance companies | 2.4 | Discounted Cash flow | Credit spread | 3.46% - 7.75% (5.28%) |
| ***Derivative financial instruments*** | | | | |
| Foreign exchange | 5.3 | Interest rate parity | BYR curve | 19% - 20% (19.99%) |
| Equity options | (4.0) | Option model | Volatility | 25% - 45% (35%) |
| ***Financial assets designated as at fair value through profit or loss*** | | | | |
| ***Equity securities*** | | | | |
| Trade and commerce | 6.7 | NAV | n/a | n/a |
| Mass Media | 3.0 | NAV | n/a | n/a |
| Other economic sectors | 0.3 | Other | n/a | n/a |
| ***Debt securities*** | | | | |
| Finance companies | 2.8 | NAV+option adjustment | Volatility | 25% - 45% (35%) |
| ***Derivative financial instruments designated as hedging instruments*** | | | | |
| Equity forwards | 8.7 | Forward model | CDS spread | 4.5% - 6.5% (5.5%) |
| | | | Fair value of underlying equity investment | RUR 6.2 billion- RUR 8.3 billion (RUR 6.2 billion) |
| ***Financial Assets Available-for-Sale*** | | | | |
| ***Debt securities*** | | | | |
| Banks and finance companies | 1.6 | Discounted Cash flow | Credit spread | 4.18% - 10.2% (7.48%) |
| | 0.5 | Other | n/a | n/a |
| Other economic sectors | 0.1 | Other | n/a | n/a |
| ***Equity securities*** | | | | |
| Non-ferrous metals | 6.2 | Discounted cash flow | Weighted average cost of capital | 12.4%-15.5% (12.8%) |
| | | | Terminal growth | 3%-3% (3%) |
| | | | Cost of Debt | 8.5%-8.5% (8.5%) |
| Manufacturing | 4.1 | Comparative method | EV/EBITDA (defence/security systems) | 6.22-10.22 (8.22) |
| | | | EV/EBITDA (microelectronics) | 7.99-11.99 (9.99) |
| Building construction, developing and associated works | 3.2 | Other | n/a | n/a |
| Other economic sectors | 3.1 | Other | n/a | n/a |
| Trade and commerce | 2.8 | NAV | n/a | n/a |
| Banks, leasing and other finance companies | 1.2 | Discounted cash flow | Weighted average cost of capital | 11.3%-15.3% (13.3%) |
| | | | exit multiple | 0.6-1 (0.8) |
| | 0.7 | Discounted Cash flow; EV/EBITDA multiple | Change in Rental Rate | -5% - +5% (0%) |
| | | | Change in Price of Railcars | -6% - +6% (0%) |
| | 0.4 | Other | n/a | n/a |
| Air transport | 1.8 | Market comparable companies | EV/pax, comparable airports | 99 - 120 (110) |
| Other mechanical engineering | 0.5 | Discounted cash flow | Weighted average cost of capital | 10%-20% (15.2%) |
| | | | Terminal growth | 2%-7% (5%) |
| | | | Cost of Debt | 6%-10% (8.3%) |
| ***Investments in associates and joint ventures at fair value through profit or loss*** | | | | |
| Telecommunication | 53.1 | Discounted cash flow | Weighted average cost of capital | 13.1%-15.1% (14.08%) |
| | | | Terminal growth | 1%-5% (3%) |
| | | | Minutes of use additional growth | -1.5%-1.5% (0%) |
| | | | CAGR in 2G subscribers | -4.65% - -0.65% |
| | | | Long-term CAPEX/Sales ratio after 2020 | 5.77% - 11.77% |
| Building construction, developing and associated works | 2.7 | Discounted dividend flow | Weighted average cost of capital | 14.4% - 22.8% (17.1%) |
| | 0.7 | Other | n/a | n/a |
| | 0.1 | Discounted cash flow | Base equity risk premium | 7% - 8% (7.5%) |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

### *Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)*

The following table shows the quantitative information as at 31 December 2013 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

| *31 December 2013* | *Carrying amount* | *Valuation techniques* | *Unobservable input description* | *Input* |
|---|---|---|---|---|
| ***Financial assets at fair value through profit or loss*** | | | | |
| ***Equity securities*** | | | | |
| Other economic sectors | 4.4 | Net asset value | n/a | n/a |
| ***Derivative financial instruments*** | | | | |
| Foreign exchange | 5.1 | Discounted Cash flow | BYR interest rate curve | 20%-30%/ (25%) |
| Equity options | (6.3) | Option model | Volatility | 10%-30% / (20%) |
| ***Financial assets designated as at fair value through profit or loss*** | | | | |
| ***Equity securities*** | | | | |
| Mass Media | 13.6 | Net asset value | n/a | n/a |
| Finance companies and banks | 1.7 | Net asset value | n/a | n/a |
| Other economic sectors | 0.2 | Net asset value | n/a | n/a |
| ***Debt securities*** | | | | |
| Finance companies and banks | 5.3 | Probable yield | Volatility | 10%-30% / (20%) |
| ***Derivative financial instruments designated as hedging instruments*** | | | | |
| Equity forward | 7.8 | Forward model | CDS spread | 4.5%-6.5% / (5.5%) |
| | | | Fair value of underlying equity investment | RUR 4.7 billion – RUR 6.2 billion (RUR 6.2 billion) |
| ***Financial Assets Available-for-Sale*** | | | | |
| Non-ferrous metals | 6.3 | Discounted cash flow | Weighted average cost of capital | 12.4%-15.5% / (12.8%) |
| | | | Terminal growth | 3%-3% / (3%) |
| | | | Cost of Debt | 8.5%-8.5% / (8.5%) |
| Finance companies, banks and leasing companies | 2.4 | Net asset value | n/a | n/a |
| | 1.2 | Discounted cash flow | Weighted average cost of capital | 8%-12% / (9.97%) |
| | | | Utilization Rate | 97%-100% / (98.50%) |
| | | | Change in Price of Railcars | -6%-6% / (0%) |
| | | | Change in Rental Rate | -5%-5% / (0%) |
| | 1.1 | Discounted cash flow | Weighted average cost of capital | 12.3%-16.3% / (14.3%) |
| | | | exit multiple | 0.6%-1% / (0.8%) |
| Trade and commerce | 2.0 | Net asset value | n/a | n/a |
| Manufacturing | 4.1 | Comparative method | EV/EBITDA (defense/security systems) | 6.22-10.22 / (8.22) |
| | | | EV/EBITDA (microelectronics) | 7.99-11.99 / (9.99) |
| Real estate | 0.5 | Other | Real estate prices | -10%-10% / (0%) |
| Air transport | 1.8 | Market comparable companies | EV/pax, comparable airports | 100-132.9 / (123.22) |
| Building construction | 3.2 | Other | n/a | n/a |
| Other mechanical engineering | 0.5 | Discounted cash flow | Weighted average cost of capital | 10%-20% / (15.2%) |
| | | | Terminal growth | 2%-7% / (5%) |
| | | | Cost of Debt | 6%-10% / (8.3%) |
| Other economic sectors | 1.4 | Net asset value | n/a | n/a |
| ***Investments in associates and joint ventures at fair value through profit or loss*** | | | | |
| Telecommunications | 53.1 | Discounted cash flow | Weighted average cost of capital | 13.1%-15.1% / (14.08%) |
| | | | Terminal growth | 1%-5% / (3%) |
| | | | Minutes of use additional growth | -1.5%-1.5% / (0%) |
| | | | CAGR in 2G subscribers | -4.65%-0.65% |
| | | | Long-term CAPEX/Sales ratio after 2020 | 5.77%-11.77% |
| Building construction and development | 2.1 | Discounted dividend flow | Weighted average cost of capital | 14.4%-22.8% / (17.1%) |
| | | | Base equity risk premium | 7%-8% / (7.5%) |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

***Impact on fair value of Level 3 financial instruments of changes to key assumptions (continued)***

The following table shows the quantitative information about sensitivity of the fair value measurement categorized within Level 3 of the fair value hierarchy to changes in significant unobservable inputs:

| | *30 June 2014 (unaudited)* | | *31 December 2013* | |
|---|---|---|---|---|
| | ***Carrying amount*** | ***Effect of reasonably possible alternative assumptions*** | ***Carrying amount*** | ***Effect of reasonably possible alternative assumptions*** |
| Financial assets at fair value through profit or loss excluding derivatives | 16.7 | 16.5-16.9 | 4.4 | 4.4-4.4 |
| Financial instruments at fair value through profit or loss – derivatives | 1.3 | 1.3-1.3 | (1.2) | (1.2)-(1.2) |
| Financial assets designated as at fair value through profit or loss | 12.8 | 12.8-12.8 | 20.8 | 19.6-20.1 |
| Investment financial assets – available-for-sale | 26.2 | 24.1-30.5 | 24.5 | 20.2-26.8 |
| Investments in associates and joint ventures designated as at fair value through profit or loss | 56.6 | 47.9-66.5 | 55.2 | 46.3-64.8 |
| Derivative financial instruments designated as hedging instruments | 8.7 | 6.8-9.1 | 7.8 | 7.5-9.5 |

*Methods and assumptions for Level 2 financial instruments*

The fair value of financial assets at fair value through profit or loss, available-for-sale and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment and recent transactions prices. The fair value of structured financial assets was estimated based on stochastic modelling (Level 2 model). Probability models were calibrated using market indicators (currency forward, ITRAX Index). Value at Risk was calculated based on full historical recalculation and Monte-Carlo simulation.

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

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

| | *30 June 2014 (unaudited)* | | *31 December 2013* | |
|---|---|---|---|---|
| | ***Carrying amount*** | ***Fair value*** | ***Carrying amount*** | ***Fair value*** |
| **Financial assets** | | | | |
| Cash and short-term funds | 639.6 | 639.6 | 354.3 | 354.3 |
| Mandatory cash balances with central banks | 66.2 | 66.2 | 58.7 | 58.7 |
| Financial assets pledged under repurchase agreements | 337.7 | 331.7 | 293.5 | 304.8 |
| Due from other banks | 328.7 | 328.2 | 443.4 | 445.0 |
| *Russia* | *130.2* | *124.0* | *98.4* | *98.9* |
| *OECD* | *170.9* | *175.8* | *303.8* | *303.9* |
| *Other countries* | *27.6* | *28.4* | *41.2* | *42.2* |
| Loans and advances to customers | 6,687.5 | 6,778.8 | 5,969.0 | 6,081.1 |
| *Loans to legal entities* | *5,093.1* | *5,135.9* | *4,531.1* | *4,582.5* |
| *Loans to individuals* | *1,594.4* | *1,642.9* | *1,437.9* | *1,498.6* |
| Investment securities held-to-maturity | 0.4 | 0.4 | 0.7 | 0.7 |
| Financial assets within assets of disposal groups held for sale | 2.3 | 2.3 | 6.9 | 6.9 |
| Other financial assets | 68.3 | 68.3 | 66.4 | 66.4 |
| **Financial liabilities** | | | | |
| Due to other banks | 658.2 | 633.3 | 666.6 | 679.9 |
| Customer deposits | 5,020.4 | 4,986.4 | 4,341.4 | 4,299.2 |
| *Deposits of legal entities* | *3,154.0* | *3,120.8* | *2,548.0* | *2,528.8* |
| *Deposits of individuals* | *1,866.4* | *1,865.6* | *1,793.4* | *1,770.4* |
| Other borrowed funds | 1,826.3 | 1,837.0 | 1,485.9 | 1,496.5 |
| Debt securities issued | 698.6 | 707.6 | 738.2 | 743.6 |
| Subordinated debt | 290.4 | 267.9 | 291.0 | 288.4 |
| Financial liabilities within liabilities of disposal groups held for sale | 3.6 | 3.6 | 13.4 | 13.4 |
| Other financial liabilities | 67.0 | 67.0 | 25.5 | 25.5 |

*(in billions of Russian Roubles)*

## 31. Fair Values of Financial Instruments (continued)

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

*Assets for which fair value approximates carrying value.* For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to customer current/settlement deposits without a specific maturity.

*Fixed and variable rate financial instruments.* For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## 32. Related Party Transactions

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

Transactions and balances with related parties comprise transactions and balances with Russian government-related entities (both directly and indirectly) and associates and joint ventures of the Group and are stated in the tables below:

**Statements of financial position**

| | *30 June 2014 (unaudited)* | | *31 December 2013* | |
|---|---|---|---|---|
| | ***Government-related entities*** | ***Associates and joint ventures and other*** | ***Government-related entities*** | ***Associates and joint ventures and other*** |
| **Assets** | | | | |
| Cash and short-term funds | 390.9 | 0.2 | 135.3 | 0.3 |
| Mandatory reserve deposits with central banks | 59.0 | – | 48.7 | – |
| Financial assets at fair value through profit or loss | 84.7 | – | 128.5 | 1.9 |
| Financial assets pledged under repurchase agreements | 528.6 | – | 439.2 | 0.1 |
| Due from other banks | 82.1 | 0.6 | 39.7 | 0.2 |
| Loans and advances to customers | 1,326.1 | 81.9 | 1,147.0 | 127.4 |
| Allowance for loan impairment | (19.6) | (4.8) | (18.5) | (6.7) |
| Financial assets available-for-sale | 34.6 | 0.0 | 48.4 | 0.1 |
| Investment securities held-to-maturity | 0.3 | – | 0.4 | – |
| Other assets | 15.1 | 0.3 | 40.5 | 3.7 |
| **Liabilities** | | | | |
| Due to other banks | 272.4 | 9.8 | 253.8 | 5.4 |
| Customer deposits | 1,710.8 | 31.7 | 1,178.4 | 48.8 |
| Other borrowed funds | 1,511.2 | – | 1,190.9 | – |
| Subordinated debt | 201.4 | 0.2 | 201.5 | 0.2 |
| Other liabilities | 21.3 | 0.5 | 3.3 | 0.5 |
| **Credit Related Commitments** | | | | |
| Guarantees issued | 457.7 | 6.7 | 400.5 | 6.6 |
| Undrawn credit lines | 1.0 | – | 1.3 | – |
| Import letters of credit | 7.1 | – | 13.6 | – |
| Commitments to extend credit | – | – | 0.1 | – |

*(in billions of Russian Roubles)*

## 32. Related Party Transactions (continued)

**Income statements**

| | *For the six-month period ended 30 June* | |
|---|---|---|
| | ***2014*** | ***2013*** |
| **Interest income** | | |
| Loans and advances to customers | 71.2 | 52.4 |
| Securities | 14.3 | 9.6 |
| Due from other banks | 0.9 | 0.8 |
| **Interest expense** | | |
| Due to other banks and other borrowed funds | (52.4) | (28.3) |
| Customer deposits | (38.1) | (28.1) |
| Subordinated debt | (8.3) | (8.4) |
| Provision charge for impairment of debt financial assets | (1.6) | (5.8) |

Gains net of losses arising from associates and joint-ventures designated as at fair value through profit or loss are disclosed in the Note 20.

For the six month-period ended 30 June 2014, the total remuneration of the directors and key management personnel of the Group including pension contributions amounted to RUR 3.8 billion (30 June 2013: RUR 4.3 billion). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the key management personnel as at 30 June 2014 amounted to RUR 0.3 billion (31 December 2013: RUR 0.7 billion). Compensation to key management personnel primarily consists of short term employee benefits.

## 33. Capital Management and Capital Adequacy

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The CBR requires banks to maintain a minimum capital adequacy ratio of 10.0% of risk-weighted assets, computed based on Russian accounting legislation. As at 30 June 2014 and 31 December 2013, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

*(in billions of Russian Roubles)*

## 33. Capital Management and Capital Adequacy (continued)

The Group's international risk based capital adequacy ratio is computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks. These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord as disclosed below:

| | ***30 June 2014 (unaudited)*** | ***31 December 2013*** |
|---|---|---|
| ***Tier 1 capital*** | | |
| Share capital | 138.1 | 138.1 |
| Share premium | 433.8 | 433.8 |
| Treasury shares and bought back perpetual loan participation notes | (2.4) | (3.6) |
| Perpetual loan participation notes | 75.7 | 73.6 |
| Retained earnings | 244.1 | 262.0 |
| Unrealized gain on financial assets available-for-sale and cash flow hedge | 1.2 | 3.0 |
| Currency translation difference | 16.0 | 12.5 |
| Non-controlling interests | 8.0 | 7.6 |
| Deducted: Goodwill | (120.4) | (120.4) |
| ***Total Tier 1 capital*** | ***794.1*** | ***806.6*** |
| ***Tier 2 capital*** | | |
| Land and premises revaluation reserve | 19.5 | 20.1 |
| Subordinated debt | 267.2 | 271.9 |
| ***Total Tier 2 capital*** | ***286.7*** | ***292.0*** |
| ***Total capital before deductions*** | ***1,080.8*** | ***1,098.6*** |
| Deducted: Investments in the capital of other banks and financial institutions | (6.1) | (5.8) |
| ***Total capital after deductions*** | ***1,074.7*** | ***1,092.8*** |
| ***Risk-weighted assets*** | | |
| Credit risk | 7,737.9 | 6,735.8 |
| Market risks | 685.5 | 695.0 |
| ***Total risk-weighted assets*** | ***8,423.4*** | ***7,430.8*** |
| **Tier 1 capital ratio to total risk-weighted assets** | **9.4%** | **10.9%** |
| **Total capital ratio to total risk-weighted assets** | **12.8%** | **14.7%** |

## 34. Business Combinations and Disposal of Subsidiaries

In the first quarter 2014, the Group disposed of its shares in "Orenburgskaya burovaya companiya" to a government-related entity for the total consideration of RUR 2.8 billion. The gain from disposal of subsidiary amounted to RUR 1.2 billion.

In March 2014, the Group disposed of "Russian National Commercial Bank", OJSC for total consideration RUR 1.2 billion. The loss from disposal of subsidiary amounted to RUR 0.1 billion.

In February 2014, the Group acquired 95% share in "Moscow invest-construction company", OJSC for RUR 0.7 billion, which was equal to the fair value of the acquiree's net assets.

In March 2014, the Group obtained control over "Construction management Cosmos-M", LLC. As a result of acquisition, the Group recognized and subsequently impaired goodwill in the amount of RUR 0.5 billion.

In June 2014, the Group disposed of its shares in "Office-Hotel complex, LLC" for the total consideration of RUR 5.1 billion. The gain from disposal of subsidiary amounted to RUR 0.1 billion.

In April 2014, the Group acquired 100% of the shares of the "Velozavodsky Market", OJSC for RUR 0.5 billion, 100% shares of the "Kuntsevsky Market", OJSC for RUR 0.7 billion and 100% shares of MGKL "Mosgorlombard", OJSC for RUR 0.7 billion. For each company the consideration given was equal to the fair value of the acquiree's net assets.

In April 2014, the Group acquired 100% of the shares of open joint stock company "Hotel Company", open joint stock company "Agrokombinat yuzhnyj", open joint stock company "Aviapark". For each company the consideration given was equal to the fair value of the acquiree's net assets.

*(in billions of Russian Roubles)*

## 34. Business Combinations and Disposal of Subsidiaries (continued)

In June 2014, the Group obtained 74.4% controlling share in the open joint stock company "Bumazhno-poligraficheskoe obyedinenie Pechatniki" as a result of the debt settlement agreement with ZAO Investlesprom, which resulted in control over "Print House "Pushkinskaya ploshad", OJSC and "Media Center", OJSC.

The acquisition date fair values of identifiable assets and liabilities acquired by the Group during six months ended 30 June 2014 were based on the valuation provided by the experienced independent valuation firms and were as follows:

| | *"Hotel Company", OJSC* | *"Agrokombinat yuzhnyj", OJSC* | *"Bumazhno-poligraficheskoe obyedinenie Pechatniki", OJSC* | *"Aviapark", Ltd.* |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term funds | 0.2 | – | 0.6 | – |
| Due from other banks | 3.2 | – | – | – |
| Financial assets available-for-sale | – | – | – | – |
| Premises and equipment | 16.1 | 3.9 | 2.2 | – |
| Investment property | – | – | – | 4.4 |
| Other assets | 0.2 | 0.3 | 0.7 | – |
| **Total assets** | **19.7** | **4.2** | **3.5** | **4.4** |
| **Liabilities** | | | | |
| Due to other banks and other borrowed funds | – | 0.4 | – | – |
| Deferred tax liability | – | 0.1 | 0.1 | – |
| Other liabilities | 0.3 | 0.3 | 0.3 | – |
| **Total liabilities** | **0.3** | **0.8** | **0.4** | **–** |
| **Fair value of identifiable net assets of subsidiary** | **19.4** | **3.4** | **3.1** | **4.4** |
| **Goodwill:** | | | | |
| Consideration given | 19.4 | 3.4 | 2.6 | 4.4 |
| Non-controlling interest | – | – | 0.5 | – |
| Less: fair value of identifiable net assets of subsidiary | (19.4) | (3.4) | (3.1) | (4.4) |
| **Goodwill** | **–** | **–** | **–** | **–** |

If all acquisitions of the Group during the six-month period ended 30 June 2014 had taken place at the beginning of the period, the net profit and operating income of the Group would not have been materially different.

## 35. Subsequent Events

In July 2014, VTB issued Series BO-26 RUR 10.0 billion local stock-exchange bonds maturing in June 2020 with a coupon rate of 9.55% p.a. and an investor put option in June 2016.

In July 2014, VTB issued Series 4 CHF 350.0 million (RUR 13.5 billion) subordinated eurobond under EMTN programme 3 maturing in October 2024 with coupon rate of 5.0% p.a. and a call-option in October 2019.

In July 2014, VTB redeemed Euro-Commercial Paper (ECP) notes in the total amount of USD 19.8 million (RUR 0.7 billon) upon maturity.

In July 2014, VTB redeemed a 3-year syndicated loan in the amount of USD 3.13 billion (RUR 106.6 billion) upon maturity.

In July 2014, "Bank Moscow-Minsk", OJSC redeemed bonds in the total amount of USD 10.0 million (RUR 0.4 billon) upon maturity.

In July 2014, "VTB Leasing Finance", Ltd issued local bonds with a notional amount of RUR 8.0 billion, coupon rate of 9.85% p.a. with maturity in July 2024 and an investor put option in April 2015.

## 35. Subsequent Events (continued)

In July 2014, the amendments to the federal law on additional measures for supporting the Russian financial system were approved allowing the government or its agencies to acquire non-cumulative preference shares of certain banks from the proceeds from repayment of the previously granted VEB subordinated loan facilities to these banks. At 30 June 2014, the notional and carrying amounts of the Group's outstanding VEB subordinated loan facilities were respectively RUR 200 billion and 184.7 billion in VTB, RUR 11.1 billion and RUR 10.4 billion in "Bank of Moscow", OJSC and RUR 2.9 billion and RUR 2.9 billion in "Bank VTB 24", CJSC.

In August 2014, the Group increased its share in "Hals-Development", OJSC to 93.51% from 51.24% by purchasing 4,741,540 ordinary shares from third party shareholders for RUR 7.3 billion.