VTB BANK

Consolidated Financial Statements and Auditors' Report

For the years ended 31 December 2011 and 2010

CONTENTS

INDEPENDENT AUDITORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position 1
Consolidated Income Statements 2
Consolidated Statements of Comprehensive Income 3
Consolidated Statements of Cash Flows 4
Consolidated Statements of Changes in Shareholders' Equity 6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Activities 7
2. Operating Environment of the Group 7
3. Basis of Preparation 8
4. Changes in Accounting Policies 8
5. Summary of Principal Accounting Policies 12
6. Significant Accounting Estimates and Judgements 25
7. Cash and Short-Term Funds 26
8. Financial Assets at Fair Value Through Profit or Loss 26
9. Financial Assets Pledged under Repurchase Agreements and Loaned Financial Assets 28
10. Due from Other Banks 28
11. Loans and Advances to Customers 29
12. Financial Assets Available-for-Sale 30
13. Investments in Associates and Joint Ventures 31
14. Investment Securities Held-to-Maturity 32
15. Premises and Equipment 32
16. Investment Property 33
17. Intangible Assets and Goodwill 34
18. Other Assets 36
19. Disposal Group Held for Sale 37
20. Due to Other Banks 37
21. Customer Deposits 37
22. Other Borrowed Funds 38
23. Debt Securities Issued 39
24. Subordinated Debt 41
25. Other Liabilities 42
26. Share Capital 43
27. Interest Income and Expense 43
28. Gains Less Losses Arising from Financial Instruments at Fair Value Through Profit or Loss 44
29. Fee and Commission Income and Expense 44
30. Income Arising from Non-Banking Activities and Other Operating Income 44
31. Staff Costs and Administrative Expenses 45
32. Allowances for Impairment and Provisions 45
33. Income Tax 47
34. Basic and Diluted Earnings per Share 49
35. Dividends 49
36. Contingencies, Commitments and Derivative Financial Instruments 50
37. Analysis by Segment 54
38. Financial Risk Management 59
39. Fair Values of Financial Instruments 88
40. Related Party Transactions 91
41. Consolidated Subsidiaries 93
42. Business Combinations and Disposal of Subsidiaries 94
43. Capital Management and Capital Adequacy 96
44. Subsequent Events 97

ERNST & YOUNG

CJSC Ernst & Young Vneshaudit
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

ЗАО «Эрнст энд Янг Внешаудит»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 00139790

Independent auditors' report

To the Supervisory Council and Shareholders of VTB Bank:

We have audited the accompanying consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statements of financial position as at 31 December 2011 and 2010, and the consolidated income statements, consolidated statements of comprehensive income, of cash flows and of changes in shareholders' equity for the years then ended, and a summary of principal accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011 and 2010, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

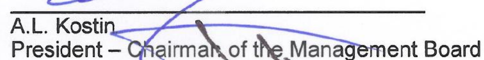
25 April 2012 Ernst & Young Vneshaudit

A member firm of Ernst & Young Global Limited

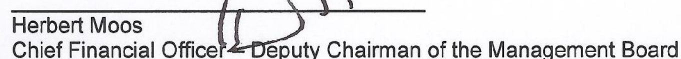
VTB Bank
Consolidated Statements of Financial Position as at 31 December
(in billions of Russian Roubles)

	Note	2011	2010
Assets			
Cash and short-term funds	7	407.0	275.5
Mandatory reserve deposits with central banks		71.9	26.4
Financial assets at fair value through profit or loss	8	571.5	344.6
Financial assets pledged under repurchase agreements and loaned financial assets	9	198.6	16.9
Due from other banks	10	424.6	349.9
Loans and advances to customers	11	4,301.6	2,785.4
Assets of disposal group held for sale	19	10.3	–
Financial assets available-for-sale	12	167.7	55.9
Investments in associates and joint ventures	13	32.5	15.7
Investment securities held-to-maturity	14	32.4	34.2
Premises and equipment	15	116.8	113.2
Investment property	16	122.5	102.2
Intangible assets and goodwill	17	141.2	30.5
Deferred tax asset	33	42.7	37.9
Other assets	18	148.3	102.6
Total assets		**6,789.6**	**4,290.9**
Liabilities			
Due to other banks	20	699.7	397.3
Customer deposits	21	3,596.7	2,212.9
Liabilities of disposal group held for sale	19	8.5	–
Other borrowed funds	22	734.6	185.7
Debt securities issued	23	664.5	593.1
Deferred tax liability	33	10.0	7.3
Other liabilities	25	209.4	110.9
Total liabilities before subordinated debt		**5,923.4**	**3,507.2**
Subordinated debt	24	241.1	205.5
Total liabilities		**6,164.5**	**3,712.7**
Equity			
Share capital	26	113.1	113.1
Share premium		358.5	358.5
Treasury shares		(0.6)	(0.3)
Unrealized gain on financial assets available-for-sale and cash flow hedge		7.9	4.0
Premises revaluation reserve		11.4	11.4
Currency translation difference		11.0	11.0
Retained earnings		102.2	56.6
Equity attributable to shareholders of the parent		**603.5**	**554.3**
Non-controlling interests		21.6	23.9
Total equity		**625.1**	**578.2**
Total liabilities and equity		**6,789.6**	**4,290.9**

Approved for issue and signed on 25 April 2012.



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



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

	Note	***2011***	***2010***
Interest income	27	416.7	330.5
Interest expense	27	(189.7)	(159.4)
Net interest income		**227.0**	**171.1**
Provision charge for impairment of debt financial assets	32	(31.6)	(51.6)
Net interest income after provision for impairment		**195.4**	**119.5**
(Losses net of gains) / gains less losses arising from financial instruments at fair value through profit or loss	28	(30.8)	14.8
Gains less losses / (losses net of gains) from available-for-sale financial assets	12	4.1	(0.1)
Losses net of gains arising from extinguishment of liability		(0.7)	–
Net recovery of losses / (losses) on initial recognition of financial instruments, restructuring and other gains / (losses) on loans and advances to customers		20.2	(0.2)
Gains less losses / (losses net of gains) arising from dealing in foreign currencies		6.1	(7.5)
Foreign exchange translation (losses net of gains) / gains less losses		(6.5)	12.1
Fee and commission income	29	47.4	28.8
Fee and commission expense	29	(8.2)	(4.1)
Share in income /(loss) of associates and joint ventures	13	7.5	(0.7)
Provision charge for impairment of other assets, contingencies and credit related commitments	32	(1.4)	(2.2)
Income arising from non-banking activities	30	20.4	11.0
Expenses arising from non-banking activities		(9.1)	(7.2)
Other operating income	30	9.2	3.1
Net non-interest income		**58.2**	**47.8**
Operating income		**253.6**	**167.3**
Staff costs and administrative expenses	31	(141.5)	(95.1)
Impairment of goodwill	17	–	(1.1)
Profit from disposal of subsidiaries and associates		3.4	–
Profit before taxation		**115.5**	**71.1**
Income tax expense	33	(25.0)	(16.3)
Net profit		**90.5**	**54.8**
Net profit / (loss) attributable to:			
Shareholders of the parent		**89.4**	**58.2**
Non-controlling interests		**1.1**	**(3.4)**
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**34**	**0.00855**	**0.00557**

	2011	*2010*
Net profit	**90.5**	**54.8**
Other comprehensive income:		
Net result on financial assets available-for-sale, net of tax	2.7	0.6
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.5)	(0.2)
Share of other comprehensive income of associates and joint ventures	(0.5)	(0.2)
Effect of translation, net of tax	2.4	(2.4)
Other comprehensive income, net of tax	**4.1**	**(2.2)**
Total comprehensive income	**94.6**	**52.6**
Total comprehensive income attributable to:		
Shareholders of the parent	**93.7**	**56.3**
Non-controlling interests	**0.9**	**(3.7)**

	Note	2011	2010
Cash flows from operating activities			
Interest received		382.3	302.6
Interest paid		(176.4)	(158.0)
(Loss incurred) / income received on operations with financial instruments at fair value through profit or loss		(23.3)	13.9
Income received / (loss incurred) on dealing in foreign currency		10.8	(7.6)
Fees and commissions received		48.0	28.3
Fees and commissions paid		(7.6)	(4.6)
Other operating income received		2.0	1.6
Staff costs, administrative expenses paid		(122.1)	(83.5)
Income received from non-banking activities		17.8	7.0
Expenses paid in non-banking activities		(7.3)	(1.8)
Income tax paid		(28.8)	(22.8)
Cash flows from operating activities before changes in operating assets and liabilities		**95.4**	**75.1**
Net decrease / (increase) in operating assets			
Net increase in mandatory reserve deposits with central banks		(37.3)	(0.5)
Net decrease in restricted cash		–	0.2
Net increase in correspondent accounts in precious metals		(6.8)	(1.6)
Net (increase) / decrease in financial assets at fair value through profit or loss		(159.8)	42.8
Net decrease in due from other banks		11.6	58.4
Net increase in loans and advances to customers		(971.2)	(289.3)
Net increase in other assets		(44.1)	(22.3)
Net (decrease) / increase in operating liabilities			
Net increase in due to other banks		232.5	79.8
Net increase in customer deposits		832.7	361.5
Net increase / (decrease) in debt securities issued other than bonds		78.9	(14.6)
Net increase in other liabilities		19.2	7.6
Net cash from operating activities		**51.1**	**297.1**
Cash flows used in investing activities			
Dividends received		0.8	0.8
Proceeds from sale or redemption of financial assets available-for-sale		58.5	13.3
Purchase of financial assets available-for-sale		(125.6)	(43.9)
Purchase of subsidiaries, net of cash acquired	42	5.8	8.1
Disposal of subsidiaries, net of cash disposed	42	(1.1)	0.2
Purchase of and contributions to associates and joint ventures	13	(109.1)	(0.6)
Proceeds from sale of share in associates and joint ventures		6.6	–
Purchase of investment securities held-to-maturity		(1.2)	(0.8)
Proceeds from redemption of investment securities held-to-maturity		2.3	1.2
Purchase of premises and equipment		(36.9)	(31.3)
Proceeds from sale of premises and equipment		40.1	2.9
Purchase or construction of investment property		(0.3)	–
Proceeds from sale of investment property		1.3	–
Purchase of intangible assets		(2.7)	(1.4)
Proceeds from sale of intangible assets		1.2	–
Net cash used in investing activities		**(160.3)**	**(51.5)**

	Note	*2011*	*2010*
Cash flows used in financing activities			
Dividends paid	35	(7.3)	(6.1)
Proceeds from issuance of local bonds		21.0	36.1
Repayment of local bonds		(53.9)	(30.7)
Buy-back of local bonds		(16.7)	(33.9)
Proceeds from sale of previously bought-back local bonds		14.9	29.7
Proceeds from issuance of Eurobonds		45.6	92.4
Repayment of Eurobonds		(100.8)	(11.5)
Buy-back of Eurobonds		(35.3)	(64.1)
Proceeds from sale of previously bought-back Eurobonds		33.9	68.3
Proceeds from syndicated loans		87.3	0.6
Repayment of syndicated loans		(43.2)	(14.9)
Buy-back of syndicated loans		(5.9)	–
Proceeds from other borrowings and funds from local central banks		452.3	275.4
Repayment of other borrowings and funds from local central banks		(122.7)	(562.6)
Repayment of subordinated debt		–	(9.3)
Buy-back of subordinated debt		(4.8)	(0.3)
Proceeds from sale of previously bought-back subordinated debt		3.1	0.9
Proceeds from sale of treasury shares		1.3	–
Purchase of treasury shares		(1.6)	–
Share issue to minorities	41	0.2	0.3
Purchase of non-controlling interests in subsidiaries	41	(34.8)	(0.2)
Net cash used in financing activities		**232.6**	**(229.9)**
Effect of exchange rate changes on cash and cash equivalents		2.6	(1.7)
Effect of hyperinflation		(1.3)	–
Net increase in cash and cash equivalents		**124.7**	**14.0**
Cash and cash equivalents at the beginning of the year	7	272.8	258.8
Cash and cash equivalents at the end of the year	**7**	**397.5**	**272.8**

	Attributable to shareholders of the parent									
	Share capital	***Share premium***	***Treasury shares***	***Unrealized gain on financial assets available-for-sale and cash flow hedge***	***Premises revaluation reserve***	***Currency translation difference***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total equity***
Balance at 1 January 2010	**113.1**	**358.5**	**(0.4)**	**3.4**	**11.8**	**13.2**	**2.7**	**502.3**	**2.6**	**504.9**
Net result from treasury shares transactions	–	–	0.1	–	–	–	(0.1)	**–**	–	**–**
Total comprehensive income for the period	–	–	–	0.6	(0.1)	(2.2)	58.0	**56.3**	(3.7)	**52.6**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.3)	–	0.3	**–**	–	**–**
Dividends declared (Note 35)	–	–	–	–	–	–	(6.1)	**(6.1)**	–	**(6.1)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	**–**	23.2	**23.2**
Increase in share capital of subsidiaries	–	–	–	–	–	–	(1.5)	**(1.5)**	1.9	**0.4**
Acquisition of non-controlling interests	–	–	–	–	–	–	(0.1)	**(0.1)**	(0.1)	**(0.2)**
Expiration of put options over non-controlling interests	–	–	–	–	–	–	3.4	**3.4**	–	**3.4**
Balance at 31 December 2010	**113.1**	**358.5**	**(0.3)**	**4.0**	**11.4**	**11.0**	**56.6**	**554.3**	**23.9**	**578.2**
Net result from treasury shares transactions	–	–	(0.3)	–	–	–	–	**(0.3)**	–	**(0.3)**
Total comprehensive income for the period	–	–	–	2.8	–	2.8	88.1	**93.7**	0.9	**94.6**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.2)	–	0.2	**–**	–	**–**
Transfer of currency translation difference upon legal merger of subsidiary (Note 41)	–	–	–	–	–	(2.4)	2.4	**–**	–	**–**
Dividends declared (Note 35)	–	–	–	–	–	–	(6.1)	**(6.1)**	(1.2)	**(7.3)**
Increase in share capital of subsidiaries (Note 41)	–	–	–	–	–	–	(3.2)	**(3.2)**	3.4	**0.2**
Acquisition of subsidiaries (Note 42)	–	–	–	–	–	–	–	**–**	17.0	**17.0**
Disposal of subsidiaries (Note 42)	–	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
Acquisition of non-controlling interests (Note 41)	–	–	–	1.1	0.2	(0.4)	(13.9)	**(13.0)**	(21.9)	**(34.9)**
Obligation to purchase non-controlling interests (Note 25)	–	–	–	–	–	–	(21.9)	**(21.9)**	–	**(21.9)**
Balance at 31 December 2011	**113.1**	**358.5**	**(0.6)**	**7.9**	**11.4**	**11.0**	**102.2**	**603.5**	**21.6**	**625.1**

1. Principal Activities

VTB Bank and its subsidiaries (the “Group”) comprise Russian and foreign commercial banks, 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. Simultaneously, the names of some of VTB’s subsidiaries were changed as presented in Note 41. 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 and the Federal Financial Markets Service. 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). All Group subsidiary banks in Russia: ’Bank VTB 24”, CJSC, “TransCreditBank”, JSC, “Bank of Moscow”, OJSC, “Mosvodokanalbank”, OJSC and “Bezhitsa-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.

A list of principal subsidiaries included in these consolidated financial statements is provided in Note 41.

The Group operates in the corporate and investment banking, retail, real estate and other segments. 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’s operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through VTB as a parent and 5 subsidiary banks with its network of 166 full service branches, including 69 branches of VTB, 8 branches of ’Bank VTB 24”, CJSC, 41 branches of “TransCreditBank”, JSC and 48 branches of “Bank of Moscow”, OJSC located in major Russian regions. Within acquisition of “Bank of Moscow”, OJSC the Group has also obtained control over “Mosvodokanalbank”, OJSC and “Bezhitsa-Bank”, OJSC, “Bank Moscow-Minsk”, OJSC and “BM Bank”, Ltd. In March 2011 VTB North-West ceased its operations as a subsidiary of VTB following the legal merger of VTB and VTB North-West. The Group operates outside Russia through 15 bank subsidiaries, located in the Commonwealth of Independent States (“CIS”) (Armenia, Ukraine (2 banks), Belarus (2 banks), Kazakhstan and Azerbaijan), Europe (Austria, Cyprus, Germany, France, Great Britain and Serbia), Georgia, Africa (Angola); through 2 representative offices located in Italy and China; through 2 VTB branches in China and India and 3 branches of “VTB Capital”, Plc in Singapore, Dubai and Hong Kong.

VTB’s majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 75.5% of VTB’s issued and outstanding shares at 31 December 2011 (31 December 2010: 85.5%).

In February 2011, the Russian Federation state, acting through the Federal Property Agency, reduced its share from 85.5% to 75.5% of VTB’s issued and outstanding shares as a result of offering in the form of shares and global depositary receipts.

The number of employees of the Group at 31 December 2011 was 67,912 (31 December 2010: 51,781).

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 continues economic reforms and 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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2011 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

2. Operating Environment of the Group (continued)

Also, factors including increased unemployment in Russia, reduced corporate liquidity and profitability and increased corporate and personal insolvencies may affect the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions may result in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

In 2011 deterioration in economic conditions in Belarus accompanied by considerable devaluation of local currency, high inflation rates and large negative trade balance lead Management to consider the Belorussian economy to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* with the effect from 1 January 2011.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

3. Basis of Preparation

General

These consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Bank and its subsidiaries and associates maintain their accounting records in accordance with regulations applicable in their country of registration. These financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, the revaluation of premises and investment properties, available-for-sale financial assets, and financial instruments categorized as at fair value through profit or loss. The summary of principal accounting policies applied in the preparation of these financial statements is set out below in Note 5. These policies have been consistently applied to all the periods presented, unless otherwise stated.

These financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled.

4. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for certain new standards and interpretations, which became effective for the Group from 1 January 2011, as described below:

IAS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011). – IAS 24 was revised in November 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has not applied the exemption provided for government-related entities in the revised IAS 24 and disclosed all transactions with government-related entities.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). – The Amendment was issued in October 2009. It exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as derivatives. The amendment does not have any impact on the Group's financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendment: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010). – Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment does not have any impact on the Group's financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Amendment: Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011). – This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendment does not have any impact on the Group's financial statements.

4. Changes in Accounting Policies (continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). – IFRIC Interpretation 19 was issued in November 2009. The interpretation clarifies the accounting for the transactions when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 does not have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (effective for annual periods beginning on or after 1 January 2011). – The improvements were issued in May 2010. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

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

The amendments do not have any material effect on the Group's financial statements.

The Group has not early adopted the following IFRSs (IASs) and Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) that have been issued but are not yet effective:

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

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

4. Changes in Accounting Policies (continued)

IFRSs (IASs) and IFRIC interpretations not yet effective (continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.
- While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group's future financial statements and the timing of its adoption by the Group.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. It replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. It replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. It applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 27 *Consolidated and Separate Financial Statements,* IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The Group is currently assessing the impact of the standard on its financial statements.

IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013). – The standard was revised in May 2011. Its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 *Consolidated Financial Statements*. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013). – The standard was revised in May 2011. The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its financial statements.

4. Changes in Accounting Policies (continued)

IFRSs (IASs) and IFRIC interpretations not yet effective (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendments: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011). – The first amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The second amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The Group does not expect the amendments to have any material effect on its financial statements.

IFRS 7 Financial Instruments: Disclosures – Amendment: Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011). – The amendment was issued in October 2010. It requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

IFRS 7 Financial Instruments: Disclosures – Amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013). – The amendment was issued in December 2011. The amendment requires to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

IAS 32 Financial Instruments: Presentation – Amendment: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013). – The amendment was issued in December 2011. The amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

IAS 1 Presentation of Financial Statements – Amendment: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012). – The amendment was issued in June 2011. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

IAS 12 Income Taxes – Amendments: Deferred tax: Recovery of underlying assets (effective for annual periods beginning on or after 1 January 2012). – The amendment was issued in December 2010. The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Group is currently assessing the impact of the amended standard on its financial statements.

Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013). – The amendment was issued in June 2011. The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its financial statements.

Currently the Group is analyzing the potential effect of the adoption of these standards and amendments, their influence on the Group and the date of adoption of the standards and amendments.

5. Summary of Principal Accounting Policies

Subsidiaries

Subsidiaries are those entities, in which the Group has direct or indirect interest of more than one half of the voting rights, or otherwise has power to govern the financial and operating policies so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date when control ceases. All intragroup balances and transactions, including income, expenses, dividends and unrealized gains on transactions between the Group members are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Acquisition of subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities, which are a present obligation and can be measured reliably, are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The excess of the aggregate of: i) purchase consideration paid, ii) the amount of any non-controlling interest in the acquiree and iii) acquisition-date fair value of the acquirer’s previously held equity interest in the acquiree (in case of the business combination achieved in stages), over the fair value of the acquiree’s identifiable net assets is recorded as goodwill. If the result of above calculation is negative, the difference is recognized directly in the income statement.

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. This choice is made by the acquirer for each business combination. Non-controlling interests that are not present ownership interests are measured at fair value. Non-controlling interest at the subsequent reporting date represents the initially recognized amount of non-controlling interest at the acquisition date and the non-controlling interest's portion of movements in comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity except for the non-controlling interests in mutual funds under the Group’s control, which are accounted for within Group’s liabilities.

In a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer has to recognize at the acquisition date a liability for any contingent purchase consideration. The Group has early adopted revised IFRS 3 and IAS 27 from 1 January 2009.

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases are charged or credited directly to retained earnings as a capital transaction.

Investments in associates and joint ventures

Associates are entities, in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group’s share of net assets of the associate and accumulated goodwill impairment losses, if any. The Group’s share of its associates’ profits or losses is recognized in the income statement, and its share of other comprehensive income is recognized in other comprehensive income of the Group. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Profits and losses from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

A joint venture exists where the Group has a contractual arrangement with one or more parties to undertake activities typically, however not necessarily, through entities that are subject to joint control. The Group recognizes interests in a jointly controlled entity using the equity method and applies the same accounting policies as those for investments in associates.

5. Summary of Principal Accounting Policies (continued)

Investments in associates and joint ventures (continued)

Venture Capital Investments

Investments in companies that are managed as part of the Group's investment portfolio of securities at fair value through profit and loss and over which the Group may have significant influence are carried at fair value as permitted by IAS 28 which requires investments in associates that are held by venture capital organizations to be excluded from the scope of IAS 28 if these investments are designated upon initial recognition as at fair value through profit or loss or are classified as held for trading and accounted in accordance with IAS 39. These venture capital investments of the Group are classified as financial assets designated as at fair value through profit or loss and accounted accordingly as described below.

Financial assets

Initial recognition of financial assets

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition and subsequently can reclassify financial assets in certain cases as described below.

Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Group uses valuation techniques, which are based on discounted cash flow models and other pricing models, to determine the fair value of financial assets that are not traded in an active market. For such assets differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using the valuation technique. Any such differences are not recognized as "day 1" gain or loss but rather are amortized on a straight line basis over the term of the relevant financial asset.

Classification and reclassification of financial assets

Financial assets in the scope of IAS 32 and IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

Financial assets at fair value through profit or loss:

(a) Financial assets held for trading

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired or generated for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the income statement.

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets classified as trading financial assets that would have met the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Non-derivative trading financial assets are carried at fair value. Interest earned on non-derivative debt trading financial assets calculated using the effective interest method is presented in the income statement as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established. All elements of the changes in the fair value are recorded in the income statement as gains less losses from financial assets at fair value through profit or loss in the period, in which they arise.

5. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

(b) Financial assets designated as at fair value through profit or loss

Other financial assets at fair value through profit or loss are those designated irrevocably, at initial recognition, into this category. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel as defined in IAS 24. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities and is in accordance with IAS 39.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow (net present value) analysis, option pricing models and other relevant valuation models.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not classified or designated as at fair value through profit or loss upon initial recognition. Such assets are carried at amortized cost using the effective interest method. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

The Group may change the intention of holding certain loans and receivables for foreseeable future and intend to sell these items. In the above case the Group reclassifies these specific items from loans and receivables to available-for-sale financial assets. These reclassified assets are measured at fair value through other comprehensive income.

Held-to-maturity investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category. Held-to-maturity investments are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses are recognized in the income statement when the investments are disposed or impaired, as well as through the amortization process.

Held-to-maturity investments of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income in a separate component of equity until the investment is derecognized or until the investment is determined to be impaired. However, interest calculated using the effective interest method is recognized in the income statement.

When the Group derecognizes available-for sale financial assets, the Group reclassifies the cumulative gain or loss previously recognized in other comprehensive income in a separate component of equity to a separate line in the income statement.

If there is objective evidence that available-for-sale financial asset is impaired the cumulative loss previously recognized in other comprehensive income being the difference between the acquisition cost and the current fair value (less any impairment loss on that asset previously recognized in income statement) – is reclassified from equity to the income statement.

5. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

The fair value of investments that are actively traded in active financial markets is determined by reference to quoted current bid prices. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, and discounted cash flow analysis.

Financial assets classified as available-for-sale that would have met the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement and has no obligation to pay amounts to eventual recipients unless it collects equivalent amounts from the original assets. The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Restructuring of financial assets

The Group from time to time may restructure some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in the following basic scenarios:

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized. As a result the new loan will be recognized which requires the estimation of a new effective interest rate. If the new effective interest rate is below the market interest rate, the loss on initial recognition is recognized in the reporting period.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on the favorable terms for the borrower: in this case the loan is not recognized as impaired. The loan is not derecognized but the new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity. If the new effective interest rate is below the market rate at the date of restructuring, the new carrying amount is calculated as the fair value of the loan after restructuring, being the present value of the future cash flows discounted using the market rate at the date of restructuring. In this case, the difference between the carrying amount before restructuring and the fair value of the loan after restructuring is recognized as a loss on loan restructuring.
- If the loan is impaired after being restructured, the Group uses the original effective interest rate in respect of the new cash flows after renegotiation to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the provision charges for debt financial assets for the period.

Securitization of financial assets

As part of its operational activities, the Group securitizes financial assets, generally through the transfer of these assets to special purpose entities that issue debt securities to investors. The transferred securitized assets may qualify for derecognition in full or in part. Interests in the securitized financial assets may be retained by the Group and are primarily classified as loans to customers. Gains or losses on securitizations are based on the carrying amount of the financial assets derecognized and the retained interest, based on their relative fair values at the date of transfer.

5. Summary of Principal Accounting Policies (continued)

Financial liabilities

Financial liabilities in the scope of IAS 32 and IAS 39 are classified as either financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. When financial liabilities are recognized initially, they are measured at fair value, minus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs. Other financial liabilities are carried at amortized cost using the effective interest rate method.

Financial liabilities of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if they are issued for the purpose of repurchasing them in the near term. They normally contain trade financial liabilities or "short" positions in securities. Derivatives with negative fair value are also classified as financial liabilities at fair value through profit or loss. Gains or losses on financial liabilities at fair value through profit or loss are recognized in the income statement.

The fair value of financial liabilities, classified as financial liabilities at fair value through profit or loss, that are actively traded in organized financial markets is determined by reference to quoted current ask prices. For financial liabilities classified as financial liabilities at fair value through profit or loss, where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow (net present value) analysis, option pricing models and other relevant valuation models.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

When a financial liability is repurchased (bought-back) by a certain Group member, it is derecognized. The difference between the carrying value (amortized cost) of a financial liability as of the date of buy-back and the consideration paid is recognized in the income statement as the gain or loss arising from extinguishment of liability.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents are items, which can be converted into cash within a day. All short-term interbank placements, including overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, and correspondent accounts in precious metals are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates fair value.

Mandatory reserve deposits with central banks

Mandatory reserve deposits with the CBR and other central banks are carried at amortized cost and represent non-interest bearing deposits, which are not available to finance the Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting receivable, which is due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost less allowance for impairment.

5. Summary of Principal Accounting Policies (continued)

Repurchase and reverse repurchase agreements and lending of financial instruments

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities or other financial assets sold under sale and repurchase agreements are not derecognized. The financial assets are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified as financial assets pledged under sale and repurchase agreements (repurchase receivables). The corresponding liability is presented within customer deposits, amounts due to other banks or other borrowed funds.

Financial assets purchased under agreements to resell ("reverse repo agreements") are recorded as due from other banks or loans and advances to customers, as appropriate.

The difference between the sale and repurchase price is treated as interest income/expense and accrued over the life of repo agreements using the effective interest method.

Financial assets lent to counterparties are retained in the financial statements in their original statement of financial position category unless the counterparty has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified and presented separately.

Financial assets borrowed are not recorded in the financial statements, unless these are sold to third parties, in which case obligation to return the financial assets ("short position") is recorded at fair value through profit or loss in other liabilities in the statement of financial position. The revaluation of this obligation is recorded in the income statement within gains less losses arising from financial instruments at fair value through profit or loss.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options and other instruments in the foreign exchange, capital and commodities markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as gains less losses arising from financial instruments at fair value through profit or loss or gains less losses arising from dealing in foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Derivative instruments embedded in other financial instruments are treated as separate derivatives if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in the income statement.

Hedge accounting

The Group uses derivative instruments to manage exposures to fluctuations both of cash flows from interest received and paid, and of fair values for specifically determined items. As a result, the Group applies hedge accounting for transactions, which meet the specified criteria.

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

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period, for which the hedge is designated, are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the income statement within "Gains less losses arising from financial instruments at fair value through profit or loss" caption. Meanwhile, the change in the fair value of the hedged item attributable to the risk being hedged is recorded as part of the carrying value of the hedged item and is also recognized in the income statement in "Gains less losses arising from financial instruments at fair value through profit or loss" caption.

5. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized through other comprehensive income directly in equity in the cash flow hedge reserve within “Unrealized gain on financial assets available-for-sale and cash flow hedge” caption. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement in “Gains less losses arising from financial instruments at fair value through profit or loss”.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is “recycled” in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement in “Gains less losses arising from financial instruments at fair value through profit or loss”.

Regular way transactions

Regular way transactions are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. All regular way purchases and sales of financial assets are recognized or derecognized on the contractual settlement date which is the date when the asset is to be delivered to or by the Group. Regular way transactions are not recognized as derivatives because of the short duration of the commitment to deliver financial assets between the trade and settlement date.

Any change in the fair value of the financial assets at fair value through profit or loss to be received during the period between the trade date and the settlement date is recognized in the income statement and for financial assets available for sale is recognized in other comprehensive income for financial assets purchased. For financial assets sold on a regular way basis no changes in fair value are recognized in the income statement or in other comprehensive income between the trade and settlement date. Assets carried at cost or amortized cost are not affected by the change in fair value during the period between the trade and settlement date.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss or in due from other banks or in loans and advances to customers or in investment securities held-to-maturity, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Leases

Finance lease – Group as lessor. The Group presents leased assets as lease receivables equal to the net investment in the lease in loans and advances to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding and is presented as interest income. Initial direct costs are included in the initial measurement of the lease receivables.

Operating lease – Group as lessee. Leases of assets, under which the risks and rewards of ownership are effectively retained with the lessor, are classified as operating leases. Lease payments under operating leases are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

Impairment losses are recognized in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired include its overdue status and realizability of related collateral, if any.

5. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics within classification categories. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent, to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Impairment losses are recognized through an allowance account to reduce the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Uncollectible assets are written-off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Impairment of available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement, but are rather retained in other comprehensive income in a separate component of equity. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale below its cost is also objective evidence of impairment of this instrument.

Non-current assets and disposal group held for sale

Non-current assets (or disposal groups, which may include both non-current and current assets and liabilities) , are classified in the statement of financial position as 'non-current assets held for sale' (or as 'assets of disposal group held for sale' and 'liabilities of disposal group held for sale') if their carrying amount will be recovered principally through a sale transaction, including deconsolidation of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets (or disposal groups) are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group represent assets current and/or non-current assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will also be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale premises and equipment and intangible assets are not depreciated or amortised. Reclassified financial instruments, deferred taxes and investment properties held at fair value are not subject to the write down to the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

5. Summary of Principal Accounting Policies (continued)

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in the income statement within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment property are recorded in the income statement and presented within income or expense arising from non-banking activities.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Premises and equipment

Premises and equipment are stated at revalued amounts and cost, respectively, less accumulated depreciation and allowance for impairment where required. Land is stated at revalued amounts. Land has indefinite term of usage and, therefore, is not depreciable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognized in the income statement. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Land, premises and equipment of acquired subsidiaries are initially recorded in the statement of financial position at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired in the business combinations is presented in the financial statements on the date of acquisition.

Land and premises of the Group are subject to revaluation on a regular basis, approximately every three to five years. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The revaluation is applied simultaneously to the whole class of property to avoid selective revaluation.

Any revaluation surplus is credited to the other comprehensive income and increases land and premises revaluation reserve which is a separate equity section of the statement of financial position, except to the extent that it reverses an impairment of the same asset previously recognized in the income statement, in which case the increase is recognized in the income statement. A revaluation deficit is recognized in the income statement, except for the deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for land and premises.

The land and premises revaluation reserve included in equity is transferred directly to retained earnings when the surplus is realized, i.e. on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realized is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Land and premises were revalued to market value at 31 December 2009. The revaluation was performed based on the reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. As at 31 December 2011 and 2010 the Group has not performed revaluation of land and premises as the fair value of these assets did not differ materially from their carrying amounts.

Construction in progress is carried at cost less allowance for impairment, if any. Upon completion, assets are transferred to premises and equipment at their carrying value. Construction in progress is not depreciated until the asset is available for use.

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell.

The decrease in carrying amount is charged to income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

5. Summary of Principal Accounting Policies (continued)

Premises and equipment (continued)

Gains and losses on disposal of land, premises and equipment are determined by reference to their carrying amount and are taken into account in determining profit or loss. Repairs and maintenance are charged to the income statement when the expense is incurred.

Depreciation

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets using the following basic annual rates:

	Useful life	*Depreciation rates*
Premises	40 years	2.5% per annum
Equipment	4 – 20 years	5% – 25% per annum

Estimated useful lives and residual values are reassessed annually.

Goodwill

Goodwill acquired in a business combination represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized and is calculated as the excess of (a) over (b) below:

(a) the aggregate of:
- the consideration transferred, which generally requires acquisition-date fair value;
- the amount of any non-controlling interest in the acquiree; and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the above resulting amount is negative, the acquirer has made a gain from a bargain purchase that gain is recognized in profit or loss.

The revised IFRS 3 allows the acquirer to measure any non-controlling interests, which are present ownership interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets for each business combination. This results in different amount of goodwill or gain from bargain purchase to be recognized in financial statements depending on the choice of the acquirer.

Goodwill on an acquisition of a subsidiary is disclosed in the caption "Intangible assets and goodwill" of the statement of financial position. Goodwill on an acquisition of an associate or joint venture is included in the carrying amount of investments in associates and joint ventures. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units, to which the goodwill is so allocated:

- represents the lowest level within the Group, at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment in accordance with IFRS 8 "Operating Segments" before aggregation.

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms a part of a cash-generating unit (group of cash-generating units) and a part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

5. Summary of Principal Accounting Policies (continued)

Intangible assets

Intangible assets include licenses, computer software, and other identifiable intangible assets, including those acquired in business combinations.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives, which normally do not exceed 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Core deposit and loan to customer intangibles

Core deposit and loan to customer intangibles relate to the acquisition of the Group's subsidiaries and are attributable to the customer demand deposits, loans to customers, stable client base, are identified as an intangible assets. The identification is based on examination of the subsidiaries' customer base. The core deposit intangible is recognized if it was concluded that the acquired subsidiaries has a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The loan to customer intangible is determined by applying income approach and calculated as discounted cash-flow from new loans to existing borrowers. The useful life of the core deposit and loan to customer intangibles was estimated from five to eight years and is amortized over its useful life using the straight-line method.

Due to other banks

Amounts due to other banks are recorded when money or other financial assets are advanced to the Group by counterparty banks. The liability is carried at amortized cost using the effective interest method.

Customer deposits

Customer deposits are liabilities to individuals, state or corporate customers and are carried at amortized cost using the effective interest method. Customer deposits include both demand and term deposits. Interest expense is recognized in the income statement over the period of deposits using effective interest method.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit, eurobonds and debentures issued by the Group. Debt securities are stated at amortized cost using the effective interest method. If the Group purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability the consideration paid is included in gains less losses arising from extinguishment of liability in the income statement.

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include syndicated loans, revolving, other credit lines and other specific items. Other borrowed funds are carried at amortized cost using the effective interest method. Interest expense is recognized in the income statement over the period of other borrowed funds using effective interest method.

Current and deferred tax

Taxation has been provided for in the financial statements in accordance with taxation legislation currently in force in the respective territories that the Group operates. The income tax charge in the income statement comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the reporting date. The income tax charge/credit comprises current tax and deferred tax and is recognized in the income statement except if it is recognized through other comprehensive income directly in equity because it relates to transactions that are also recognized, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative expenses.

5. Summary of Principal Accounting Policies (continued)

Current and deferred tax (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill, which is not deductible for tax purposes. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax balances are measured at tax rates enacted or substantively enacted by the reporting date, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group, when an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilized.

Provisions for liabilities and charges

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are recorded when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Credit related commitments

In the normal course of business, the Group enters into irrevocable credit related commitments, including letters of credit and guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantee contracts are recognized initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*. Commitments to provide loans at a below-market interest rate are initially recognized at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Specific provisions are recorded against credit related commitments when losses are considered more likely than not.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued.

Dividends

Dividends are recorded as a separate debit caption in equity in the period, in which they are declared. Dividends declared after the reporting date and before the financial statements are authorized for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related incremental direct costs) and recognized as an adjustment to the effective yield of the loans. Commission fees and other incremental direct costs, related to the issuance of debt securities and other borrowed funds are recognized as an adjustment to the effective yield of the relevant liability. Fees, commissions and other income and expense items are generally recorded on an accrual basis when the service has been provided. Fee and commission income are usually collected by debiting customers deposits upon provision of services. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts. Asset management fees related to investment funds are recorded over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

5. Summary of Principal Accounting Policies (continued)

Staff costs and related contributions

The Group's contributions to the State and Group's social insurance, and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group's contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Non-used vacations accrued amounts are also included in staff costs within staff costs and administrative expenses.

The Group recognizes all actuarial gains and losses related to defined benefit plan directly in other comprehensive income.

Inflation accounting

If an economy in which a Group's subsidiary operates is considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* than this subsidiary applies IAS 29. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

Foreign currency translation

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at the reporting date, the assets and liabilities of the entities, whose functional currency is different from the presentation currency of the Group and is not a currency of hyperinflationary economy, are translated into RUR at the closing rate of exchange at the reporting date and, their income statements are translated into RUR at the average exchange rates for the reporting period. The exchange differences arising on the translation are recognized in other comprehensive income in a separate component of equity ("Currency translation difference"). If the entity's functional is a currency of hyperinflationary economy, all amounts (assets, liabilities, equity items, income and expenses) of these entities are translated into RUR at the closing rate of exchange at the reporting date; and, before applying this translation method, the entity restates its financial statements in accordance with IAS 29 (see above "Inflation accounting"), except for comparative amounts that are translated into RUR. Differences which arise each period between the closing equity items of the previous year and the opening equity items of the current year presented in RUR, are recognized as an "Effect of translation, net of tax" in other comprehensive income, as to the related equity items. The remaining exchange differences arising on the consolidation are recognized in other comprehensive income in a separate component of equity ("Currency translation difference").

On disposal of a subsidiary or an associate or joint venture, whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in equity relating to that particular entity is reclassified to the income statement.

As at 31 December 2011, the principal closing rate of exchange used for translating balances in USD to Russian Roubles was USD 1 to RUR 32.1961 (at 31 December 2010: USD 1 to RUR 30.4769), and the principal closing rate of exchange used for translating balances in Euro was EUR 1 to RUR 41.6714 (at 31 December 2010: EUR 1 to RUR 40.3331).

Fiduciary assets

Assets held by the Group in its own name, but for the account of third parties, are not reported in the statement of financial position. Commissions received from such operations are shown within fee and commission income in the income statement.

5. Summary of Principal Accounting Policies (continued)

Segment reporting

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit (loss) or combined assets are ten percent or more of all the segments are reported separately (reportable segments). The segments, that are below the above materiality thresholds, but can be aggregated on the basis of their activities, production processes, products or services, should be tested for the meeting the criteria of reportable segments on these aggregated amounts.

In accordance with IFRS 8 *Operating Segments* the Group defined as the operating segments its global business lines. This segment disclosure is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation.

6. Significant Accounting Estimates and Judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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.

Allowance for impairment of loans, receivables and provision for commitments to provide loans

The Group reviews its loans and receivables and loan commitments for impairment on a regular basis. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and sufficient historical data relating to similar borrowers is not available. Similarly, the Group estimates changes in future cash flows based on observable data to obtain indication of any adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

For the purposes of calculation of allowances and provisions for impairment of loans and commitments to provide loans at 31 December 2011 and 2010, the Bank applied the internally approved formalized provisioning methodology for loans and commitments to provide loans with signs of individual impairment and collectively assessed loans on portfolio basis with no signs of individual impairment and similar credit risk characteristics.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units, to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was RUR 104.7 billion (31 December 2010: RUR 19.9 billion) (Note 17).

Impairment of investments in associates

The Group performs impairment review for its investments in associates where indication of impairment exists at the reporting date. The recoverable amount of investments is determined as their fair value less costs to sell. When the Group's investments are not quoted in active markets, their fair values are determined using various valuation methods, including valuation multiples and discounted cash flow techniques.

Existence of significant influence in other entities

The Group may have voting rights in other entities approaching to but lower than 20%. In assessing whether the Group has significant influence over such entities, judgment is exercised to determine whether the Group had the power to participate in the financial and operating policy decisions of the investee. The Group's investments in those entities where the Group has significant influence are detailed in Note 13.

6. Significant Accounting Estimates and Judgements (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently, unexpectedly and with retroactive effect. Further, the provisions of Russian tax law applicable to financial instruments (including derivative transactions) are subject to significant uncertainty and lack interpretive guidance. 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 interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. (Note 36)

Consolidation of funds

The Group consolidates mutual funds considering the following key factors for each fund:

- whether the share owned by the Group provides control over the fund's activities giving the Group the ability to change the fund-management company, or
- whether the Group's control over the management company provides control over the fund's activities giving the Group the ability to retain the controlled fund-management company.

Fair value estimation of unquoted shares

Details of fair value estimation of unquoted shares, classified as financial assets at fair value through profit or loss and financial assets available-for-sale are provided in Note 39. Assessment of significance of particular fair value measurement input requires management judgment and is disclosed in Note 39.

7. Cash and Short-Term Funds

	31 December 2011	*31 December 2010*
Cash on hand	104.3	70.1
Cash balances with central banks (other than mandatory reserve deposits)	197.1	105.9
Correspondent accounts with other banks		
- Russian Federation	31.2	18.4
- Other countries	74.4	81.1
Total cash and short-term funds	**407.0**	**275.5**
Less: correspondent accounts in precious metals	(8.4)	(1.6)
Less: restricted cash	(1.1)	(1.1)
Total cash and cash equivalents	**397.5**	**272.8**

Restricted cash balances represent the balances in the amount of RUR 1.1 billion (31 December 2010: RUR 1.1 billion) under legal restrictions. Restricted cash balances were collateralized by amounts due to customers and banks in the amount of RUR 1.0 billion (31 December 2010: RUR 1.1 billion). For the purposes of the consolidated statement of cash flows cash represented by restricted cash and correspondent accounts in precious metals are not included in cash and cash equivalents.

8. Financial Assets at Fair Value Through Profit or Loss

	31 December 2011	*31 December 2010*
Financial assets held for trading	540.7	320.0
Financial assets designated as at fair value through profit or loss	30.8	24.6
Total financial assets at fair value through profit or loss	**571.5**	**344.6**

8. Financial Assets at Fair Value Through Profit or Loss (continued)

The 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.

Financial assets held for trading

	31 December 2011	*31 December 2010*
Debt securities denominated in USD		
Eurobonds of Russian companies and banks	33.4	16.1
Bonds and eurobonds of foreign governments	16.0	5.1
Bonds and eurobonds of foreign companies and banks	13.6	13.0
Eurobonds of the Russian Federation	1.4	1.4
Debt securities denominated in RUR		
Bonds of Russian companies and banks	200.0	129.1
Russian Federal loan bonds (OFZ)	55.6	18.7
Russian municipal bonds	4.1	2.8
Promissory notes of Russian companies and banks	3.3	0.1
Bonds of foreign governments	0.7	–
Eurobonds of foreign companies and banks	0.4	0.3
Bonds of the Central Bank of the Russian Federation	–	14.4
Debt securities denominated in other currencies		
Bonds of foreign governments	4.5	3.5
Bonds and eurobonds of foreign companies and banks	2.3	0.8
Eurobonds of Russian companies and banks	1.1	0.2
Russian municipal bonds	0.5	–
Equity securities	124.9	75.6
Balances arising from derivative financial instruments (Note 36)	78.9	38.9
Total financial assets held for trading	**540.7**	**320.0**

As at 31 December 2011 bonds of Russian companies and banks are mostly represented by debt securities issued by Russian oil and gas companies, banks, transportation and telecommunication companies.

As at 31 December 2011 equity securities are represented by securities issued by Russian banks, oil and gas companies and metal companies.

Financial assets designated as at fair value through profit or loss

	31 December 2011	*31 December 2010*
Equity securities	11.0	6.7
Bonds of foreign companies and banks	10.9	8.4
Bonds and eurobonds of Russian companies and banks	7.5	4.6
Bonds of foreign governments	1.4	4.9
Total financial assets designated as at fair value through profit or loss	**30.8**	**24.6**

As at 31 December 2011 Financial assets at fair value through profit or loss include the amount of RUR 1.4 billion which is pledged against amounts due to other banks (Note 20) (31 December 2010: RUR 0.6 billion).

Fair value measurements for each class of financial instruments in accordance with a value hierarchy are disclosed in Note 39.

9. Financial Assets Pledged under Repurchase Agreements and Loaned Financial Assets

	31 December 2011	*31 December 2010*
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Bonds of Russian companies and banks	2.4	6.1
Russian Federal loan bonds (OFZ)	0.9	–
Equity securities	0.1	1.2
Bonds of foreign companies and banks	–	0.1
Bonds of foreign governments	–	0.1
Total Financial assets held for trading	*3.4*	*7.5*
Financial assets designated as at fair value through profit or loss		
Eurobonds of Russian companies and banks	2.9	1.2
Bonds of foreign companies and banks	0.8	0.7
Bonds of foreign governments	0.5	1.5
Total Financial assets designated as at fair value through profit or loss	*4.2*	*3.4*
Total Financial assets at fair value through profit or loss	***7.6***	***10.9***
Financial assets available-for-sale		
Bonds of Russian companies and banks	1.3	1.7
Bonds of foreign governments	0.6	3.0
Russian Federal loan bonds (OFZ)	0.4	–
Total Financial assets available-for-sale	***2.3***	***4.7***
Financial assets classified as loans and advances to customers	***188.3***	***–***
Financial assets classified as due from other banks	***0.4***	***1.3***
Total financial assets pledged under repurchase agreements and loaned financial assets	**198.6**	**16.9**

As at 31 December 2011 bonds of Russian companies and banks included in the above table are mostly represented by debt securities issued by Russian oil and gas companies, transportation, telecommunication companies and banks.

As at 31 December 2011 financial assets classified as loans and advances to customers pledged under repurchase agreements are mostly represented by federal loan bonds with debt amortization (OFZ-AD) with the carrying amount of RUR 175.5 billion which were purchased by "Bank of Moscow", OJSC in September 2011 from proceeds of loan from DIA (Note 22).

10. Due from Other Banks

	31 December 2011	*31 December 2010*
Russia	171.8	176.6
OECD	204.6	163.1
Other countries	50.8	13.1
Total gross due from other banks	**427.2**	**352.8**
Less: Allowance for impairment (Note 32)	(2.6)	(2.9)
Total due from other banks	**424.6**	**349.9**

As at 31 December 2011, reverse sale and repurchase agreements with other banks amounted to RUR 78.9 billion (31 December 2010: RUR 64.8 billion). These reverse sale and repurchase agreements with other banks were collateralized by securities with fair value of RUR 82.0 billion (31 December 2010: RUR 70.2 billion).

As at 31 December 2011, amount included in due from other banks of RUR 0.5 billion is pledged against issued local mortgage-backed bonds (31 December 2010: RUR 1.5 billion).

11. Loans and Advances to Customers

The table below shows loans and advances to customers by class.

	31 December 2011	*31 December 2010*
Loans to legal entities		
Current activity financing	2,091.9	1,438.2
Project finance and other	1,314.7	888.9
Finance leases	244.1	142.2
Reverse sale and repurchase agreements	115.3	48.8
Total loans to legal entities	**3,766.0**	**2,518.1**
Loans to individuals		
Consumer loans and other	436.2	268.4
Mortgages	309.0	217.2
Car loans	75.5	52.8
Reverse sale and repurchase agreements	3.4	3.1
Total loans to individuals	**824.1**	**541.5**
Less: Allowance for impairment (Note 32)	(288.5)	(274.2)
Total loans and advances to customers	**4,301.6**	**2,785.4**

Finance leases represent loans to leasing companies and net investment in leases.

The finance lease receivables were as follows:

	31 December 2011	*31 December 2010*
Gross investment in leases	245.5	165.0
Less: Unearned finance lease income	(79.1)	(48.4)
Net investment in leases before allowance	**166.4**	**116.6**
Less: Allowance for impairment	(10.3)	(9.5)
Net investment in leases	**156.1**	**107.1**

Future minimum lease payments to be received by the Group were as following:

	31 December 2011	*31 December 2010*
Within 1 year	50.3	40.2
From 1 to 5 years	141.7	93.0
More than 5 years	53.5	31.8
Minimum lease payments receivable	**245.5**	**165.0**

Net investments in leases were as following:

	31 December 2011	*31 December 2010*
Within 1 year	44.6	34.0
From 1 to 5 years	95.5	62.9
More than 5 years	26.3	19.7
Net investment in leases	**166.4**	**116.6**

11. Loans and Advances to Customers (continued)

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

	31 December 2011		*31 December 2010*	
	Amount	***%***	***Amount***	***%***
Individuals	824.1	18	541.5	18
Finance	619.6	13	382.3	12
Building construction	530.7	12	303.2	10
Manufacturing	464.3	10	267.7	9
Transport	386.9	8	186.2	6
Metals	363.2	8	334.5	11
Trade and commerce	357.0	8	230.6	7
Government bodies	248.8	5	115.4	4
Chemical	214.9	5	226.6	7
Energy	145.7	3	97.8	3
Oil and gas	119.2	3	139.7	4
Food and agriculture	94.1	2	81.6	3
Telecommunications and media	69.5	2	23.6	1
Coal mining	58.0	1	55.6	2
Aircraft	18.0	–	20.5	1
Other	76.1	2	52.8	2
Total gross loans and advances to customers	**4,590.1**	**100**	**3,059.6**	**100**

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 31 December 2011, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 1,036.8 billion, or 22% of the gross loan portfolio represented by loans and advances to customers and financial assets pledged under repurchase agreement classified as loans to customers (31 December 2010: RUR 643.7 billion, or 21%).

As at 31 December 2011, loans and advances to customers represented by federal loan bonds with debt amortization (OFZ-AD) purchased in September 2011 by “Bank of Moscow”, OJSC with the carrying amount of RUR 115.4 billion are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure.

As at 31 December 2011, the Group received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of RUR 177.0 billion (31 December 2010: RUR 85.3 billion).

As at 31 December 2011, the total amount of pledged loans to corporate customers is RUR 72.3 billion (31 December 2010: RUR 12.3 billion). The loans are pledged against the funds accounted within Other borrowed funds (Note 22) and Due to other banks (Note 20) captions in Liabilities. Included in the above amount of pledged loans are mortgage loans of RUR 5.0 billion (31 December 2010: RUR 5.0 billion).

As at 31 December 2011, the carrying value of mortgage loans pledged against debt securities issued amounted to RUR 8.2 billion (31 December 2010: RUR 14.8 billion).

During 2011 interest income on impaired loans, recognized by the Group amounted to RUR 10.8 billion (2010: RUR 13.4 billion).

12. Financial Assets Available-for-Sale

	31 December 2011	***31 December 2010***
Equity investments	135.8	28.8
Bonds and eurobonds of foreign governments	10.6	16.4
Russian Federal loan bonds (OFZ)	10.2	–
Eurobonds of Russian companies and banks	6.4	1.0
Bonds of foreign companies and banks	3.7	9.0
Promissory notes of Russian companies and banks	0.6	0.3
Bonds of Russian companies and banks	0.4	0.4
Total financial assets available-for-sale	**167.7**	**55.9**

12. Financial Assets Available-for-Sale (continued)

As at 31 December 2011 equity investments are represented mostly by shares of Russian metal and finance companies.

The Group recognized an impairment loss of RUR 2.1 billion before tax, transferred from unrealized gain on financial assets available-for-sale to the income statement, and realized portion of revaluation of available-for-sale financial assets transferred to income statement due to the sale of available-for-sale financial assets of RUR 6.2 billion before tax for the year ended 31 December 2011 (2010: RUR 0.7 billion and RUR 0.6 billion respectively).

13. Investments in Associates and Joint Ventures

			31 December 2011		*31 December 2010*	
	Country of registration	*Activity*	*Carrying amount*	*Ownership percentage*	*Carrying amount*	*Ownership percentage*
“Metropolitan Insurance Group”, OJSC	Russia	Insurance	16.0	50.00%	–	–
“KS Holding”, CJSC	Russia	Insurance	5.7	49.00%	4.8	49.00%
“Eurofinance Mosnarbank”, OJSC	Russia	Banking	3.3	25.00%	4.3	35.85%
“Vietnam-Russia Joint Venture Bank”	Vietnam	Banking	2.0	50.00%	0.9	49.00%
“Haberma Enterprises”, Ltd	Cyprus	Real estate	1.2	39.10%	–	–
“Sistemapsys S.a.r.l.”	Luxembourg	Construction	1.0	50.00%	1.3	50.00%
“Hals-Technopark”, CJSC	Russia	Construction	1.0	50.00%	1.0	50.00%
“Thalita Trading”, Ltd	Cyprus	Finance	0.7	50.00%	0.9	50.00%
“Finnist Real Estate S.a.r.l.”	Luxembourg	Real estate	0.5	19.99%	0.8	19.99%
"Russian National Commercial Bank", JSC	Russia	Banking	0.5	39.80%	–	–
“Gelosa Holdings”, Ltd	Cyprus	Real estate	0.4	21.16%	–	–
"Estonian Credit Bank", JSC	Estonia	Banking	0.2	43.79%	–	–
“Izumrudniy Gorod 2000”, Ltd	Russia	Construction	–	50.00%	–	50.00%
“Tagar-City”, Ltd	Russia	Construction	–	50.00%	–	50.00%
“Amiral' B. V.”, Ltd	Russia	Construction	–	50.00%	–	50.00%
“Ilinoza investments limited”, Ltd	Russia	Construction	–	45.00%	–	45.00%
“Interbank Trading House”, Ltd	Russia	Commerce	–	50.00%	–	50.00%
"Automated Banking Technologies", CJSC	Russia	IT	–	25.86%	–	–
"Pension Reserve", Ltd	Russia	Finance	–	19.00%	–	–
“POLIEF”, OJSC	Russia	Chemical	–	–	1.1	32.50%
“Telecom-Development”, CJSC	Russia	Construction	–	–	0.6	50.00%
Total investments in associates and joint ventures			**32.5**		**15.7**	

In January 2011, “Vietnam-Russia Joint Venture Bank” increased its share capital to USD 168.5 million, and VTB increased its share in “Vietnam-Russia Joint Venture Bank” from 49.00% to 50.00% by contribution of USD 53.6 million (RUR 1.6 billion).

In February 2011, VTB purchased 46.48% of “Bank of Moscow”, OJSC for RUR 92.8 billion and 25% plus 1 share of “Metropolitan Insurance Group”, OJSC for RUR 10.2 billion. In September 2011, the Group obtained control over “Bank of Moscow”, OJSC and consolidated it in these financial statements (Note 42). The Group recognized RUR 6.4 billion as share in income of associates and joint ventures for the period when “Bank of Moscow”, OJSC was associate of the Group. As a result of consolidation of “Bank of Moscow”, the Group increased its share in “Metropolitan Insurance Group”, OJSC to 50% less 1 share.

In February 2011, the Group entered into the agreement to sell shares of “Eurofinance Mosnarbank”, OJSC, for RUR 2.3 billion effectively decreasing the Group’s ownership in “Eurofinance Mosnarbank”, OJSC associate to 25% plus 0.5 share and recognizing profit before tax of RUR 0.9 billion from partial disposal of the associate.

"Automated Banking Technologies", CJSC, "Pension Reserve", Ltd and "Estonian Credit Bank", JSC represent associates of “Bank of Moscow”, OJSC initially consolidated at 30 September 2011 (Note 42).

In December 2011, the Group acquired a 39.80% share of "Russian National Commercial Bank", JSC as a result of obtaining control by “Bank of Moscow”, OJSC in "Consolidated companies", OJSC (Note 42).

As at 31 December 2011, investment in Associate in the amount of RUR 0.7 billion was pledged against the funds obtained by the other Associate of the Group (31 December 2010: nil).

13. Investments in Associates and Joint Ventures (continued)

The following table contains the summarized aggregated financial information on the associates and joint ventures:

	31 December 2011	*31 December 2010*
Assets	250.6	130.2
Liabilities	193.9	97.9
Net assets	56.7	32.3
Revenue	57.0	32.5
Net profit	1.2	0.2

The unrecognized share of losses of associates for 2011 and cumulatively at 31 December 2011 was RUR 0.1 billion and RUR 0.2 billion, respectively (31 December 2010: RUR 0.1 billion and RUR 0.1 billion, respectively).

14. Investment Securities Held-to-Maturity

	31 December 2011	*31 December 2010*
Bonds of Russian companies and banks	32.8	32.6
Russian municipal bonds	1.0	2.4
Bonds of foreign governments	0.5	0.8
Russian Federal loan bonds (OFZ)	0.1	–
Bonds of foreign companies and banks	–	0.4
Total gross investment securities held-to-maturity	**34.4**	**36.2**
Less: Allowance for impairment (Note 32)	(2.0)	(2.0)
Total investment securities held-to-maturity	**32.4**	**34.2**

Bonds of Russian companies and banks are mostly represented by debt securities issued by major Russian banks.

15. Premises and Equipment

The movements in property and equipment were as follows:

	Premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 2010	**61.1**	**15.1**	**3.1**	**33.9**	**113.2**
Cost or revalued amount					
Opening balance at 1 January 2011	**62.3**	**28.2**	**3.1**	**35.0**	**128.6**
Effect of hyperinflation	0.7	0.6	0.2	–	**1.5**
Acquisitions of subsidiaries (Note 42)	14.0	3.2	3.3	–	**20.5**
Additions	4.5	6.8	7.8	21.7	**40.8**
Transfer	(7.8)	(2.8)	0.3	3.2	**(7.1)**
Disposals	(1.0)	(1.7)	(3.9)	(37.4)	**(44.0)**
Impairment	–	–	(0.5)	–	**(0.5)**
Translation difference	(0.5)	(0.6)	(0.2)	0.3	**(1.0)**
Closing balance at 31 December 2011	**72.2**	**33.7**	**10.1**	**22.8**	**138.8**
Accumulated depreciation					
Opening balance at 1 January 2011	**1.2**	**13.1**	**–**	**1.1**	**15.4**
Effect of hyperinflation	–	0.3	–	–	**0.3**
Depreciation charge	1.8	4.8	–	1.9	**8.5**
Disposals	(0.2)	(0.4)	–	(1.5)	**(2.1)**
Translation difference	–	(0.1)	–	–	**(0.1)**
Closing balance at 31 December 2011	**2.8**	**17.7**	**–**	**1.5**	**22.0**
Net book amount at 31 December 2011	**69.4**	**16.0**	**10.1**	**21.3**	**116.8**

15. Premises and Equipment (continued)

The Transfer caption in 2011 includes both transfers between the categories of the Premises and equipment, and transfers to / from Property intended for sale in the ordinary course of business in Other assets.

	Premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 2009	**37.9**	**10.5**	**11.4**	**6.1**	**65.9**
Cost or revalued amount					
Opening balance at 1 January 2010	**37.9**	**20.3**	**11.4**	**6.2**	**75.8**
Acquisitions of subsidiaries	14.0	1.4	–	–	**15.4**
Additions	2.0	5.5	4.2	29.6	**41.3**
Transfer	8.9	2.1	(11.0)	–	**–**
Disposals	(0.2)	(0.9)	(1.5)	(0.8)	**(3.4)**
Translation difference	(0.3)	(0.2)	–	–	**(0.5)**
Closing balance at 31 December 2010	**62.3**	**28.2**	**3.1**	**35.0**	**128.6**
Accumulated depreciation					
Opening balance at 1 January 2010	**–**	**9.8**	**–**	**0.1**	**9.9**
Depreciation charge	1.3	3.8	–	1.0	**6.1**
Disposals	(0.1)	(0.5)	–	–	**(0.6)**
Closing balance at 31 December 2010	**1.2**	**13.1**	**–**	**1.1**	**15.4**
Net book amount at 31 December 2010	**61.1**	**15.1**	**3.1**	**33.9**	**113.2**

Premises of the Group are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2009. As at 31 December 2011 and 31 December 2010 the Group analyzed market prices in relation to its premises and concluded that the market value of premises was not materially different from their carrying value and has not performed revaluation.

As at 31 December 2011 the Group recognized impairment loss in the amount of RUR 0.5 billion with regard to construction in progress.

If the premises were measured using the cost model, the carrying amounts would be as follows:

	31 December 2011	*31 December 2010*
Cost	62.8	52.9
Less: Accumulated depreciation and impairment	4.4	3.0
Net carrying amount	**58.4**	**49.9**

16. Investment Property

	2011	*2010*
Investment property at 1 January	**102.2**	**79.8**
Acquisitions of subsidiaries	10.7	15.7
Disposal of subsidiaries	(0.6)	–
Additions	4.8	13.1
Disposals	(1.3)	(1.7)
Reclassified to premises	–	(0.1)
Reclassified from premises	–	0.4
Reclassified to property held for sale	(2.1)	(7.0)
Reclassified from property held for sale	0.2	1.9
Revaluation	4.5	(0.2)
Capitalization of expenses	4.1	0.3
Investment property at 31 December	**122.5**	**102.2**

16. Investment Property (continued)

As at 31 December 2011 investment property was revalued by RUR 4.5 billion (in 2010 – decreased by RUR 0.2 billion). The valuation was carried out by the Group's internal appraisers and by independent appraisers on the basis of market prices for comparable real estate.

In 2011 the Group received directly a property title for land plots and commercial and residential properties valued at RUR 3.9 billion (2010: RUR 12.3 billion) in exchange for settlement of the outstanding loans granted by the Group. The property of RUR 0.6 billion (2010: RUR 0.8 billion) was obtained through foreclosure of collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

In 2011, the Group's investment property increased due to property valued at RUR 3.3 billion received a result of acquisition of "Bank of Moscow", OJSC (Note 42). The investment property for the amount of RUR 5.5 billion and RUR 1.9 billion was received by "Hals-Development", OJSC and "TransCreditBank", JSC, respectively, when acquiring subsidiaries.

In 2010, the Group's investment property increased due to property valued at RUR 15.7 billion received a result of acquisition of "M", CJSC, "TransCreditBank", JSC and "VTB Arena", CJSC (Note 42).

The Group leased out a portion of its investment property under operating lease. Future minimum receivables under non-cancellable operating lease are RUR 2.0 billion (RUR 0.8 billion as of 31 December 2010) of which RUR 0.6 billion to be received in less than one year and of which RUR 1.4 billion to be received later than one year and not later than five years (2010: RUR 0.3 billion and RUR 0.5 billion, respectively).

In 2011 the Group has recognized rental income as part of income arising from non-banking activities of RUR 0.9 billion (2010: RUR 0.2 billion) and direct operating expenses of RUR 0.3 billion (2010: no material direct operating expenses) in relation to investment property that generated rental income.

17. Intangible Assets and Goodwill

The movements in intangible assets were as follows in 2011:

	Core deposit and customer loan intangible	*Computer software*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2010	**5.0**	**3.0**	**2.6**	**–**	**19.9**	**30.5**
Cost less impairment						
Opening balance at 1 January 2011	**9.8**	**4.6**	**2.9**	**–**	**19.9**	**37.2**
Additions	–	2.0	1.6	–	–	**3.6**
Acquisition through business combinations (Note 42)	25.4	0.3	0.3	1.5	84.8	**112.3**
Disposals	–	(0.3)	(0.8)	–	–	**(1.1)**
Write-offs through impairment	–	–	(0.1)	–	–	**(0.1)**
Translation difference	–	(0.1)	–	–	–	**(0.1)**
Transfer	–	–	(0.3)	–	–	**(0.3)**
Closing balance at 31 December 2011	**35.2**	**6.5**	**3.6**	**1.5**	**104.7**	**151.5**
Accumulated amortization						
Opening balance at 1 January 2011	4.8	1.6	0.3	**–**	**–**	**6.7**
Amortization charge	1.9	0.9	1.2	–	–	**4.0**
Disposals	–	(0.4)	–	–	–	**(0.4)**
Closing balance at 31 December 2011	**6.7**	**2.1**	**1.5**	**–**	**–**	**10.3**
Net book amount at 31 December 2011	**28.5**	**4.4**	**2.1**	**1.5**	**104.7**	**141.2**

17. Intangible Assets and Goodwill (continued)

The Transfer caption in 2011 includes transfers to Property intended for sale in the ordinary course of business in Other assets.

The movements in intangible assets were as follows in 2010:

	Core deposit and customer loan intangible	*Computer software*	*Other rights*	*Goodwill*	*Total*
Net book amount at 31 December 2009	**1.2**	**2.1**	**0.7**	**7.9**	**11.9**
Cost less impairment					
Opening balance at 1 January 2010	**5.0**	**3.4**	**0.7**	**7.9**	**17.0**
Additions	–	1.0	0.4	–	**1.4**
Acquisition through business combinations	4.8	0.3	2.4	13.1	**20.6**
Disposals	–	(0.1)	(0.6)	–	**(0.7)**
Write-offs through impairment	–	–	–	(1.1)	**(1.1)**
Closing balance at 31 December 2010	**9.8**	**4.6**	**2.9**	**19.9**	**37.2**
Accumulated amortization					
Opening balance at 1 January 2010	**3.8**	**1.3**	**–**	**–**	**5.1**
Amortization charge	1.0	0.3	0.7	–	**2.0**
Disposals	–	–	(0.4)	–	**(0.4)**
Closing balance at 31 December 2010	**4.8**	**1.6**	**0.3**	**–**	**6.7**
Net book amount at 31 December 2010	**5.0**	**3.0**	**2.6**	**19.9**	**30.5**

The carrying amount of goodwill and core deposit and customer loan intangible allocated to each of the following cash-generating units:

	31 December 2011			*31 December 2010*		
	Carrying amount of goodwill	*Carrying amount of core deposit and customer loan intangible*	*Total*	*Carrying amount of goodwill*	*Carrying amount of core deposit and customer loan intangible*	*Total*
"Bank of Moscow", OJSC	84.7	24.4	**109.1**	–	–	**–**
"TransCreditBank", JSC	7.7	3.9	**11.6**	7.7	4.8	**12.5**
"VTB North-West Regional Center" (branch) (former "Bank VTB North-West", OJSC)	5.2	–	**5.2**	5.2	–	**5.2**
"VTB Arena", CJSC	4.3	–	**4.3**	4.3	–	**4.3**
"Bank VTB 24", CJSC	2.1	–	**2.1**	2.1	–	**2.1**
"VTB Bank (Azerbaijan)", OJSC	0.4	–	**0.4**	0.4	–	**0.4**
"VTB Specialized Depository", CJSC	–	0.2	**0.2**	–	0.2	**0.2**
"VTB Bank (Armenia)" CJSC	0.1	–	**0.1**	0.1	–	**0.1**
"VTB Asset Management", CJSC	0.1	–	**0.1**	0.1	–	**0.1**
"Citer Invest", B. V.	0.1	–	**0.1**	–	–	**–**
Net book amount	**104.7**	**28.5**	**133.2**	**19.9**	**5.0**	**24.9**

As at 31 December 2011, the recoverable amount of "TransCreditBank", JSC has been determined based on a fair value of the business, which amounted to RUR 51.4 billion. The fair value was calculated using the market price of "TransCreditBank", JSC shares.

In March 2011, "Bank VTB North-West", OJSC ceased its operations as a subsidiary of VTB following the legal merger of VTB and "Bank VTB North-West". This reorganization was accompanied by formation of a new cash-generating unit VTB North-West Regional Center established on the basis of former the "Bank VTB North-West", OJSC Head Office. As a result, the Group has reallocated the respective goodwill to the new cash-generated unit. As at 31 December 2011, the recoverable amount of the new cash-generating unit "VTB North-West Regional Center" has been determined based on a value in use calculation using pretax cash flow projections based on financial budgets approved by the Management covering a five-year period, which amounted to RUR 113.0 billion. The discount rate applied to cash flow projections is 9%.

17. Intangible Assets and Goodwill (continued)

The goodwill related to “VTB Arena”, CJSC is allocated to the development project of subsidiary as the separate cash-generated unit. The recoverable amount of the development project at 31 December 2011 has been determined based on a value in use calculation using pretax cash flow projections based on financial budgets approved by the Management covering a ten-year period, which amounted to RUR 20.9 billion. The longer period was used to reflect the duration of investment project. The discount rate applied to cash flow projections is 15%.

The calculation of value in use for Group is most sensitive to assumptions in discount rates, terminal capitalization rate, weighted average rent rates for shopping and entertainment centers, prices and sales schedules for apartments, occupancy rates and average prices per room in hotels and apart hotels, etc.

For VTB Arena development project, the estimated recoverable amount is close to its carrying value and, consequently, any adverse change in key assumptions would result in impairment losses, e.g. increase of terminal capitalization rate by 0.75% or increase of the discount rate by 0.5% would lead to a decrease in recoverable amount and recognition of related goodwill impairment loss.

The recoverable amount of “Bank VTB 24”, CJSC at 31 December 2011 has been determined based on a value in use calculation using pretax cash flow projections based on financial budgets approved by the Management covering a five-year period, which amounted to RUR 641.1 billion. The discount rate applied to cash flow projections is 11%.

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount will not result in an impairment of goodwill, except for that attributable to VTB Arena development project, described above.

18. Other Assets

	31 December 2011	*31 December 2010*
Property intended for sale in the ordinary course of business	34.3	20.0
Other assets related to non-banking activities	27.7	16.3
Precious metals	19.9	2.2
Tax prepayments	17.8	9.1
Trade debtors and prepayments	9.2	7.3
Equipment purchased for subsequent leasing	8.5	11.7
Amounts in course of settlement	8.3	14.8
Deferred expenses	5.8	6.5
Advances issued to leasing equipment suppliers	4.9	3.4
Accrued commission income	3.8	2.8
Inventories	2.8	2.2
Leasehold for development and sale	1.6	1.5
Positive fair value of derivatives (fair value hedges) (Note 36)	0.5	0.6
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs	0.4	0.1
Other	5.5	6.5
Total other assets before allowance for impairment	**151.0**	**105.0**
Less: Allowance for impairment (Note 32)	(2.7)	(2.4)
Total other assets	**148.3**	**102.6**

As at 31 December 2011 and 2010, equipment purchased for subsequent leasing and advances issued to leasing equipment suppliers represents operations of VTB Leasing.

As at 31 December 2011, included in Property intended for sale in the ordinary course of business is the amount of RUR 1.4 billion (31 December 2010: RUR 1.4 billion), which is pledged against Other borrowings within Other borrowed funds (Note 22).

19. Disposal Group Held for Sale

In September 2011, when acquiring "Bank of Moscow", OJSC the Group received controlling interest in "BM Bank", Ltd., located in Kiev, Ukraine. In the fourth quarter of 2011 the Management decided to sell these investments and intends to do it within 12 months, as of 31 December 2011 the negotiations had not been finished. The Group accounted for these investments as a disposal group held for sale under IFRS 5. The Bank has calculated fair values of the received assets and liabilities at the acquisition date amounting to RUR 10.3 billion and RUR 8.5 billion, respectively. These investments are included in “Corporate-Investment banking” and “Retail banking” segments (Note 37).

20. Due to Other Banks

	31 December 2011	*31 December 2010*
Term loans and deposits	369.2	161.6
Correspondent accounts and overnight deposits of other banks	310.6	226.7
Sale and repurchase agreements with other banks	19.9	9.0
Total due to other banks	**699.7**	**397.3**

Included in amounts due to other banks at 31 December 2011 are restricted deposits of RUR 1.0 billion (31 December 2010: RUR 0.9 billion), where matching deposits were placed by the Group in other balances in non-freely convertible currencies (Note 7).

As at 31 December 2011 term loans and deposits contain the amount of RUR 1.4 billion (31 December 2010: RUR 0.6 billion) secured with a pledge of financial assets at fair value through profit or loss in the amount of RUR 1.4 billion (31 December 2010: RUR 0.6 billion) (Note 8).

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of RUR 8.1 billion (31 December 2010: RUR 11.4 billion), and those classified as due from other banks and loans and advances to customers with amortized cost of RUR 13.2 billion (31 December 2010: RUR 1.3 billion) (Note 9).

As at 31 December 2011, term loans and deposits in the amount of RUR 1.9 billion (31 December 2010: RUR 4.2 billion) are collateralized with loans to customers in the amount of RUR 2.0 billion (Note 11) (31 December 2010: RUR 5.6 billion).

As at 31 December 2011 financial assets pledged against sale and repurchase agreements with other banks were also represented by financial assets received under reverse sale and repurchase agreements in the total amount of RUR 5.9 billion (31 December 2010: nil).

21. Customer Deposits

	31 December 2011	*31 December 2010*
Government bodies		
Current / settlement deposits	38.0	14.0
Term deposits	482.1	83.6
Other legal entities		
Current / settlement deposits	610.8	475.7
Term deposits	1,296.3	882.0
Individuals		
Current / settlement deposits	254.7	142.6
Term deposits	906.1	605.3
Sale and repurchase agreements	8.7	9.7
Total customer deposits	**3,596.7**	**2,212.9**

As at 31 December 2011 deposits of RUR 11.9 billion (31 December 2010: RUR 9.6 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 36).

21. Customer Deposits (continued)

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2011		*31 December 2010*	
	Amount	*%*	*Amount*	*%*
Individuals	1,161.4	32	747.9	34
Government bodies	520.1	14	97.6	4
Oil and gas	348.1	10	407.5	18
Finance	319.9	10	240.2	12
Transport	258.2	7	124.2	6
Building construction	190.3	5	98.8	4
Manufacturing	153.8	4	94.1	4
Trade and commerce	118.4	4	70.3	3
Telecommunications and media	86.3	2	56.3	3
Energy	80.6	2	69.8	3
Metals	79.9	2	29.6	1
Food and agriculture	25.1	1	20.5	1
Chemical	20.5	1	22.9	1
Aircraft	13.6	–	16.7	1
Coal mining	10.1	–	6.7	–
Other	210.4	6	109.8	5
Total customer deposits	**3,596.7**	**100**	**2,212.9**	**100**

As at 31 December 2011 financial assets pledged against sale and repurchase agreements represent financial assets at fair value through profit or loss and financial assets available-for-sale with fair value of RUR 0.2 billion (31 December 2010: RUR 4.2 billion) (Note 9) and securities received under reverse sale and repurchase agreements with fair value of RUR 9.0 billion (31 December 2010: RUR 8.9 billion).

22. Other Borrowed Funds

	31 December 2011	*31 December 2010*
Funds from local central banks	365.9	1.4
Syndicated loans	106.8	45.1
Other borrowings	261.9	139.2
Total other borrowed funds	**734.6**	**185.7**

As at 31 December 2011 funds from local central banks include payables to local central banks on sale and repurchase agreements in amount of RUR 159.7 billion (31 December 2010: nil) and other funds attracted from local central banks in amount of RUR 206.2 billion (31 December 2010: RUR 1.4 billion).

As at 31 December 2011 financial assets pledged under the sale and repurchase agreements with local central banks are financial assets with a total carrying amount of RUR 177.2 billion (31 December 2010: nil), which comprised of both the financial assets available-for-sale with fair value of RUR 1.7 billion (31 December 2010: nil), and pledged financial assets classified as loans and advances to customers of RUR 175.5 billion (31 December 2010: nil) (Note 9). As at 31 December 2011 financial assets pledged against sale and repurchase agreements with local central banks are also represented by Bonds of foreign governments received under reverse sale and repurchase agreements with non-banking customers of RUR 0.3 billion (31 December 2010: nil).

As at 31 December 2011 other funds attracted from local central banks contain the amount of RUR 6.3 billion (31 December 2010: RUR 1.4 billion) secured by pledged loans to customers in the amount of RUR 13.6 billion (31 December 2010: RUR 1.7 billion) (Note 11).

In June 2011, VTB fully repaid USD 1.0 billion (RUR 28.3 billion) of Tranche A of a dual tranche syndicated loan upon maturity.

In July 2011, VTB received a syndicated loan in the total amount of USD 3,130 million (RUR 87.3 billion) maturing in July 2014 with a floating interest rate of LIBOR + 1.3% p.a. payable semi-annually. As at 31 December 2011 the Group bought back RUR 6.3 billion from the syndicated loan participants, which resulted in the recognition of a gain on the extinguishment of debt of RUR 0.4 billion for the period.

22. Other Borrowed Funds (continued)

In December 2011 “Bank of Moscow”, OJSC fully repaid a syndicated loan in the amount of USD 348.8 million (RUR 10.9 billion).

In the first quarter 2011 “VTB Bank (Austria)” AG fully repaid a syndicated loan in the amount of USD 120 million (RUR 3.5 billion). In the fourth quarter 2011 “VTB Bank (Austria)” AG fully repaid a syndicated loan in the amount of EUR 15 million (RUR 0.6 billion).

In the first quarter 2010 “VTB Bank (Austria)” AG fully repaid a syndicated loan in the amount of USD 200 million (RUR 6.0 billion). In the second quarter 2010 “VTB Bank (Austria)” AG partially repaid a syndicated loan in the amount of EUR 50 million (RUR 1.9 billion). In July 2010 “VTB Bank (Austria)” AG received a tranche of syndicated loan in the amount of EUR 15 million (RUR 0.6 billion) with maturity in June 2012 at interest rate of 2.75%.

In February and July 2010 “VTB Bank (Austria)” AG fully repaid at maturity two syndicated loan in the amount of USD 70 million (RUR 2.1 billion) and USD 75 million (RUR 2.3 billion), respectively. In September 2010 “VTB Bank (Austria)” AG fully repaid a syndicated loan in the amount of USD 80 million (RUR 2.5 billion) at maturity.

In September 2011 “Bank of Moscow”, OJSC received a RUR 294.8 billion loan from the related party DIA at 0.51% per annum 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 31 December 2011 the carrying amount of the loan of RUR 144.4 billion was included in Other borrowings. This loan was securitized with a pledge of loans to customers with carrying amount of RUR 51.7 billion. (Note 11)

As at 31 December 2011 other borrowed funds also contain other borrowings in the amount of RUR 6.7 billion (31 December 2010: RUR 7.3 billion) securitized with a pledge of loans to customers of RUR 5.0 billion (31 December 2010: 5.0) (Note 11), other assets of RUR 1.4 billion (31 December 2010: RUR 1.4 billion) (Note 18) and investment property of nil (31 December 2010: RUR 2.2 billion).

23. Debt Securities Issued

	31 December 2011	*31 December 2010*
Bonds	457.5	470.6
Promissory notes	206.1	122.2
Deposit certificates	0.9	0.3
Total debt securities issued	**664.5**	**593.1**

In February 2011, VTB issued USD 750 million (RUR 21.9 billion) Series 12 Eurobonds under European Medium Term Notes (EMTN) Programme 2 with maturity in February 2018 and a fixed coupon rate of 6.315% p.a. payable semi-annually.

In February 2011, VTB partially redeemed Series 9 Eurobonds in the amount of EUR 195 million (RUR 7.8 billion) under investor put option.

In February 2011, “Bank VTB 24”, CJSC redeemed local bonds in the amount of RUR 10.0 billion under investor put option.

In April 2011, “VTB Bank (Austria)“ AG issued a private placement of Eurobonds in the amount of EUR 20 million (RUR 0.8 billion) maturing in April 2013 with a coupon rate of 2.806% p.a. payable semi-annually.

In June 2011, VTB issued SGD 300 million (RUR 6.8 billion) Series 13 Eurobonds under European Medium Term Notes (EMTN) Programme 2 with maturity in June 2014 and a fixed coupon rate of 3.4% p.a. payable semi-annually.

In June 2011, VTB redeemed Series 5 Eurobonds under EMTN Programme 2 in the outstanding amount of EUR 900 million (RUR 36.4 billion) upon maturity.

In June 2011, “Bank VTB 24”, CJSC redeemed Series 3 local bonds in the amount of RUR 6.0 billion under investor put option.

In June 2011, a subsidiary of “TransCreditBank”, JSC redeemed RUR 3.0 billion of Series 2 local bonds upon maturity.

23. Debt Securities Issued (continued)

In June 2011, "TransCreditBank", JSC redeemed its Eurobonds in the outstanding amount of USD 303 million (RUR 8.4 billion) upon maturity.

In June 2011, "VTB-Leasing Finance", Ltd. redeemed Series 3 local bonds in the amount of RUR 1.7 billion and Series 4 local bonds in the amount of RUR 2.0 billion under investor put option.

During 2011 "VTB-Leasing Finance", Ltd. partially redeemed nominal value of Series 1, 2, 3, 4, 7, 8 and 9 of local bonds in the total amount of RUR 5.0 billion.

In July 2011, "TransCreditBank", JSC redeemed RUR 5.0 billion of Series 3 local bonds upon maturity.

In 2011 "VTB Capital", Plc issued notes under EMTN Program in the amount of RUR 5.0 billion at a fixed rates ranging from 9.05% p.a. to 11.6% p.a. maturing from June 2014 till June 2016.

In September 2011, "Bank VTB 24", CJSC issued RUR-nominated amortizing mortgage-backed Series A bonds in the nominal amount of RUR 3.3 billion at a fixed rate of 9.0% and Series B bonds in the nominal amount of RUR 1.7 billion at a fixed rate of 3.0% with both bonds maturing in 2043.

During first half of 2011 "VTB Bank", PJSC (Ukraine) issued bonds in total amount of RUR 2.8 billion with maturity up to 2015 and a fixed coupon rate of 12% p.a.

In August 2011, VTB redeemed Series 6 Eurobonds under EMTN Programme 2 in the total amount of CHF 750 million (RUR 29.2 billion) upon maturity.

In October 2011, "Bank VTB 24", CJSC redeemed upon maturity Series 1 local bonds in the amount of RUR 6.0 billion.

In October 2011, VTB redeemed Series 4 Eurobonds in the amount of USD 450 million (RUR 14.1 billion).

In November 2011, VTB issued CHF 300 million (RUR 10.0 billion) Series 14 Eurobonds under EMTN Programme 2 with maturity in November 2015 and a fixed coupon rate of 5% p.a. payable annually.

In November 2011, "Bank VTB (Kazakhstan)", JSC issued additional tranches in the amount of KZT 9,005 million (RUR 1.9 billion) of local bonds maturing in December 2014 with fixed coupon rate of 7.0% p.a. payable semi-annually.

In December 2011, VTB placed Series 6 of domestic stock exchange traded bonds for the total amount of RUR 10.0 billion. The securities due December 2014 are issued with a coupon rate of 8.0% p.a. payable quarterly.

In December 2011, "Bank VTB 24", CJSC partially redeemed local mortgage-backed bonds in the amount of RUR 11.4 billion under investor put option. The quarterly payable rate of the bonds maturing in December 2014 is to be fixed by the issuer for the remaining coupon payments periods.

In December 2011, "VTB Bank (Austria)" AG redeemed private placement of USD-denominated Eurobonds in the amount of USD 55 million (RUR 1.7 billion) upon maturity.

During 2011, "VTB Capital", Plc redeemed Eurobonds in the outstanding amount of UAH 800 million (RUR 3.1 billion) upon maturity.

"VTB Capital", Plc has established a USD 5.0 billion European Medium Term Note program. Under the terms of the program "VTB Capital", Plc is issuing short and medium term notes and structured notes with embedded derivatives, which are mainly linked to Russia / CIS risk. The outstanding amount of the notes as at 31 December 2010 of USD 20 million (RUR 0.6 billion) issued at a discount of 3.25% was redeemed upon maturity in May and November 2011.

In March 2010, VTB issued USD 1,250 million (RUR 37.3 billion) Series 7 Eurobonds under EMTN Programme 2 with maturity in March 2015 and a fixed coupon rate of 6.465% p.a. payable semi-annually.

In March 2010, VTB placed Series 1, 2 and 5 of domestic stock exchange traded bonds for the total amount of RUR 20.0 billion. The securities due March 2013 are issued with a coupon rate of 7.6% p.a. payable quarterly.

In March 2010, VTB redeemed Series 12 Eurobonds under EMTN Programme 1 in the outstanding amount of GBP 234 million (RUR 10.4 billion) upon maturity.

In April 2010, "Hals-Development", OJSC repaid Series 1 and 2 domestic bonds with notional amount of RUR 5.0 billion under investor put option.

23. Debt Securities Issued (continued)

In April 2010, VTB repaid RUR 13.4 billion of Series 5 domestic bonds under investor put option. In the third quarter 2010, VTB placed RUR 2.7 billion of these bonds.

In August 2010, "VTB-Leasing Finance", Ltd. issued tranches 8 and 9 of local amortizing bonds for RUR 5.0 billion each maturing in August 2017. One tranche bears 6.65% p.a. coupon rate payable quarterly with 1-year investor put option, the other tranche bears 7.05% p.a. coupon rate payable quarterly with 1.5-year put investor option. During 2010 "VTB-Leasing Finance", Ltd repaid RUR 4.7 billion of the principal amount in accordance with the amortization schedule.

In August 2010, VTB issued SGD 400 million (RUR 8.9 billion) Series 8 Eurobonds under EMTN Programme 2 maturing in August 2012 with fixed coupon rate of 4.2% p.a. payable semi-annually.

In August 2010, VTB issued CHF 400 million (RUR 11.6 billion) Series 9 Eurobonds under EMTN Programme 2 maturing in August 2013 with fixed coupon rate of 4.0% p.a. payable annually.

In August 2010, "VTB Bank (Belarus)", CJSC issued BYR 40,000 million (RUR 0.4 billion) local bonds maturing in August 2011 with fixed coupon rate of 10.5%.

In September 2010, "Bank VTB 24", CJSC repaid Series 4 local bonds with notional amount of RUR 6.1 billion under investor put option.

In October 2010, VTB issued USD 1.0 billion (RUR 30.1 billion) Series 10 Eurobonds under EMTN Programme 2 maturing in October 2020 with fixed coupon rate of 6.551% p.a. payable semi-annually.

In October 2010, "VTB Bank (Belarus)", CJSC redeemed BYR 60,000 million (RUR 0.6 billion) discounting local bonds.

In November 2010, "VTB Capital", Plc also issued under its EMTN program a UAH 800 million (RUR 3.1 billion) foreign exchange linked note which pays a fixed rate of interest. These securities mature in November 2011.

In December 2010, VTB issued CNY 1,000 million (RUR 4.6 billion) Series 11 Eurobonds under EMTN Programme 2 maturing in December 2013 with fixed coupon rate of 2.95% p.a. payable semi-annually.

In December 2010, "Bank VTB (Kazakhstan)", JSC issued KZT 3,780 million (RUR 0.8 billion) local bonds maturing in December 2014 with fixed coupon rate of 7.0% p.a. payable semi-annually.

In December 2010, "VTB Bank (Belarus)", CJSC issued BYR 60,000 million (RUR 0.6 billion) discounting local bonds maturing in December 2012 with fixed coupon rate of 10.5%.

VTB Group members from time to time seek to retire all or part of any of their issued and outstanding debt through open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, depend on prevailing market conditions, VTB's liquidity requirements, contractual restrictions and other factors. During 2011 and 2010 the Group did not retire any Eurobonds or bonds issued.

Promissory notes represent notes primarily issued by VTB in the local market, which primarily act as an alternative to customer/bank deposits. As at 31 December 2011 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to June 2015 (31 December 2010: from demand to June 2015).

24. Subordinated Debt

On 29 September 2005, OJSC "Industry and Construction Bank" (further renamed to OJSC "Bank VTB North-West") issued USD 400 million subordinated Eurobonds due September 2015 with early redemption call option on 1 October 2010 at par. The Eurobonds bear interest rate at 6.2% p.a. payable semi-annually. From 1 October 2010 interest rate under the Eurobonds is equal to US Treasury yield increased by 226 b.p. and step-up of 150 b.p. In August 2010 the Group announced a decision not to exercise the redemption option. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxembourg) for the purpose of financing a subordinated loan to OJSC "Bank VTB North-West". As at 31 December 2011 the carrying amount of this subordinated debt was RUR 11.1 billion (31 December 2010: RUR 10.2 billion).

In October and November 2008, VTB received two subordinated loans of RUR 100 billion each with a rate of 8% p.a. maturing in December 2019 from Vnesheconombank (VEB), which is a related party to the Group. As at 31 December 2008 in accordance with IAS 20 _Accounting for Government Grants and Disclosure of Government Assistance_ the Group discounted these loans using an appropriate market rate adjusted for loan premium. In August 2010 an interest rate on these two subordinated loans was reduced from 8% to 6.5% p.a. in accordance with the Federal Law requirements. As at 31 December 2011 the carrying amount of this subordinated debt was RUR 179.7 billion (31 December 2010: RUR 178.0 billion).

24. Subordinated Debt (continued)

Over a period from 2003 to 2009 "TransCreditBank", JSC received subordinated loans from JSC "RZD" and its related parties in the aggregate amount of RUR 13.1 billion with interest rates from 9% p.a. to 12.1% p.a. maturing in the period from December 2012 to November 2020. As at 31 December 2011 the carrying amount of this subordinated debt was RUR 14.2 billion. As at 31 December 2010 the carrying amount of these subordinated loans was RUR 14.5 billion which represented the fair value determined on the acquisition date for the consolidation purposes.

In July 2009, "TransCreditBank", JSC received a subordinated loan of RUR 2.9 billion with an interest rate of 8% p.a. maturing in October 2019 from Vnesheconombank (VEB), which is a related party to the Group. In August 2010 an interest rate on this subordinated loan was reduced from 8% to 6.5% p.a. in accordance with the Federal Law requirements. As at 31 December 2011 the carrying amount of this subordinated debt was RUR 2.9 billion. As at 31 December 2010 the carrying amount of this subordinated loan was RUR 2.8 billion, which represented the fair value determined on the acquisition date for the consolidation purposes.

In November 2005, "Bank of Moscow", OJSC issued USD 300 million subordinated Loan Participation Notes due November 2015 bearing interest rate 7.5% p.a. payable semi-annually and with early redemption call option in November 2010, which was not exercised. From 25 November 2010 step-up interest rate was set at 5.967%, equal to 5-year US Treasury yield increased by 306.7 b.p. and step-up of 150 b.p. The transaction was structured as an issue of notes by "Kuznetski Capital" S.A. (Luxembourg) for the purpose of financing a subordinated loan to "Bank of Moscow", OJSC. As at 31 December 2011 the carrying amount of this subordinated debt was RUR 9.0 billion.

In December 2006, "Bank of Moscow", OJSC received a subordinated loan of USD 100 million with an interest rate of LIBOR + 2.65% p.a. maturing in December 2016 from Royal Bank of London N.V. (London). As at 31 December 2011 the carrying amount of this subordinated debt was RUR 3.2 billion.

In May 2007, "Bank of Moscow", OJSC issued USD 400 million subordinated Loan Participation Notes due in May 2017 bearing interest rate 6.807% p.a. payable semi-annually and with early redemption call option in May 2012. The step-up interest rate is equal to 5-year US Treasury yield increased by 375 b.p. and step-up of 150 b.p. The transaction was structured as an issue of notes by "Kuznetski Capital" S.A. (Luxembourg) for the purpose of financing a subordinated loan to "Bank of Moscow", OJSC. As at 31 December 2011 the carrying amount of this subordinated debt was RUR 10.8 billion.

In October 2009, "Bank of Moscow", OJSC received a subordinated loan of RUR 11.1 billion with an interest rate of 8.0% p.a. maturing in December 2019 from Vnesheconombank (VEB), which is a related party to the Group. In August 2010 an interest rate on this subordinated loan was reduced to 6.5% p.a. in accordance with the Federal Law requirements. As at 31 December 2011 the carrying amount of this subordinated debt was RUR 10.2 billion.

25. Other Liabilities

	31 December 2011	*31 December 2010*
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives (Note 36))	81.5	36.0
Amounts in course of settlement	29.8	18.2
Obligation to purchase non-controlling interests	21.1	–
Payable to employees	16.6	14.9
Other liabilities related to non-banking activities	13.5	9.4
Trade creditors and prepayments received	10.5	2.6
Obligation to deliver securities	8.1	4.2
Insurance reserves	5.8	2.0
Liabilities to pay taxes	5.1	7.1
Non-controlling interests in consolidated mutual funds	4.2	3.7
Liabilities on pension plans	2.2	4.0
Provisions for credit related commitments and legal claims (Note 32)	2.0	1.7
Advances received from lessees	1.5	0.7
Deferred income	1.2	1.1
Dividends payable	0.2	0.2
Other	6.1	5.1
Total other liabilities	**209.4**	**110.9**

25. Other liabilities (continued)

As at 30 September 2011 the Group recognized obligation to purchase non-controlling interests of RUR 21.9 billion as a financial liability arising from a forward purchase agreement with a related party to the Group to acquire a non-controlling interest share in “TransCreditBank”, JSC held by this related party. In accordance with the forward purchase agreement the settlement amount to be paid by the Group in the future period is calculated in accordance with a formula specified in the forward purchase agreement. The determination of the fair value is based on discounted cash flows method, and key assumptions take into consideration the expected performance of “TransCreditBank”, JSC and the discount factor.

The Group continues to recognize non-controlling interests in “TransCreditBank”, JSC over which the forward purchase agreement is concluded as the non-controlling shareholder has a present ownership interest in the underlying shares. As at 31 December 2011 the carrying amount of obligation to purchase non-controlling interests was RUR 21.1 billion.

26. Share Capital

Authorized, issued and fully paid share capital of the Bank comprises:

	31 December 2011		*31 December 2010*	
	Number of shares	***Nominal amount***	***Number of shares***	***Nominal amount***
Ordinary shares	10,460,541,337,338	113.1	10,460,541,337,338	113.1
Total share capital	**10,460,541,337,338**	**113.1**	**10,460,541,337,338**	**113.1**

Contributions to the Bank’s share capital were originally made in RUR, foreign currency and gold bullion. All ordinary shares have nominal value of RUR 0.01, rank equally and carry one vote.

During 2011 the net change in Group members’ balances of the Bank’s shares increased by 6,542,473,783 and the number of treasury shares increased to 9,677,493,999. As a result, the number of the outstanding shares at 31 December 2011 amounted to 10,450,863,843,339.

During 2010 the net change in Group members’ balances of the Bank’s shares increased by 357,608,449 and the number of treasury shares increased to 3,135,020,216. As a result, the number of the outstanding shares at 31 December 2010 amounted to 10,457,406,317,122.

As at 31 December 2011 authorized but not issued shares comprise 10,263,597,171,681 shares (2010: 10,263,597,171,681) with a par value of RUR 0.01 each.

As at 31 December 2011 and 2010, the reserves included both distributable and non-distributable reserves.

27. Interest Income and Expense

	2011	*2010*
Interest income		
Financial assets at fair value through profit or loss	**28.3**	**19.2**
Loans and advances to customers	376.7	301.5
Due from other banks	8.8	7.1
Other financial assets, including securities	2.9	2.7
Financial assets not at fair value through profit or loss	**388.4**	**311.3**
Total interest income	**416.7**	**330.5**
Interest expense		
Customer deposits	(112.6)	(85.9)
Debt securities issued	(36.8)	(40.1)
Due to other banks and other borrowed funds	(23.1)	(16.4)
Subordinated debt	(17.2)	(17.0)
Total interest expense	**(189.7)**	**(159.4)**
Net interest income	**227.0**	**171.1**

28. Gains Less Losses Arising from Financial Instruments at Fair Value Through Profit or Loss

	2011	*2010*
(Losses net of gains) / gains less losses arising from trading financial instruments	(23.8)	13.9
(Losses net of gains) / gains less losses arising from financial instruments designated as at fair value through profit or loss	(6.0)	0.9
Losses net of gains from financial obligation to purchase non-controlling interests (Note 25)	(1.0)	–
Total (losses net of gains) / gains less losses arising from financial instruments at fair value through profit or loss	**(30.8)**	**14.8**

29. Fee and Commission Income and Expense

	2011	*2010*
Commission on settlement transactions	24.8	15.4
Commission on guarantees issued and trade finance	6.6	3.9
Commission on operations with securities and capital markets	5.9	4.5
Commission on cash transactions	5.3	2.9
Other	4.8	2.1
Total fee and commission income	**47.4**	**28.8**
Commission on settlement transactions	(5.0)	(2.2)
Commission on cash transactions	(1.9)	(1.0)
Other	(1.3)	(0.9)
Total fee and commission expense	**(8.2)**	**(4.1)**
Net fee and commission income	**39.2**	**24.7**

30. Income Arising from Non-Banking Activities and Other Operating Income

Income arising from non-banking activities for 2011 and 2010 was as follows:

	2011	*2010*
Operating lease and rental income	5.8	2.1
Net insurance premium earned	5.6	2.3
Revaluation of investment property	4.5	0.2
Sale of property intended for sale in the ordinary course of business	0.1	3.8
Other	4.4	2.6
Total income arising from non-banking activities	**20.4**	**11.0**

Other operating income for 2011 and 2010 was as follows:

	2011	*2010*
Income arising from disposal of property	4.4	0.1
Dividends received	0.9	0.9
Fines and penalties received	0.8	0.2
Other	3.1	1.9
Total other operating income	**9.2**	**3.1**

31. Staff Costs and Administrative Expenses

	2011	*2010*
Staff costs	69.2	47.3
Defined contribution pension expense	5.4	3.1
Depreciation and other expenses related to premises and equipment	16.9	11.6
Taxes other than on income	7.3	5.0
Leasing and rent expenses	6.6	4.8
Advertising expenses	5.8	4.2
Professional services	5.3	4.7
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit intangible	4.3	2.1
Payments to deposit insurance system	3.5	2.2
Post and telecommunication expenses	2.8	2.0
Transport expenses	2.3	1.2
Charity	1.9	1.5
Security expenses	1.9	1.3
Amortization of core deposit and customer loan intangibles	1.9	1.0
Insurance	0.5	0.7
Other	5.9	2.4
Total staff costs and administrative expenses	**141.5**	**95.1**

32. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks by classes for 2011 and 2010 were as follows:

	Russia	*OECD*	*Other*	*Total*
31 December 2009	**0.5**	**0.1**	**0.7**	**1.3**
Provision for impairment during the period	1.6	–	–	**1.6**
31 December 2010	**2.1**	**0.1**	**0.7**	**2.9**
(Reversal of provision) / provision for impairment during the period	(0.3)	(0.1)	0.1	**(0.3)**
31 December 2011	**1.8**	**–**	**0.8**	**2.6**

The movements in allowances for impairment of loans and advances to legal entities by class for 2011 and 2010 were as follows:

	Finance leases	*Current activity financing*	*Reverse sale and repurchase agreements with legal entities*	*Project finance and other*	*Total*
31 December 2009	**12.3**	**126.3**	**0.1**	**66.5**	**205.2**
Provision for impairment / (reversal of provision) during the period	(0.1)	24.7	–	14.7	**39.3**
Write-offs	–	(4.5)	–	(4.6)	**(9.1)**
Recoveries of amounts written-off in previous period	–	0.7	–	–	**0.7**
Currency translation difference	–	(0.4)	–	0.7	**0.3**
31 December 2010	**12.2**	**146.8**	**0.1**	**77.3**	**236.4**
Provision for impairment / (reversal of provision) during the period	4.8	(4.9)	(0.1)	21.1	**20.9**
Write-offs	(0.6)	(9.3)	–	(2.2)	**(12.1)**
Recoveries of amounts written-off in previous period	–	–	–	0.1	**0.1**
Currency translation difference	0.1	0.6	–	(2.2)	**(1.5)**
Reclassification to assets of disposal group held for sale	–	–	–	(0.1)	**(0.1)**
31 December 2011	**16.5**	**133.2**	**–**	**94.0**	**243.7**

32. Allowances for Impairment and Provisions (continued)

Allowance for finance leases represents allowances for loans to leasing companies and net investment in leases.

The movements in allowances for impairment of loans and advances to individuals by class for 2011 and 2010 were as follows:

	Mortgages	*Car loans*	*Consumer loans and other*	*Total*
31 December 2009	**5.4**	**2.8**	**21.5**	**29.7**
Provision for impairment during the period	3.9	0.5	6.5	**10.9**
Write-offs	(0.1)	(0.1)	(2.8)	**(3.0)**
Recoveries of amounts written-off in previous period	0.1	–	0.1	**0.2**
31 December 2010	**9.3**	**3.2**	**25.3**	**37.8**
Provision for impairment / (reversal of provision) during the period	(0.6)	0.5	11.1	**11.0**
Write-offs	(0.3)	–	(4.1)	**(4.4)**
Recoveries of amounts written-off in previous period	–	–	0.1	**0.1**
Currency translation difference	0.1	–	0.2	**0.3**
31 December 2011	**8.5**	**3.7**	**32.6**	**44.8**

The movements in allowances for impairment of other assets and investment securities held-to-maturity and provisions for credit related commitments and legal claims were as follows:

	Other assets	*Investment securities held-to-maturity*	*Credit related commitments*	*Legal claims*	*Total*
31 December 2009	**1.4**	**2.2**	**1.6**	**0.1**	**5.3**
Provision for impairment / (reversal of provision) during the period	2.1	(0.2)	–	0.1	**2.0**
Currency translation difference	(1.1)	–	–	(0.1)	**(1.2)**
31 December 2010	**2.4**	**2.0**	**1.6**	**0.1**	**6.1**
Provision for impairment / (reversal of provision) during the period	1.3	–	(0.7)	0.8	**1.4**
Write-offs	(1.0)	–	–	–	**(1.0)**
Acquisition of subsidiary	–	–	0.2	–	**0.2**
31 December 2011	**2.7**	**2.0**	**1.1**	**0.9**	**6.7**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and credit-related commitments are recorded in liabilities. In accordance with 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.

33. Income Tax

Income tax expense and income tax recovery comprise the following:

	2011	*2010*
Current tax expense	24.1	24.5
Deferred taxation movement due to the origination and reversal of temporary differences	0.9	(8.2)
Income tax expense for the year	**25.0**	**16.3**

The income tax rate applicable to the majority of the Group's income in 2011 is 20% (2010: 20%). The income tax rate applicable to subsidiaries' income ranges from 10% to 32% in 2011 (2010: 10% to 32%).

	2011	*2010*
IFRS profit before taxation	**115.5**	**71.1**
Theoretical tax expense at the applicable statutory rate of each company within the Group	24.9	14.1
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Change in unrecognized deferred taxes	(1.9)	(0.4)
- Non-deductible expenses	4.4	2.8
- Unrecognized deferred tax effect related to investments in subsidiaries and associates	–	0.2
- Adjustments recognized in the period for current tax of prior periods	0.3	0.4
- Income, which is exempt from taxation	(0.2)	(0.1)
- Income taxed at different rates	(3.8)	(0.1)
- Income recorded in tax books only	0.1	–
- Effect of change in tax rates	0.2	0.1
- Other	1.0	(0.7)
Income tax expense for the year	**25.0**	**16.3**

The difference between the theoretical and actual income tax expense for 2011 is mainly attributable to non-deductible expenses and income taxed at different rates (for 2010 is mainly attributable to non-deductible expenses).

33. Income Tax (continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 32% (2010: from 10% to 32%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*					
Origination and reversal of temporary differences	***2009***	***Credited/ (charged) to profit or loss***	***Currency translation difference***	***Business combination***	***2010***	***Credited/ (charged) to profit or loss***	***Credited/ (charged) to other comprehen-sive income***	***Currency translation difference***	***Disposal Group held for sale***	***Business combination***	***2011***
Tax effect of deductible temporary differences:											
Fair value of loans acquired through business combinations	**–**	–	–	0.5	**0.5**	(3.3)	–	–	–	31.8	**29.0**
Allowances for impairment and provisions for other losses	**16.8**	3.1	–	–	**19.9**	0.7	–	0.1	–	–	**20.7**
Tax losses carried forward	**14.6**	0.3	(0.2)	–	**14.7**	(2.5)	–	0.1	–	5.5	**17.8**
Fair value measurement of derivatives	**0.8**	(0.4)	–	–	**0.4**	–	–	–	–	–	**0.4**
Accruals	**10.2**	4.4	–	0.8	**15.4**	4.3	–	–	–	0.7	**20.4**
Fair value of securities	**0.7**	0.1	–	0.3	**1.1**	0.5	(0.8)	–	–	5.8	**6.6**
Fair value of investment property	**1.5**	0.5	–	0.5	**2.5**	1.3	–	–	–	0.6	**4.4**
Other	**1.6**	(0.7)	–	0.9	**1.8**	2.9	–	0.1	(0.5)	2.3	**6.6**
Gross deferred tax assets	**46.2**	**7.3**	**(0.2)**	**3.0**	**56.3**	**3.9**	**(0.8)**	**0.3**	**(0.5)**	**46.7**	**105.9**
Unrecognized deferred tax assets	**(8.2)**	0.4	–	(0.1)	**(7.9)**	1.9	–	–	–	(1.4)	**(7.4)**
Gross deferred tax asset	**38.0**	**7.7**	**(0.2)**	**2.9**	**48.4**	**5.8**	**(0.8)**	**0.3**	**(0.5)**	**45.3**	**98.5**
Tax effect of taxable temporary differences:											
Fair value measurement of securities	**–**	(0.8)	–	(0.3)	**(1.1)**	0.6	–	–	–	(1.6)	**(2.1)**
Property and equipment	**(3.8)**	(0.2)	0.1	(0.3)	**(4.2)**	(1.9)	–	–	–	(1.7)	**(7.8)**
Intangible assets	**(0.3)**	0.3	–	(1.0)	**(1.0)**	0.4	–	–	–	(5.4)	**(6.0)**
Net investment in lease	**(2.1)**	0.6	–	–	**(1.5)**	0.7	–	–	–	–	**(0.8)**
Fair value of investment property	**(4.5)**	(0.5)	–	(1.8)	**(6.8)**	(3.2)	–	–	–	(0.7)	**(10.7)**
Allowances for impairment and provisions for other losses	**–**	–	–	(0.4)	**(0.4)**	0.3	–	–	–	–	**(0.1)**
Fair value measurement of derivatives	**–**	(0.1)	–	(0.4)	**(0.5)**	(1.6)	–	–	–	–	**(2.1)**
Other borrowed funds	**–**	–	–	–	**–**	0.7	–	–	–	(30.4)	**(29.7)**
Other	**(2.9)**	1.2	–	(0.6)	**(2.3)**	(2.7)	–	(0.2)	–	(1.3)	**(6.5)**
Gross deferred tax liability	**(13.6)**	**0.5**	**0.1**	**(4.8)**	**(17.8)**	**(6.7)**	**–**	**(0.2)**	–	**(41.1)**	**(65.8)**
Deferred tax asset, net	**31.4**	**6.0**	**(0.2)**	**0.7**	**37.9**	**0.5**	**(0.8)**	**(0.1)**	**(0.5)**	**5.7**	**42.7**
Deferred tax liability, net	**(7.0)**	**2.2**	**0.1**	**(2.6)**	**(7.3)**	**(1.4)**	**–**	**0.2**	–	**(1.5)**	**(10.0)**

33. Income Tax (continued)

As at 31 December 2011 VTB, "VTB Arena", CJSC, "VTB Bank (Austria)" AG and "VTB Bank (Georgia)", JSC had unused tax losses of RUR 23.1 billion (2010: VTB, "VTB Capital", Plc and "VTB Bank (Georgia)", JSC – RUR 29.1 billion) for which no deferred tax asset was recognized due to uncertainty that these entities would anticipate to have sufficient future taxable profits against which unused tax losses could be utilized. Tax losses of VTB incurred in 2008-2009 can be utilized over next 7-8 years in accordance with the Russian Tax Code requirements. Losses of "VTB Bank (Austria)" AG and "VTB Capital", Plc do not expire.

As at 31 December 2011, the aggregate amount of temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred tax liability has not been recognized amounted to RUR 17.7 billion (31 December 2010: RUR 14.2 billion).

The following table provides disclosure of income tax effects relating to each component of other comprehensive income for 2011 and 2010:

	2011			*2010*		
	Before tax	*Tax (expense)/ recovery*	*Net of tax*	*Before tax*	*Tax (expense)/ recovery*	*Net of tax*
Net result on financial assets available-for-sale, net of tax	3.5	(0.8)	2.7	0.6	–	0.6
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.5)	–	(0.5)	(0.2)	–	(0.2)
Share of other comprehensive income of associates and joint ventures	(0.5)	–	(0.5)	(0.2)	–	(0.2)
Effect of translation	2.4	–	2.4	(2.4)	–	(2.4)
Other comprehensive income	**4.9**	**(0.8)**	**4.1**	**(2.2)**	**–**	**(2.2)**

34. Basic and Diluted Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, 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 earning per share.

	2011	*2010*
Net profit attributable to shareholders of the parent	89.4	58.2
Weighted average number of ordinary shares in issue	10,458,649,872,302	10,458,002,643,882
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.00855**	**0.00557**

35. Dividends

The Regulation on VTB's Dividend Policy states that the proposals on dividend payments are made by the Supervisory Council taking into consideration the Bank's financial performance in the appropriate year and other factors and, as a rule, should envisage a dividend payment constituting at least 10 percent of the Bank's statutory net profit. The dividend payment is proposed by the VTB Supervisory Council to the General Shareholders' Meeting. The final decision on dividend payment, including decisions on dividend amount and payout mode, is taken by the General Shareholders' Meeting.

The amount of dividends to be declared and paid is decided at the VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with Russian Accounting Legislation on a stand-alone basis.

In June 2011 the annual general meeting of VTB shareholders declared dividends in the amount of RUR 6.1 billion for 2010 (RUR 0.00058 per share). In June 2010 the annual general meeting of VTB shareholders declared dividends of RUR 6.1 billion for 2009 (RUR 0.00058 per share).

In July 2011 "Russian Commercial Bank (Cyprus) Limited" paid interim dividends in the amount of USD 100 million (RUR 2.8 billion), including USD 40 million (RUR 1.1 billion) attributable to non-controlling shareholders.

36. 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. As at the reporting date the Group had several unresolved legal claims. Management is of the opinion that there would be no material outflow of resources and accordingly no material provision has been made in these consolidated financial statements.

Tax contingencies. Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20 percent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with third (unrelated) parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 percent within a short period of time). In addition, specific transfer pricing rules allow the tax authorities to make transfer pricing adjustments in respect of securities and derivative transactions. There has been no formal guidance as to how some of the rules relating to transfer pricing legislation should apply.

The new transfer pricing rules became effective from 1 January 2012. Compared to the previous Russian transfer pricing rules, the new rules are more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the OECD. The list of the "controlled" transactions under the new transfer pricing legislation includes transactions with related parties and certain types of cross-border transactions. The new transfer pricing rules may have a potential impact on tax costs arising from the pricing mechanism applied in "controlled" transactions, in particular, transactions with related parties located in and outside of Russia. The price of the "controlled" transactions should be confirmed by functional and benchmarking analysis as well as by the relevant transfer pricing documentation which should be available for the Russian tax authorities.

The tax authorities will have right to accrue additional tax liabilities if the prices under the "controlled" transactions differ from those which would have been used by independent counterparties under similar conditions. However, it is still unclear what effect the new transfer pricing rules may have on the Russian entities of the Group.

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 having a permanent establishment in Russia and thus subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

The interpretations of the relevant authorities could differ and if the authorities were successful in enforcing their interpretation, additional taxes and related fines and penalties may be assessed, the effect, of which cannot be practicably estimated, but could be significant to the financial condition of the Group. However, based upon Management's understanding of the tax regulations, Management believes that its interpretation of the relevant tax legislation is reasonable and will be sustainable. Moreover, Management believes that the Group has accrued all applicable taxes.

The Group includes subsidiaries incorporated and operating in various jurisdictions. In some jurisdictions where the Group operates tax, currency and customs legislation as currently in effect is subject to varying interpretations, and changes, which can occur frequently at short notice and may apply retroactively. Based upon its understanding of the applicable tax regulations Management of the Group believes that based upon the best estimates Group subsidiaries have paid or accrued all taxes that are applicable to their operations as of 31 December 2011, in jurisdictions of their incorporation, and complied with all provisions of laws and regulations in the jurisdictions to which the Group is subject. If however the relevant tax authorities differently interpret the applicable tax legislation as applied to the transactions and activity of the Group, the tax position may be challenged; if the authorities were successful in enforcing their interpretation of these regulations, additional taxes, penalties and interest may be assessed, which may affect the financial position of the Group.

The Russian Ministry of Finance on its official website placed a draft of Federal Law which defines the conditions of exemption for companies reside in Russia from the tax agent's obligations in case such companies pay income to foreign companies which issue Eurobonds. Such draft appeared due to the Russian Ministry of Finance opinion that special purpose entities set up in Ireland to issue Eurobonds are not eligible for the benefits of the double tax treaty between Ireland and Russia with regard to interest payments. If this view were to be enforced by the Russian tax authorities (and potentially applied to other structured entities set up for issuing bonds from any foreign jurisdiction other than Ireland), the Group may face a fine at 20% of tax not withheld on interest paid on Eurobonds for the period of 2011 and for prior periods and late payment interest. If such Federal Law is adopted as proposed by the Russian Ministry of Finance, the tax contingency will be fully remediated for 2011 and prior periods. At the moment the draft of the Law is in the State Duma and is planned to be adopted during 2012 year. Management believes its tax position with respect to the Eurobonds is sustainable and the resolution of this contingency will not have a material effect on the consolidated financial statements of the Group.

36. Contingencies, Commitments and Derivative Financial Instruments (continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees that represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Documentary and commercial letters of credit (L/Cs), which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards and/or the Bank confirming its willingness to extend a loan. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

Outstanding credit related commitments are as follows:

	31 December 2011	*31 December 2010*
Guarantees issued	510.9	216.5
Undrawn credit lines	43.1	21.5
Letters of credit	35.4	28.6
Commitments to extend credit	36.7	–
Less: provision for impairment on credit related commitments (Note 32)	(1.1)	(1.6)
Total credit related commitments	**625.0**	**265.0**

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2011 is RUR 172.8 billion (31 December 2010: RUR 154.0 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 11.9 billion (31 December 2010: RUR 9.6 billion).

As at 31 December 2011, included in guarantees issued are guarantees issued for a Russian company of RUR 27.4 billion or 5% of the guarantees issued. As at 31 December 2010, included in guarantees issued are guarantees issued for 2 related Russian companies of RUR 48.1 billion or 22% of the guarantees issued.

Commitments under operating leases. The Group's commitments under operating leases mainly of premises comprised the following:

Remaining contractual maturity	*31 December 2011*	*31 December 2010*
Not later than 1 year	3.5	2.9
Later than 1 year but not later than 5 years	6.2	5.1
Later than 5 years	3.7	3.4
Total operating lease commitments	**13.4**	**11.4**

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.

36. Contingencies, Commitments and Derivative Financial Instruments (continued)

The table below includes derivative contracts outstanding at 31 December 2011:

	Positive fair value	*Negative fair value*
Foreign exchange and precious metals contracts		
Forwards	5.5	(2.6)
Futures	3.6	(1.6)
Swaps	12.8	(16.5)
Options		
written put	–	(2.4)
purchased put	2.2	–
written call	–	(1.6)
purchased call	0.8	–
Contracts with securities		
Forward purchase of Debt Securities	0.2	(0.2)
Forward sale of Equity Securities	0.1	–
Futures sale of Equity Securities	–	(0.1)
Options		
written put	–	(0.6)
purchased put	3.5	–
written call	–	(0.9)
purchased call	1.2	–
Interest Rate contracts		
Single Currency Interest Rate swaps	11.9	(23.2)
Cross Currency Interest Rate swaps	23.3	(18.2)
Swaptions		
buy	0.1	–
sell	0.1	(0.1)
Interest Rate futures		
sell	–	(0.1)
Contracts with other basic variables		
Sale of Credit Default swaps	8.5	(0.8)
Purchase of Credit Default swaps	1.2	(9.5)
Options on Indexes		
written put	–	(1.1)
purchased put	1.1	–
written call	–	(0.3)
purchased call	0.2	–
Commodity swaps	1.6	(1.7)
Commodity futures		
sell	0.6	–
Embedded derivatives on structured instruments		
Embedded derivatives on forex instruments	0.4	–
Derivatives held as fair value hedges		
Interest Rate swaps	0.5	–
Total derivatives	**79.4**	**(81.5)**

36. Contingencies, Commitments and Derivative Financial Instruments (continued)

The table below includes derivative contracts outstanding at 31 December 2010:

	Positive fair value	***Negative fair value***
Foreign exchange and precious metals contracts		
Forwards	3.0	(1.5)
Futures	0.5	(0.5)
Swaps	9.7	(1.8)
Options		
written put	–	(1.5)
purchased put	0.5	–
written call	–	(1.6)
purchased call	0.4	–
Contracts with securities		
Forward purchase of Equity Securities	0.1	–
Options		
written put	–	(0.5)
purchased put	3.3	–
written call	–	(3.4)
purchased call	3.6	–
Interest Rate contracts		
Single Currency Interest Rate swaps	3.9	(15.2)
Cross Currency Interest Rate swaps	8.3	(4.7)
Interest Rate futures		
sell	–	(0.1)
buy	–	(0.2)
Contracts with other basic variables		
Sale of Credit Default swaps	–	(0.6)
Purchase of Credit Default swaps	0.1	–
Futures on Indices		
buy	0.3	(0.3)
Options on Indices		
written put	–	(0.2)
purchased put	0.2	–
written call	–	(0.5)
purchased call	0.4	–
Commodity swaps	2.8	(2.9)
Commodity futures		
sell	–	(0.4)
buy	0.1	–
Options on Commodities		
written call	–	(0.1)
purchased call	0.1	–
Embedded derivatives on structured instruments		
Embedded derivatives on forex instruments	1.6	–
Derivatives held as fair value hedges		
Interest Rate swaps	0.6	–
Total derivatives	**39.5**	**(36.0)**

Purchase commitments. As at 31 December 2011 the Group had RUR 21.1 billion of outstanding commitments for the purchase of precious metals (31 December 2010: RUR 26.8 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.

37. Analysis by Segment

In accordance with IFRS 8, *Operating Segments*, the Group defined as the major operating segments the global business lines. Majority of the Group's entities' activities and resources are allocated and managed and their performance is assessed based on the respective global business line segment information. These operating segments represented by the global business lines are accompanied by entity based segments of those Group's entities that have not yet been integrated into the global business lines as of the reporting date. 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), Retail banking, CIS and Georgia, and Other.

This segment disclosure is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation. Qualitative and quantitative information about operating segments is reported to the appropriate operating decision makers for the purposes of making operating decisions on allocation of resources to the segment and assessment of its performance.

The change in reportable segment composition is mainly caused by the change in the system of the Group management and the integration of activities of certain entities into the global business lines. The united Corporate-Investment Banking function in the Group was established in the first quarter 2011, which resulted in the combination of Corporate business and Investment business reportable segments data presented in 2010 annual consolidated financial statements into the one Corporate-Investment banking (CIB) segment with further subdivision to 3 subsegments as described above. Additionally following the further integration of activities of "TransCreditBank", JSC, "VTB Bank", PJSC (Ukraine) and "Bank of Moscow", OJSC into the Group's global business lines such as CIB and Retail banking, the data for these subsidiaries is presented within CIB, Retail and Other segments starting from the second ("TransCreditBank", JSC) and the third quarter 2011 ("VTB Bank", PJSC (Ukraine) and "Bank of Moscow", OJSC).

Revenues disclosed in the note include the following: interest income, fee and commission income, other operating income, income arising from non-banking activities, gains less losses from financial assets available-for-sale, gains less losses arising from financial assets at fair value through profit or loss, gains less losses from dealing in foreign currencies together with foreign exchange translation gains less losses, gains less losses arising from extinguishment of liability, recovery of losses on initial recognition of financial instruments and loans restructuring and other gains / (losses) on loans and advances to customers and share in income of associates. Each element is included in calculation of revenues by each subsegment / segment without subsegments in case it is positive for this subsegment / segment without subsegments. The totals are calculated as sum of the line components.

Intersegment transactions were executed predominantly in the normal course of business.

37. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2011 and results for the year ended 31 December 2011 is set out below:

	Corporate-Investment banking (CIB)								*Total before Inter-segment*	*Inter-segment*	
	Investment banking	*Loans and deposits*	*Transaction banking*	*Inter-CIB eliminations*	*Total CIB*	*Retail banking*	*CIS and Georgia*	*Other*	*eliminations*	*eliminations*	*Total*
For the year ended 31 December 2011:											
Revenues from:											
External customers	*45.2*	*311.5*	*15.6*	*–*	372.3	140.0	2.8	18.0	**533.1**	–	**533.1**
Other segments	*51.0*	*41.2*	*15.9*	*(88.4)*	19.7	34.8	–	2.4	**56.9**	(56.9)	**–**
Total revenues	***96.2***	***352.7***	***31.5***	***(88.4)***	**392.0**	**174.8**	**2.8**	**20.4**	**590.0**	**(56.9)**	**533.1**
Segment income and expense											
Interest income	*62.5*	*303.8*	*15.8*	*(65.0)*	317.1	146.3	2.3	1.1	**466.8**	(50.1)	**416.7**
Interest expense	*(48.3)*	*(177.8)*	*(3.8)*	*65.0*	(164.9)	(67.1)	(0.8)	(6.7)	**(239.5)**	49.8	**(189.7)**
Net interest income	***14.2***	***126.0***	***12.0***	***–***	**152.2**	**79.2**	**1.5**	**(5.6)**	**227.3**	**(0.3)**	**227.0**
(Provision charge) / reversal of provision for impairment of debt financial assets	*0.1*	*(19.5)*	*–*	*–*	(19.4)	(11.5)	(0.3)	(0.3)	**(31.5)**	(0.1)	**(31.6)**
Net interest income after provision for impairment	***14.3***	***106.5***	***12.0***	***–***	**132.8**	**67.7**	**1.2**	**(5.9)**	**195.8**	**(0.4)**	**195.4**
(Losses net of gains) / gains less losses arising from other financial instruments	*(19.6)*	*(7.4)*	*–*	*0.3*	(26.7)	(0.2)	–	(0.1)	**(27.0)**	0.3	**(26.7)**
Gains less losses arising from extinguishment of liability	*–*	*(0.7)*	*–*	*–*	(0.7)	–	–	–	**(0.7)**	–	**(0.7)**
Net recovery of losses / (losses) on initial recognition of financial instruments, restructuring and other gains / (losses) on loans and advances to customers	*–*	*19.4*	*–*	*–*	19.4	0.8	–	–	**20.2**	–	**20.2**
Gains less losses / (losses net of gains) arising from dealing in foreign currencies	*(7.0)*	*9.8*	*–*	*–*	2.8	2.8	0.2	0.3	**6.1**	–	**6.1**
Foreign exchange translation (losses net of gains) / gains less losses	*(0.4)*	*(5.9)*	*–*	*–*	(6.3)	(0.2)	–	–	**(6.5)**	–	**(6.5)**
Net fee and commission income / (expense)	*5.4*	*3.9*	*14.0*	*(0.1)*	23.2	18.3	0.2	(2.6)	**39.1**	0.1	**39.2**
Share in income / (loss) of associates and joint ventures	*0.3*	*7.5*	*–*	*–*	7.8	–	–	(0.3)	**7.5**	–	**7.5**
(Provision charge) / reversal of provision for impairment of other assets and credit related commitments	*–*	*(1.3)*	*–*	*–*	(1.3)	(0.1)	(0.1)	0.1	**(1.4)**	–	**(1.4)**
Other operating income / (expense)	*23.4*	*(10.4)*	*–*	*(0.2)*	12.8	1.3	0.1	8.6	**22.8**	(2.3)	**20.5**
Operating income	***16.4***	***121.4***	***26.0***	***–***	**163.8**	**90.4**	**1.6**	**0.1**	**255.9**	**(2.3)**	**253.6**
Staff costs and administrative expenses	*(16.7)*	*(58.9)*	*(6.8)*	*0.2*	(82.2)	(51.6)	(1.4)	(8.6)	**(143.8)**	2.3	**(141.5)**
- of which: depreciation / amortization charge	*(0.4)*	*(7.3)*	*(0.2)*	*–*	*(7.9)*	*(3.0)*	*(0.2)*	*(1.4)*	***(12.5)***	*–*	***(12.5)***
Profit from disposal of subsidiaries and associates	*1.3*	*1.5*	*–*	*–*	2.8	–	–	0.6	**3.4**	–	**3.4**
Segment results: Profit before taxation	***1.0***	***64.0***	***19.2***	***0.2***	**84.4**	**38.8**	**0.2**	**(7.9)**	**115.5**	**–**	**115.5**
Income tax expense											**(25.0)**
Net profit											**90.5**
Capital expenditure	*0.5*	*36.4*	*0.2*	*–*	37.1	4.7	0.3	2.3	**44.4**	–	**44.4**

37. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)										
	Investment banking	*Loans and deposits*	*Transaction banking*	*Inter-CIB eliminations*	*Total CIB*	*Retail banking*	*CIS and Georgia*	*Other*	*Total before Inter-segment eliminations*	*Inter-segment eliminations*	*Total*
As at 31 December 2011:											
Cash and short-term funds	*13.5*	*303.6*	–	*(1.4)*	315.7	107.7	1.7	6.0	**431.1**	(24.1)	**407.0**
Mandatory reserve deposits with central banks	–	*56.3*	–	–	56.3	13.8	1.6	0.2	**71.9**	–	**71.9**
Due from other banks	*68.1*	*345.6*	–	–	413.7	9.3	1.0	0.6	**424.6**	–	**424.6**
Loans and advances to customers	*200.8*	*3,222.9*	–	–	3,423.7	851.3	17.2	9.4	**4,301.6**	–	**4,301.6**
Other financial instruments	*537.0*	*420.5*	–	*(9.1)*	948.4	18.5	1.3	2.6	**970.8**	(0.6)	**970.2**
Investments in associates and joint ventures	*2.8*	*27.7*	–	–	30.5	–	–	2.0	**32.5**	–	**32.5**
Other assets items	*30.3*	*319.2*	*1.2*	*(0.3)*	350.4	32.5	2.8	196.8	**582.5**	(0.7)	**581.8**
Net amount of intersegment settlements	*237.6*	–	*504.1*	*(741.7)*	–	446.3	–	–	**446.3**	(446.3)	**–**
Segment assets	***1,090.1***	***4,695.8***	***505.3***	***(752.5)***	**5,538.7**	**1,479.4**	**25.6**	**217.6**	**7,261.3**	**(471.7)**	**6,789.6**
Due to other banks	*23.5*	*671.0*	–	*(0.3)*	694.2	20.8	1.7	0.1	**716.8**	(17.1)	**699.7**
Customer deposits	*759.6*	*1,027.6*	*504.7*	*(1.2)*	2,290.7	1,298.5	10.3	1.5	**3,601.0**	(4.3)	**3,596.7**
Other borrowed funds	*55.2*	*664.6*	–	–	719.8	8.3	2.3	4.2	**734.6**	–	**734.6**
Debt securities issued	*98.9*	*560.4*	–	*(4.8)*	654.5	10.3	–	0.2	**665.0**	(0.5)	**664.5**
Subordinated debt	–	*243.8*	–	*(2.7)*	241.1	–	–	–	**241.1**	–	**241.1**
Other liabilities items	*68.9*	*121.2*	*0.1*	*(1.5)*	188.7	6.1	0.3	36.3	**231.4**	(3.5)	**227.9**
Net amount of intersegment settlements	–	*1,087.1*	–	*(741.7)*	345.4	–	6.1	94.8	**446.3**	(446.3)	**–**
Segment liabilities	***1,006.1***	***4,375.7***	***504.8***	***(752.2)***	**5,134.4**	**1,344.0**	**20.7**	**137.1**	**6,636.2**	**(471.7)**	**6,164.5**

37. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2010 and results for the year ended 31 December 2010 is set out below:

	Corporate-Investment banking (CIB)								Total before		
	Investment banking	*Loans and deposits*	*Transaction banking*	*Inter-CIB eliminations*	*Total CIB*	*Retail banking*	*CIS and Georgia*	*Other*	*Inter-segment eliminations*	*Inter-segment eliminations*	*Total*
For the year ended 31 December 2010:											
Revenues from:											
External customers	*50.8*	*224.9*	*9.8*	*–*	285.5	102.6	2.4	11.6	**402.1**	–	**402.1**
Other segments	*41.2*	*23.1*	*11.4*	*(67.7)*	8.0	16.1	–	1.4	**25.5**	(25.5)	**–**
Total revenues	***92.0***	***248.0***	***21.2***	***(67.7)***	**293.5**	**118.7**	**2.4**	**13.0**	**427.6**	**(25.5)**	**402.1**
Segment income and expense											
Interest income	*53.5*	*242.1*	*11.2*	*(58.5)*	248.3	101.4	1.9	0.8	**352.4**	(21.9)	**330.5**
Interest expense	*(43.3)*	*(140.4)*	*(2.6)*	*58.5*	(127.8)	(47.2)	(0.9)	(5.4)	**(181.3)**	21.9	**(159.4)**
Net interest income	***10.2***	***101.7***	***8.6***	**–**	**120.5**	**54.2**	**1.0**	**(4.6)**	**171.1**	**–**	**171.1**
(Provision charge) / reversal of provision for impairment of debt financial assets	*(1.0)*	*(35.2)*	*–*	*–*	(36.2)	(14.9)	(0.5)	–	**(51.6)**	–	**(51.6)**
Net interest income after provision for impairment	**9.2**	**66.5**	***8.6***	**–**	**84.3**	**39.3**	**0.5**	**(4.6)**	**119.5**	**–**	**119.5**
Gains less losses / (losses net of gains) arising from other financial instruments	*19.7*	*(5.5)*	–	–	14.2	0.3	–	0.2	**14.7**	–	**14.7**
Net recovery of losses / (losses) on initial recognition of financial instruments, restructuring and other gains / (losses) on loans and advances to customers	–	*0.2*	–	–	0.2	(0.4)	–	–	**(0.2)**	–	**(0.2)**
(Losses net of gains) / gains less losses arising from dealing in foreign currencies	*3.7*	*(12.4)*	–	–	(8.7)	0.6	0.2	0.4	**(7.5)**	–	**(7.5)**
Foreign exchange translation gains less losses	*1.2*	*9.5*	–	–	10.7	1.3	–	–	**12.0**	0.1	**12.1**
Net fee and commission income / (expense)	*2.8*	*2.2*	*9.3*	*(0.1)*	14.2	11.3	0.2	(1.2)	**24.5**	0.2	**24.7**
Share in (loss) / income of associates and joint ventures	*0.4*	*0.2*	–	–	0.6	–	–	(1.3)	**(0.7)**	–	**(0.7)**
Provision charge for impairment of other assets and credit related commitments	–	*(1.6)*	–	–	(1.6)	–	–	(0.6)	**(2.2)**	–	**(2.2)**
Other operating income / (expense)	*10.0*	*(6.5)*	–	*(0.2)*	3.3	1.1	0.1	3.8	**8.3**	(1.4)	**6.9**
Operating income	***47.0***	***52.6***	***17.9***	***(0.3)***	**117.2**	**53.5**	**1.0**	**(3.3)**	**168.4**	**(1.1)**	**167.3**
Staff costs and administrative expenses	*(16.3)*	*(39.1)*	*(3.6)*	*0.4*	(58.6)	(32.3)	(1.1)	(4.3)	**(96.3)**	1.2	**(95.1)**
- of which: depreciation / amortization charge	*(0.4)*	*(4.5)*	–	–	*(4.9)*	*(2.3)*	*(0.1)*	*(0.8)*	***(8.1)***	–	***(8.1)***
Impairment of goodwill	–	–	–	–	–	–	–	(1.1)	**(1.1)**	–	**(1.1)**
Profit from disposal of subsidiaries and associates	*0.1*	–	–	–	0.1	–	–	(0.1)	**–**	–	**–**
Segment results: Profit before taxation	***30.8***	***13.5***	***14.3***	***0.1***	**58.7**	**21.2**	**(0.1)**	**(8.8)**	**71.0**	**0.1**	**71.1**
Income tax expense											**(16.3)**
Net profit											**54.8**
Capital expenditure	*0.6*	*38.1*	–	–	38.7	2.9	0.2	0.9	**42.7**	–	**42.7**

37. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)								Total before		
	Investment banking	Loans and deposits	Transaction banking	Inter-CIB eliminations	Total CIB	Retail banking	CIS and Georgia	Other	Inter-segment eliminations	Inter-segment eliminations	Total
As at 31 December 2010:											
Cash and short-term funds	*5.1*	*198.4*	–	*(2.2)*	201.3	78.4	1.6	3.5	**284.8**	(9.3)	**275.5**
Mandatory reserve deposits with central banks	–	*19.8*	–	–	19.8	6.0	0.6	–	**26.4**	–	**26.4**
Due from other banks	*82.6*	*245.6*	–	–	328.2	21.0	0.6	0.1	**349.9**	–	**349.9**
Loans and advances to customers	*132.1*	*2,078.6*	*(0.1)*	–	2,210.6	559.8	11.3	3.7	**2,785.4**	–	**2,785.4**
Other financial instruments	*282.5*	*147.3*	–	*(5.1)*	424.7	22.9	1.5	3.3	**452.4**	(0.8)	**451.6**
Investments in associates and joint ventures	*1.7*	*11.1*	–	–	12.8	–	–	2.9	**15.7**	–	**15.7**
Other assets items	*22.6*	*192.7*	*1.4*	*(0.2)*	216.5	24.0	2.5	148.4	**391.4**	(5.0)	**386.4**
Net amount of intersegment settlements	*304.2*	–	*336.9*	*(641.1)*	–	241.7	–	–	**241.7**	(241.7)	**–**
Segment assets	***830.8***	***2,893.5***	***338.2***	***(648.6)***	**3,413.9**	**953.8**	**18.1**	**161.9**	**4,547.7**	**(256.8)**	**4,290.9**
Due to other banks	*8.1*	*389.8*	–	–	397.9	4.4	1.1	–	**403.4**	(6.1)	**397.3**
Customer deposits	*580.7*	*502.1*	*338.0*	*(2.2)*	1,418.6	787.7	8.3	0.7	**2,215.3**	(2.4)	**2,212.9**
Other borrowed funds	*52.0*	*115.0*	–	–	167.0	11.9	0.9	5.9	**185.7**	–	**185.7**
Debt securities issued	*76.4*	*479.0*	–	*(3.4)*	552.0	41.0	–	0.3	**593.3**	(0.2)	**593.1**
Subordinated debt	–	*205.9*	–	*(0.4)*	205.5	–	–	–	**205.5**	–	**205.5**
Other liabilities items	*44.2*	*50.0*	*0.2*	*(1.4)*	93.0	9.9	0.3	21.2	**124.4**	(6.2)	**118.2**
Net amount of intersegment settlements	–	*821.1*	–	*(641.1)*	180.0	–	2.8	58.9	**241.7**	(241.7)	**–**
Segment liabilities	***761.4***	***2,562.9***	***338.2***	***(648.5)***	**3,014.0**	**854.9**	**13.4**	**87.0**	**3,969.3**	**(256.6)**	**3,712.7**

37. Analysis by Segment (continued)

Geographical segment information is based on geographical location of entities within the Group. Information for the geographical areas of the Group is set out below for the years ended 31 December 2011 and 2010:

	2011					*2010*				
	Russia	*Other*	*Total before inter-segment elimina-tions*	*Inter-segment elimina-tions*	*Total*	*Russia*	*Other*	*Total before inter-segment elimina-tions*	*Inter-segment elimina-tions*	*Total*
Revenues from external customers for the year ended	434.8	74.3	**509.1**	–	**509.1**	334.7	61.6	**396.3**	–	**396.3**
Non-current assets as at end of period	391.9	21.3	**413.2**	(0.2)	**413.0**	243.7	18.1	**261.8**	(0.2)	**261.6**

38. Financial Risk Management

The Group is exposed to financial risks, including credit, liquidity and market risks.

The Management Board of VTB has overall responsibility for risk management at VTB. In each subsidiary bank of VTB risks are managed by the appropriate authorities, predominantly Supervisory Council (Board of Directors) and Management Board. The standard organizational structure of subsidiary banks includes a Chief Risk Officer and Risk division responsible for risk management. In the subsidiary financial companies whose activity implies assumption of financial risks (such as “VTB Leasing”, OJSC, “VTB Factoring” Ltd, “VTB Capital”, Plc and “VTB Capital Holding”, CJSC) the general principles of risk management organization are the same as in the subsidiary banks.

In addition to that, on the Group level and within the Group members (including VTB, its subsidiary banks and above-mentioned subsidiary companies) a number of the collective bodies and units are established to coordinate day-to-day consolidated risk management activities. On a Group level risk management is overseen by the Group Management Committee (“GMC”).

Being a high-level Group’s management coordination body, GMC considers the regular consolidated risk reports of the Group and takes decisions in the area of the Group’s risk management policies and procedures based on powers delegated to it, in particular it approves Group-wide risk management standards and approaches. Decisions and recommendations of the GMC taken in a coordinated and consolidated way serve as a basis for respective managerial decisions in the entities of the Group.

The Risk Management Commission (“RMC”) is one of the specialized commissions under the GMC which is responsible for preparing drafts of approaches and procedures within the Group in respect of risk evaluation and management, their submission for approval by the GMC and further implementation, as well as for providing efficient interaction between entities of the Group in this area. RMC is chaired by Group Chief Risk Officer (the Senior Vice-President of VTB who is responsible for the Group-wide risk management) and includes chief risk officers of subsidiary banks / financial companies and representatives of VTB’s units involved in consolidated risk control (Risk Dept., Financial Dept., Internal Control Dept. and others).

The main tasks set for the RMC include:

- Regular supervising the risk management systems in VTB’s subsidiaries and review of the current profile and level of risks in VTB Group;
- Development and increase in the quality of risk management in the Group on the basis of applying and sharing best practices, methodological and consulting support, implementation of unified risk management standards;
- Maintaining information gathering / interaction among the Group companies in the field of risk management, establishment and development of formats and procedures with respect to regular analytical reporting on the Group risks;
- Preparation and discussion of draft basic documents in the field of consolidated risk control (including Group consolidated risk management concepts, basic principles and provisions of Group credit policies, regulations for setting and applying consolidated risk limits, calculation of Group Capital-at-Risk, etc.);
- The further professional and other necessary training of key staff in the field of risk management.

38. Financial Risk Management (continued)

In addition to that, in the area of balance sheet risks (which are taken into account within the Group Asset and Liability Management system) the key role is played by Asset and Liabilities Management Commission (“ALMC”) under the GMC. It is chaired by Head of VTB Treasury. The various issues with regard to Group liquidity, interest rate risks and foreign exchange risks are discussed and elaborated by ALMC.

Within the process of the realization of the Group-wide policy for credit risk concentration control, the Group Credit Committee continued working in this area during 2011.

In VTB the Risk Department (“RD”) is responsible for independent financial risks management (in respect of liquidity risk – jointly with Treasury). As at the end of 2011 RD consisted of the following sub-divisions:

- Consolidated risk analysis division;
- Credit risk division;
- Market and operational risks division;
- Credit applications analysis service.

The functions of Consolidated risk analysis division in the area of risk management on a Group-wide basis include unification of risk policies and procedures, participation in implementation of the concept of “economic capital” in VTB Bank and VTB Group, Group data consolidation, development of consolidated risk control system and support of activities of appropriate Group coordination bodies. Market and operational risks division participates in consolidated risk management in respect of market and operational risks.

The RD proposes risk limits on various banking operations and prepares recommendations regarding market risk and liquidity risk management for the Asset and Liability Management Committee of VTB (“ALCO”). The RD reports to the ALCO, the VTB’s Credit Committee (“CC”) and the Management Board.

The ALCO establishes major target parameters for VTB’s statement of financial position for the purposes of asset and liability management and monitors VTB’s compliance with these targets with the assistance of VTB’s RD. The ALCO, the CC, the RD and the Treasury carry out risk management functions in respect of credit, market (interest rate, currency and price) and liquidity risks.

During 2011 the VTB continued to work on development and strengthening of the Group risk management (in accordance with the VTB Group development strategy for 2010-2013), particularly, the VTB Management Board decided to reorganize during 2012 Consolidated risk analysis division and establish a new Risk strategy and methodology division.

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of principal accounting policies in Note 5 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized.

The following tables disclose the carrying amounts of financial assets and liabilities by category as defined in IAS 39 and by lines in the statement of financial position.

38. Financial Risk Management (continued)

Analysis of financial assets and liabilities by measurement basis (continued)

As at 31 December 2011:

	Held for trading	*Designated as at fair value through profit or loss*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Financial liabilities measured at amortized cost*	*Other financial liabilities measured at fair value*	*Total*
Financial assets								
Cash and short-term funds	–	–	–	407.0	–	–	–	**407.0**
Mandatory cash balances with central banks	–	–	–	71.9	–	–	–	**71.9**
Financial assets at fair value through profit or loss	540.7	30.8	–	–	–	–	–	**571.5**
Financial assets pledged under repurchase agreements and loaned financial assets	3.4	4.2	–	188.7	2.3	–	–	**198.6**
Due from other banks	–	–	–	424.6	–	–	–	**424.6**
Loans and advances to customers	–	–	–	4,301.6	–	–	–	**4,301.6**
Financial assets available-for-sale	–	–	–	–	167.7	–	–	**167.7**
Investment securities held-to-maturity	–	–	32.4	–	–	–	–	**32.4**
Other financial assets	0.2	0.5	–	16.8	–	–	–	**17.5**
Total financial assets	**544.3**	**35.5**	**32.4**	**5,410.6**	**170.0**	**–**	**–**	**6,192.8**
Financial liabilities								
Due to other banks	–	–	–	–	–	699.7	–	**699.7**
Customer deposits	–	–	–	–	–	3,596.7	–	**3,596.7**
Other borrowed funds	–	–	–	–	–	734.6	–	**734.6**
Debt securities issued	–	–	–	–	–	664.5	–	**664.5**
Subordinated debt	–	–	–	–	–	241.1	–	**241.1**
Other financial liabilities	90.0	–	–	–	–	38.5	21.1	**149.6**
Total financial liabilities	**90.0**	**–**	**–**	**–**	**–**	**5,975.1**	**21.1**	**6,086.2**

38. Financial Risk Management (continued)

Analysis of financial assets and liabilities by measurement basis (continued)

As at 31 December 2010:

	Held for trading	*Designated as at fair value through profit or loss*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Financial liabilities measured at amortized cost*	*Total*
Financial assets							
Cash and short-term funds	–	–	–	275.5	–	–	**275.5**
Mandatory cash balances with central banks	–	–	–	26.4	–	–	**26.4**
Financial assets at fair value through profit or loss	320.0	24.6	–	–	–	–	**344.6**
Financial assets pledged under repurchase agreements and loaned financial assets	7.5	3.4	–	1.3	4.7	–	**16.9**
Due from other banks	–	–	–	349.9	–	–	**349.9**
Loans and advances to customers	–	–	–	2,785.4	–	–	**2,785.4**
Financial assets available-for-sale	–	–	–	–	55.9	–	**55.9**
Investment securities held-to-maturity	–	–	34.2	–	–	–	**34.2**
Other financial assets	0.2	0.6	–	21.1	–	–	**21.9**
Total financial assets	**327.7**	**28.6**	**34.2**	**3,459.6**	**60.6**	**–**	**3,910.7**
Financial liabilities							
Due to other banks	–	–	–	–	–	397.3	**397.3**
Customer deposits	–	–	–	–	–	2,212.9	**2,212.9**
Other borrowed funds	–	–	–	–	–	185.7	**185.7**
Debt securities issued	–	–	–	–	–	593.1	**593.1**
Subordinated debt	–	–	–	–	–	205.5	**205.5**
Other financial liabilities	40.6	–	–	–	–	24.9	**65.5**
Total financial liabilities	**40.6**	**–**	**–**	**–**	**–**	**3,619.4**	**3,660.0**

Credit risk

Credit risk is the risk of financial loss if a counterparty fails to meet its contractual obligations. VTB Group's credit risk exposures arise principally from banking activities such as corporate and retail lending, issuance of letters of credit and guarantees, operations of Treasury, Investment Banking and leasing business.

Credit risk management within the Group is based on a combination of the following approaches:

- local credit risk management at the level of individual Group members;
- consolidated credit risk management at the Group level.

Within the frame of the local credit risk management system, the Group members assume and manage credit risks independently (including insurance, hedging, etc.) in the scope of the established powers and limits with regard to risk indicators, in accordance with the national regulations and the standards of the Group. The Group members are responsible for the results of their lending activity, for the quality of their loan portfolios and for monitoring and control of credit risk level in their portfolios.

As per the "VTB Group Consolidated Risk Management Concept", adopted by the GMC, the consolidated credit risk management comprises the following functions:

- consideration and approval of the Group-wide strategy, policies, unified basic principles and approaches related to the lending / investment activities and credit risk management;
- control of the current credit risk level on a consolidated basis and elaboration of the necessary measures to mitigate risks (potential losses).

Consolidated credit risk management covers the main types of assets and off-balance sheet exposures of the Group members, which bear credit risk and require control of their concentration at the Group level. In the context of consolidated control and reporting the scope of such operations is defined by the coordinating bodies of the Group.

38. Financial Risk Management (continued)

Credit risk (continued)

The key elements of consolidated credit risk management in the Group are as follows:

- periodic review of the credit risk policies of the VTB Group, harmonizing and streamlining of credit policies of the subsidiaries with the Group's credit policy;
- setting of consolidated limits, portfolio limits (including limits on common counterparties / groups of related counterparties, countries, industry sectors), internal indicative limitations of large credit exposure, etc.;
- optimization and unifying within the Group credit procedures and methods of credit risk assessment (credit rating systems - for corporate customers and credit institutions, scoring systems – for retail customers);
- assessment of economic capital (Capital-at-Risk) sufficient to cover Group credit risks;
- consolidated analytical reporting on credit risks.

"The basic principles and provisions of VTB Group credit policies", which are adopted and periodically revised by the GMC, outline the main approaches and standards of risk management and organization of credit operations in the Group. These principles should be complied with by each subsidiary bank and financial companies of the Group. The Group's credit policy covers, particularly, the following areas:

- roles and responsibilities of different committees, departments of VTB in the area of Group lending and credit risk management;
- matters related to the approval and revision of credit policies in VTB subsidiary banks;
- general approaches to credit risk management (limits, risk planning, monitoring, provisioning, reporting etc.);
- principles of pricing policy (interest rates and commissions) and others.

Subsidiary banks should implement credit risk management system as well as credit policies and procedures in compliance with the Group's standards.

Credit risk policies are adopted by each subsidiary bank and are subject to a regular review, usually once in one or two years.

The general (typical) procedure for adopting a credit policy is as follows:

- a draft credit policy or significant amendments are subject to the preliminary consideration and approval by VTB and by "Bank VTB 24", CJSC (in respect of retail credit risks);
- the credit policy and amendments should be approved by the Supervisory Council (Board of Directors) of the subsidiary bank;
- VTB may propose amendments to the credit policy of a subsidiary bank as part of centralized regulation and credit risk control for the Group, provided that such amendments are in line with local regulations.

The authorities of management and executive bodies of the Group members in relation to decision making and lending transactions are determined by their constituent documents and applicable statutory legislation.

On a Group-wide basis credit risk management is overseen and coordinated by the following bodies:

- the GMC;
- the RMC;
- the VTB Group Credit Committee ("GCC");
- the VTB Group Risk Escalation Committee ("GREC").

GCC is a permanent collective decision-making committee under the GMC. GCC is chaired by Group Chief Risk Officer (the Senior Vice-President of VTB who is responsible for the group-wide risk management) and includes representatives of VTB departments / divisions (Risk, Legal, Corporate & Investment Banking, etc.). The key tasks of this committee are as follows:

- putting in place efficient mechanisms of credit risk consolidated management at VTB Group;
- setting consolidated limits for the credit risk assumed by the Group;
- consideration of some individual operations and large-scale transactions of Group members.

Additionally the VTB Group Risk Escalation Committee under the GMC was established in 2011. GREC is chaired by CEO and includes some senior executive managers of VTB. The main purpose of this committee is the consideration and making final decisions on deals, which have been declined by the GCC or exceed its authorities.

38. Financial Risk Management (continued)

Credit risk (continued)

In VTB the RD is responsible for credit risk management on a Group-wide basis including development of credit risk management systems and relevant Group data consolidation.

The Risk analysis department of Bank VTB24 co-ordinates retail credit risk management across the Group and is responsible for:

- developing systems of retail credit risk limits;
- developing standards of monitoring and reporting of retail credit risks (methodology and formats);
- consolidating reports on retail lending of the Group;
- monitoring performance and management of retail loan portfolios across the Group.

The VTB subsidiary banks, which engage in retail credit granting, apply the Concept (basic statements) of retail credit risk management in the Group, developed by Bank VTB24 and approved by the GMC.

Credit risk monitoring at the Group level is supported by regular reporting from subsidiaries to the RD for assessing of credit risk exposures on a consolidated basis. The RD reports to the GMC.

The following table discloses the Group's maximum credit risk exposure:

	31 December 2011	*31 December 2010*
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**302.7**	**205.4**
Debt securities	**623.6**	**306.1**
Financial assets held for trading	***341.0***	***211.2***
debt securities of Russian companies and banks	237.8	145.5
debt securities of Russian Federal and municipal authorities	61.6	37.3
debt securities of foreign government and municipal authorities	21.2	8.6
debt securities of foreign companies and banks	20.4	19.8
Financial assets designated as at fair value through profit or loss	***19.8***	***17.9***
debt securities of foreign companies and banks	10.9	8.4
debt securities of Russian companies and banks	7.5	4.6
debt securities of foreign government and municipal authorities	1.4	4.9
Financial assets pledged under repurchase agreements and loaned financial assets – held for trading	***3.3***	***6.3***
debt securities of Russian companies and banks	2.4	6.1
debt securities of Russian Federal and municipal authorities	0.9	–
debt securities of foreign companies and banks	–	0.1
debt securities of foreign government and municipal authorities	–	0.1
Financial assets pledged under repurchase agreements and loaned financial assets – designated as at fair value through profit or loss	***4.2***	***3.4***
debt securities of Russian companies and banks	2.9	1.2
debt securities of foreign companies and banks	0.8	0.7
debt securities of foreign government and municipal authorities	0.5	1.5
Financial assets pledged under repurchase agreements and loaned financial assets – available-for-sale	***2.3***	***4.7***
debt securities of Russian companies and banks	1.3	1.7
debt securities of foreign government and municipal authorities	0.6	3.0
debt securities of Russian Federal and municipal authorities	0.4	–
Financial assets pledged under repurchase agreements and loaned financial assets – classified as due from other banks	***0.4***	***1.3***
Financial assets pledged under repurchase agreements and loaned financial assets – classified as loans and advances to customers	***188.3***	***–***

38. Financial Risk Management (continued)

Credit risk (continued)

	31 December 2011	*31 December 2010*
Financial assets available-for-sale	***31.9***	***27.1***
debt securities of foreign government and municipal authorities	10.6	16.4
debt securities of Russian Federal and municipal authorities	10.2	–
debt securities of Russian companies and banks	7.4	1.7
debt securities of foreign companies and banks	3.7	9.0
Investment securities held-to-maturity	***32.4***	***34.2***
debt securities of Russian companies and banks	30.8	30.6
debt securities of Russian government and municipal authorities	1.1	2.4
debt securities of foreign government and municipal authorities	0.5	0.8
debt securities of foreign companies and banks	–	0.4
Due from other banks	***424.6***	***349.9***
OECD	204.6	163.0
Russia	170.0	174.5
Other	50.0	12.4
Loans and advances to customers	***4,301.6***	**2,785.4**
Loans to legal entities	***3,522.3***	***2,281.7***
Current activity financing	1,958.7	1,291.4
Project finance and other	1,220.7	811.6
Finance leases	227.6	130.0
Reverse sale and repurchase agreements	115.3	48.7
Loans to individuals	***779.3***	***503.7***
Mortgages	300.5	207.9
Car loans	71.8	49.6
Reverse sale and repurchase agreements	3.4	3.1
Consumer loans and other	403.6	243.1
Exposure arising from credit default swaps	***9.7***	***0.1***
sale of credit default swaps	8.5	–
purchase of credit default swaps	1.2	0.1
Other financial assets	***16.8***	***21.1***
Total balance sheet exposure	**5,679.0**	**3,668.0**
Off-balance sheet exposure		
Guarantees issued	510.9	216.5
Undrawn credit lines	43.1	21.5
Import letters of credit	34.3	27.0
Commitments to extend credit	36.7	–
Total off-balance sheet exposure	**625.0**	**265.0**
Total maximum exposure to credit risk	**6,304.0**	**3,933.0**

Total credit risk exposure

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

38. Financial Risk Management (continued)

Credit quality by class of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements

Credit quality of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired, which are neither past due nor impaired at 31 December 2011 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**261.7**	**162.9**
Russia	120.7	49.3
OECD	100.9	103.7
Other countries	40.1	9.9
Financial assets classified as due from other banks pledged under repurchase agreements	**0.4**	**–**
Russia	0.4	–
Total due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired	**262.1**	**162.9**

Credit quality of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired, which are neither past due nor impaired at 31 December 2010 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**181.3**	**168.8**
Russia	101.0	73.9
OECD	75.9	87.1
Other countries	4.4	7.8
Financial assets classified as due from other banks pledged under repurchase agreements	**1.3**	**–**
Russia	1.3	–
Total due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired	**182.6**	**168.8**

Not impaired individually assessed amounts due from other banks are subsequently included in the pools of collectively assessed loans.

Credit quality by class of loans and advances to customers

The credit quality of loans and advances to customers is presented according to five categories:

- Pass – provision rate from 0% to 2%;
- Watch – provision rate from 2% to 5%;
- Substandard – provision rate from 5% to 20%;
- Doubtful – provision rate from 20% to 50%;
- Loss – provision rate from 50% to 100%.

Provision rate represents the weighted ratio of allowance for impairment to gross loans under each pool of loans with similar credit risk or individually impaired loan.

38. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (continued)

The table below shows credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2011, individually assessed. For individually assessed loans, which were not qualified as impaired, allowance was subsequently calculated on a collective basis.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,445.2**	**271.6**	**258.2**	**29.6**	**203.0**	**2,207.6**
Finance leases	74.7	23.7	3.7	10.7	10.4	**123.2**
Current activity financing	509.8	140.6	136.9	16.0	107.8	**911.1**
Reverse sale and repurchase agreements	57.8	–	–	–	–	**57.8**
Project finance and other	802.9	107.3	117.6	2.9	84.8	**1,115.5**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**188.3**	**–**	**–**	**–**	**–**	**188.3**
Current activity financing	188.3	–	–	–	–	**188.3**
Loans to individuals	**4.6**	**–**	**–**	**1.0**	**6.1**	**11.7**
Mortgages	0.8	–	–	0.1	5.5	**6.4**
Car loans	–	–	–	–	0.3	**0.3**
Consumer loans and other	3.8	–	–	0.9	0.3	**5.0**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements individually assessed	**1,638.1**	**271.6**	**258.2**	**30.6**	**209.1**	**2,407.6**

The table below shows credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2011, collectively assessed.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,172.6**	**269.8**	**104.5**	**1.1**	**10.4**	**1,558.4**
Finance leases	114.6	5.8	0.5	–	–	**120.9**
Current activity financing	834.8	249.8	84.8	1.1	10.3	**1,180.8**
Reverse sale and repurchase agreements	57.5	–	–	–	–	**57.5**
Project finance and other	165.7	14.2	19.2	–	0.1	**199.2**
Loans to individuals	**741.6**	**4.2**	**14.1**	**17.0**	**35.5**	**812.4**
Mortgages	284.2	0.2	3.3	13.2	1.7	**302.6**
Car loans	69.7	1.6	0.1	0.3	3.5	**75.2**
Reverse sale and repurchase agreements	3.4	–	–	–	–	**3.4**
Consumer loans and other	384.3	2.4	10.7	3.5	30.3	**431.2**
Total loans and advances to customers collectively assessed	**1,914.2**	**274.0**	**118.6**	**18.1**	**45.9**	**2,370.8**

38. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers (continued)

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2010, individually assessed. For individually assessed loans, which were not qualified as impaired, allowance was subsequently calculated on a collective basis.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,074.9**	**129.2**	**264.7**	**55.2**	**183.9**	**1,707.9**
Finance leases	20.0	34.5	0.2	13.5	8.6	**76.8**
Current activity financing	451.6	78.9	102.5	32.2	112.3	**777.5**
Reverse sale and repurchase agreements	16.1	0.4	–	–	–	**16.5**
Project finance and other	587.2	15.4	162.0	9.5	63.0	**837.1**
Loans to individuals	**6.6**	**–**	**0.3**	**1.3**	**4.8**	**13.0**
Mortgages	1.3	–	0.3	0.7	4.4	**6.7**
Car loans	–	–	–	–	0.1	**0.1**
Consumer loans and other	5.3	–	–	0.6	0.3	**6.2**
Total loans and advances to customers individually assessed	**1,081.5**	**129.2**	**265.0**	**56.5**	**188.7**	**1,720.9**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2010, collectively assessed.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**479.7**	**133.3**	**161.9**	**22.0**	**13.3**	**810.2**
Finance leases	54.3	10.6	0.5	–	–	**65.4**
Current activity financing	359.8	108.1	158.2	21.4	13.2	**660.7**
Reverse sale and repurchase agreements	32.3	–	–	–	–	**32.3**
Project finance and other	33.3	14.6	3.2	0.6	0.1	**51.8**
Loans to individuals	**473.6**	**1.9**	**9.8**	**15.9**	**27.3**	**528.5**
Mortgages	192.7	0.3	2.7	13.2	1.6	**210.5**
Car loans	48.2	1.1	0.2	0.5	2.7	**52.7**
Reverse sale and repurchase agreements	3.1	–	–	–	–	**3.1**
Consumer loans and other	229.6	0.5	6.9	2.2	23.0	**262.2**
Total loans and advances to customers collectively assessed	**953.3**	**135.2**	**171.7**	**37.9**	**40.6**	**1,338.7**

38. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers (continued)

The table below shows credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2011, neither past due nor impaired.

	Pass	_Watch_	_Sub-standard_	_Doubtful_	_Loss_	_Total_
Loans to legal entities	**2,613.4**	**539.8**	**354.2**	**0.5**	**0.1**	**3,508.0**
Finance leases	189.4	29.0	4.1	–	–	**222.5**
Current activity financing	1,343.0	389.3	218.3	0.5	0.1	**1,951.2**
Reverse sale and repurchase agreements	115.2	–	–	–	–	**115.2**
Project finance and other	965.8	121.5	131.8	–	–	**1,219.1**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**188.3**	**–**	**–**	**–**	**–**	**188.3**
Current activity financing	188.3	–	–	–	–	**188.3**
Loans to individuals	**743.7**	**3.9**	**13.0**	**7.0**	**12.9**	**780.5**
Mortgages	283.9	0.1	2.7	3.5	1.3	**291.5**
Car loans	69.9	1.5	0.1	0.3	0.7	**72.5**
Reverse sale and repurchase agreements	3.4	–	–	–	–	**3.4**
Consumer loans and other	386.5	2.3	10.2	3.2	10.9	**413.1**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements	**3,545.4**	**543.7**	**367.2**	**7.5**	**13.0**	**4,476.8**

The table below shows credit quality by class of loans and advances (gross) to customers at 31 December 2010, neither past due nor impaired.

	Pass	_Watch_	_Sub-standard_	_Doubtful_	_Loss_	_Total_
Loans to legal entities	**1,549.9**	**256.9**	**423.5**	**20.1**	**1.3**	**2,251.7**
Finance leases	74.4	41.1	0.7	–	–	**116.2**
Current activity financing	808.2	185.4	257.8	20.1	1.2	**1,272.7**
Reverse sale and repurchase agreements	48.4	0.4	–	–	–	**48.8**
Project finance and other	618.9	30.0	165.0	–	0.1	**814.0**
Loans to individuals	**478.8**	**1.5**	**9.4**	**8.1**	**10.4**	**508.2**
Mortgages	192.6	–	2.7	5.6	1.1	**202.0**
Car loans	48.3	1.0	0.2	0.5	0.8	**50.8**
Reverse sale and repurchase agreements	3.1	–	–	–	–	**3.1**
Consumer loans and other	234.8	0.5	6.5	2.0	8.5	**252.3**
Total loans and advances to customers	**2,028.7**	**258.4**	**432.9**	**28.2**	**11.7**	**2,759.9**

38. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers (continued)

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2011 and 2010 is presented in the table below.

	31 December 2011	*31 December 2010*
Trade and commerce	47.6	56.2
Building construction	47.0	41.7
Oil and gas	46.3	44.2
Manufacturing	25.5	32.4
Food and agriculture	24.7	23.1
Transport	16.1	19.9
Finance	7.3	8.3
Individuals	7.1	6.1
Metals	6.1	2.3
Chemical	2.6	1.6
Telecommunications and media	1.3	0.7
Energy	0.8	0.7
Coal mining	0.7	2.9
Other	6.6	5.1
Total loans and advances to customers individually impaired	**239.7**	**245.2**

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2011 is presented in the table below.

	From 1 to 30 days	*From 31 to 60 days*	*From 61 to 90 days*	*From 91 to 180 days*	*From 181 days to 1 year*	*More than 1 year*	*Total*
Loans to legal entities	**10.0**	**1.8**	**4.8**	**12.2**	**4.8**	**7.3**	**40.9**
Finance leases	5.6	0.1	0.9	0.6	0.8	1.3	**9.3**
Current activity financing	3.6	0.9	0.5	3.1	0.4	4.4	**12.9**
Project finance and other	0.8	0.8	3.4	8.5	3.6	1.6	**18.7**
Loans to individuals	**17.8**	**1.5**	**1.2**	**0.2**	**0.1**	**0.7**	**21.5**
Mortgages	4.8	1.0	1.1	0.1	–	0.2	**7.2**
Car loans	1.7	0.1	–	–	–	0.1	**1.9**
Consumer loans and other	11.3	0.4	0.1	0.1	0.1	0.4	**12.4**
Total loans and advances to customers past due but not impaired	**27.8**	**3.3**	**6.0**	**12.4**	**4.9**	**8.0**	**62.4**

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2010 is presented in the table below.

	From 1 to 30 days	*From 31 to 60 days*	*From 61 to 90 days*	*From 91 to 180 days*	*From 181 days to 1 year*	*More than 1 year*	*Total*
Loans to legal entities	**2.2**	**2.7**	**3.2**	**5.2**	**21.7**	**17.7**	**52.7**
Finance leases	0.2	–	–	0.3	16.5	1.2	**18.2**
Current activity financing	1.8	1.1	2.4	4.6	5.2	15.4	**30.5**
Project finance and other	0.2	1.6	0.8	0.3	–	1.1	**4.0**
Loans to individuals	**13.0**	**0.8**	**1.3**	**0.7**	**3.5**	**19.5**	**38.8**
Mortgages	5.0	0.7	1.2	0.4	1.1	6.0	**14.4**
Car loans	1.2	–	–	–	0.3	1.5	**3.0**
Consumer loans and other	6.8	0.1	0.1	0.3	2.1	12.0	**21.4**
Total loans and advances to customers past due but not impaired	**15.2**	**3.5**	**4.5**	**5.9**	**25.2**	**37.2**	**91.5**

38. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers (continued)

For the purposes of the above table, the amount of past due loans and advances includes the entire outstanding amount of the loans, out of which the current portion amounts to RUR 0.5 billion and overdue portion amounts to RUR 61.9 billion at 31 December 2011 (31 December 2010: RUR 37.0 billion and RUR 54.5 billion correspondingly).

Collateral and other credit enhancements

Exposure to credit risk is managed, in part, by obtaining collateral and guarantees issued by state authorities, entities and individuals.

The amount and type of collateral accepted by the Group depends on credit risk assessment of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Collateral received by the Group from borrowers as a result of loan settlement is usually represented by real estate, inventory and trade receivables.

Securities and guarantees are also obtained from counterparties for all types of lending.

The list of acceptable forms of credit support is subject to periodical review. Different forms of credit support may be used in combination. In cases when a loan is secured by guarantees received, the Group performs an analysis of the guarantor's financial performance, except for the state authorities.

The Group has a set of requirements applicable to each form of credit support. The value of the pledged property is determined by reference to its market value taking into account a liquidity margin. The value of the assets determined for these purposes must be sufficient to recover principal, interest, commissions and expenses related to the enforcement of the pledge. A liquidity margin related to different types of pledges varies from 15% to 70%.

The valuation and acceptance of each type and item of collateral may vary depending on individual circumstances. Generally, the Group takes collateral with a view to ensure that an adequate margin is obtained and maintained throughout the term of the facility, where applicable. The appropriate department responsible for collateral assessment establishes parameters for each individual facility.

In cases where a loan is secured by a pledge, the borrower is required to insure such assets and name the Group as the beneficiary of the insurance policy. The Group takes a complex approach to pledged assets insured. It depends on the level of risk involved in the loan operation, the borrower's financial condition and the risk of loss of the pledged property.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security should be detailed in the Application for Credit Facility Form. Where practical, an bank officer conducts inspection the physical existence of collateral offered.

The Group reassesses the fair value of pledged property with frequency stated for each form of pledge and, if necessary, requires additional collateral or other acceptable forms of credit support.

The financial effect of collateral is presented below by disclosing the gross carrying value of the customer loan portfolio values separately for (i) those loans where collateral and other credit enhancements are equal to or exceed carrying value of the loan ("over-collateralized ") and (ii) those loans where collateral and other credit enhancements are less than the carrying value of the loan or where credit support obtained is not considered by the Group as a sufficient for credit risk mitigation ("under-collateralized ").

The Group treated "over–collateralized" loans as loans for which a credit risk is minimized nearly in full as at the reporting date. As to "under-collateralized" loans the Group estimates a percentage of credit risk mitigated by obtaining a credit support in range from 0% to 75% of carrying value of the loan.

38. Financial Risk Management (continued)

Collateral and other credit enhancements (continued)

The effect of collateral at 31 December 2011 and 2010 by class is presented below:

	31 December 2011		_31 December 2010_	
	over-collateralized	_under-collateralized_	_over-collateralized_	_under-collateralized_
Loans to legal entities	**2,311.3**	**1,454.7**	**1,617.8**	**900.3**
Financial lease	205.8	38.3	101.2	41.0
Current activity financing	1,348.4	743.5	860.5	577.7
Reverse sale and repurchase agreements	115.3	–	48.8	–
Project finance and other	641.8	672.9	607.3	281.6
Loans to individuals	**727.4**	**96.7**	**484.7**	**56.8**
Mortgage	305.2	3.8	211.6	5.6
Car loans	75.3	0.2	52.4	0.4
Reverse sale and repurchase agreements	3.4	–	3.1	–
Consumer loans and other	343.5	92.7	217.6	50.8
Total loans and advances to customers	**3,038.7**	**1,551.4**	**2,102.5**	**957.1**

The Group's policy is to dispose of repossessed properties in accordance with the established internal and legal procedures. The proceeds are used to reduce or repay the outstanding claim.

Collateral repossessed

During 2011 and 2010 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers. The carrying values and the nature of assets received as the collateral repossessed during the relevant year are as follows:

	_2011_	_2010_
Investment property	4.5	13.1
Financial assets at fair value through profit or loss	0.6	–
Premises and equipment	–	3.6
Investments in associates and subsidiaries	–	0.9
Other assets	3.7	1.8
Total collateral repossessed during the period	**8.8**	**19.4**

After finalization of transferring procedures these assets were accounted in accordance with the Group accounting policies and included in the relevant items in the statement of financial position.

The table below shows carrying amount and the nature of the assets obtained and held as at the reporting date:

	31 December 2011	_31 December 2010_
Investment property	72.4	68.9
Investments in associates	5.9	5.9
Premises and equipment	4.8	8.6
Other assets	2.2	0.9
Financial assets at fair value through profit or loss	0.6	–
Total collateral repossessed	**85.9**	**84.3**

38. Financial Risk Management (continued)

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2011 the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	*OECD*	*Other countries*	*Total*
Assets				
Cash and short-term funds	307.7	80.5	18.8	**407.0**
Mandatory cash balances with central banks	58.3	2.5	11.1	**71.9**
Financial assets at fair value through profit or loss	461.6	68.5	41.4	**571.5**
Financial assets pledged under repurchase agreements and loaned financial assets	196.6	0.2	1.8	**198.6**
Due from other banks	170.0	204.6	50.0	**424.6**
Loans and advances to customers	3,112.4	164.4	1,024.8	**4,301.6**
Assets of disposal group held for sale	–	–	10.3	**10.3**
Financial assets available-for-sale	142.2	11.7	13.8	**167.7**
Investments in associates and joint ventures	26.5	1.5	4.5	**32.5**
Investment securities held-to-maturity	31.9	–	0.5	**32.4**
Premises and equipment	103.2	3.1	10.5	**116.8**
Investment property	118.6	–	3.9	**122.5**
Intangible assets	139.6	0.6	1.0	**141.2**
Deferred tax asset	32.6	3.2	6.9	**42.7**
Other assets	127.0	7.3	14.0	**148.3**
Total assets	**5,028.2**	**548.1**	**1,213.3**	**6,789.6**
Liabilities				
Due to other banks	440.3	164.5	94.9	**699.7**
Customer deposits	3,331.8	78.1	186.8	**3,596.7**
Liabilities of disposal group held for sale	–	–	8.5	**8.5**
Other borrowed funds	570.5	152.0	12.1	**734.6**
Debt securities issued	299.5	358.0	7.0	**664.5**
Deferred tax liability	9.1	–	0.9	**10.0**
Other liabilities	100.4	103.5	5.5	**209.4**
Subordinated debt	207.0	34.1	–	**241.1**
Total liabilities	**4,958.6**	**890.2**	**315.7**	**6,164.5**
Net balance sheet position	**69.6**	**(342.1)**	**897.6**	**625.1**
Net off-balance sheet position – Credit Related Commitments	**537.2**	**23.9**	**63.9**	**625.0**

38. Financial Risk Management (continued)

Geographical concentration (continued)

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2010 the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	*OECD*	*Other countries*	*Total*
Assets				
Cash and short-term funds	177.8	83.8	13.9	**275.5**
Mandatory cash balances with central banks	19.0	1.6	5.8	**26.4**
Financial assets at fair value through profit or loss	283.3	45.4	15.9	**344.6**
Financial assets pledged under repurchase agreements and loaned financial assets	11.5	5.0	0.4	**16.9**
Due from other banks	174.5	163.0	12.4	**349.9**
Loans and advances to customers	1,919.4	71.9	794.1	**2,785.4**
Financial assets available-for-sale	26.3	15.7	13.9	**55.9**
Investments in associates and joint ventures	11.8	2.1	1.8	**15.7**
Investment securities held-to-maturity	33.0	0.4	0.8	**34.2**
Premises and equipment	103.1	3.2	6.9	**113.2**
Investment property	101.4	–	0.8	**102.2**
Intangible assets	29.2	0.5	0.8	**30.5**
Deferred tax asset	32.0	4.3	1.6	**37.9**
Other assets	78.4	10.8	13.4	**102.6**
Total assets	**3,000.7**	**407.7**	**882.5**	**4,290.9**
Liabilities				
Due to other banks	275.9	81.0	40.4	**397.3**
Customer deposits	2,045.5	28.0	139.4	**2,212.9**
Other borrowed funds	63.5	114.7	7.5	**185.7**
Debt securities issued	251.5	338.9	2.7	**593.1**
Deferred tax liability	6.3	–	1.0	**7.3**
Other liabilities	54.3	53.5	3.1	**110.9**
Subordinated debt	195.3	10.2	–	**205.5**
Total liabilities	**2,892.3**	**626.3**	**194.1**	**3,712.7**
Net balance sheet position	**108.4**	**(218.6)**	**688.4**	**578.2**
Net off-balance sheet position – Credit Related Commitments	**229.8**	**12.7**	**22.5**	**265.0**

38. Financial Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, securities prices and other basic variables. The Group is exposed to market risks, which include securities portfolio price risk, currency risk and interest rate risk.

Interest rate risk exposure and sensitivity analysis

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of the decrease of interest income/increase of interest expense resulting from adverse changes of market interest rates.

The RD presents to the ALCO on a monthly basis a sensitivity analysis of the Group and of individual banks of the Group, including assets and liabilities, net present value sensitivity, VaR, CaR, Earnings-at-Risk and Net Interest Income analysis. To mitigate the interest rate risk the ALCO set up CaR limitations to cover interest rate risk of the Group as well as individual banks of the Group.

To mitigate interest rate risk the Treasury manages and hedges VTB's exposures by entering into interest rate derivative transactions within the limits and parameters set by the ALCO.

As at 31 December 2011 the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 months to 6 months*	*From 6 months to 1 year*	*From 1 year to 3 years*	*From 3 years to 5 years*	*More than 5 years*	*Total*
Assets								
Correspondent accounts with other banks	94.9	–	–	–	–	–	–	**94.9**
Corporate loans and advances to customers	396.7	497.6	430.2	411.2	871.6	462.7	119.4	**3,189.4**
Retail loans and advances to customers	14.1	21.2	29.6	60.2	251.3	157.0	232.7	**766.1**
Due from other banks	305.2	18.9	10.3	9.6	38.8	5.7	5.1	**393.6**
Reverse sale and repurchase agreements	64.8	50.7	1.3	31.1	–	–	–	**147.9**
Fixed income (quick assets)	0.6	5.4	86.4	14.5	45.4	51.6	49.1	**253.0**
Fixed income (low liquid or held-to-maturity financial assets)	15.2	12.0	8.1	37.0	25.5	69.2	340.0	**507.0**
Foreign exchange swaps	552.5	161.2	58.8	54.6	58.4	34.0	19.7	**939.2**
Interest rate derivative financial instruments	54.7	463.2	17.5	74.7	197.1	81.1	55.1	**943.4**
Other interest earning assets	0.2	–	1.0	–	–	–	–	**1.2**
Total assets	**1,498.9**	**1,230.2**	**643.2**	**692.9**	**1,488.1**	**861.3**	**821.1**	**7,235.7**
Liabilities								
Correspondent accounts and overnight deposits	262.2	8.0	2.7	6.3	6.3	9.8	–	**295.3**
Current/settlement deposits	723.3	0.3	0.3	0.2	–	–	–	**724.1**
Term deposits of legal entities and government bodies	818.7	433.6	149.1	222.0	150.3	8.6	312.9	**2,095.2**
Term deposits of individuals	67.2	105.2	123.2	166.3	383.5	31.2	12.9	**889.5**
Due to other banks	323.9	108.9	235.6	95.3	86.0	19.4	242.6	**1,111.7**
Reverse sale and repurchase agreements	21.5	161.4	0.5	–	–	–	–	**183.4**
Promissory notes issued	6.0	28.0	72.3	55.9	2.9	33.4	0.8	**199.3**
Bonds issued	2.6	7.2	9.0	104.5	175.2	120.4	61.0	**479.9**
Foreign exchange swaps	550.6	162.0	62.1	55.1	52.2	29.2	16.1	**927.3**
Interest rate derivative financial instruments	8.0	481.8	19.7	64.1	299.6	28.7	54.4	**956.3**
Other interest bearing liabilities	1.7	0.9	0.4	0.1	0.9	1.0	2.7	**7.7**
Total liabilities	**2,785.7**	**1,497.3**	**674.9**	**769.8**	**1,156.9**	**281.7**	**703.4**	**7,869.7**
Net repricing gap	**(1,286.8)**	**(267.1)**	**(31.7)**	**(76.9)**	**331.2**	**579.6**	**117.7**	**(634.0)**

38. Financial Risk Management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

As at 31 December 2010 the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 months to 6 months*	*From 6 months to 1 year*	*From 1 year to 3 years*	*From 3 years to 5 years*	*More than 5 years*	*Total*
Assets								
Correspondent accounts with other banks	87.3	–	–	–	–	–	–	**87.3**
Corporate loans and advances to customers	153.7	335.2	242.7	248.7	634.8	305.3	329.5	**2,249.9**
Retail loans and advances to customers	8.4	15.6	24.0	60.8	142.6	81.1	161.8	**494.3**
Due from other banks	222.2	25.9	5.5	14.6	2.6	3.7	1.6	**276.1**
Reverse sale and repurchase agreements	81.8	8.7	15.3	13.9	0.8	–	–	**120.5**
Fixed income (quick assets)	1.9	20.2	39.6	30.1	87.9	44.6	13.8	**238.1**
Fixed income (low liquid or held-to-maturity financial assets)	4.5	12.7	7.5	7.3	15.4	35.9	24.5	**107.8**
Foreign exchange swaps	317.4	87.4	21.1	32.1	53.0	2.6	18.7	**532.3**
Interest rate derivative financial instruments	54.1	301.2	17.1	10.1	91.9	73.4	27.5	**575.3**
Other interest earning assets	1.7	–	–	–	–	–	–	**1.7**
Total assets	**933.0**	**806.9**	**372.8**	**417.6**	**1,029.0**	**546.6**	**577.4**	**4,683.3**
Liabilities								
Correspondent accounts and overnight deposits	207.6	–	–	–	–	–	–	**207.6**
Current/settlement deposits	457.7	–	–	–	–	–	–	**457.7**
Term deposits of legal entities and government bodies	253.9	255.6	178.7	171.8	161.8	7.1	20.1	**1,049.0**
Term deposits of individuals	45.9	68.0	63.1	120.9	281.9	18.1	6.6	**604.5**
Due to other banks	82.0	104.0	59.6	45.5	58.6	22.0	228.6	**600.3**
Reverse sale and repurchase agreements	13.5	2.5	3.5	1.1	–	–	–	**20.6**
Promissory notes issued	15.5	39.1	15.9	41.7	8.9	–	0.1	**121.2**
Bonds issued	1.1	26.2	29.5	119.1	201.1	73.1	30.5	**480.6**
Foreign exchange swaps	316.6	86.7	21.5	32.0	54.3	2.8	15.2	**529.1**
Interest rate derivative financial instruments	5.2	292.8	17.2	10.0	127.4	97.3	27.5	**577.4**
Other interest bearing liabilities	1.3	0.9	0.4	0.1	0.3	0.3	1.5	**4.8**
Total liabilities	**1,400.3**	**875.8**	**389.4**	**542.2**	**894.3**	**220.7**	**330.1**	**4,652.8**
Net repricing gap	**(467.3)**	**(68.9)**	**(16.6)**	**(124.6)**	**134.7**	**325.9**	**247.3**	**30.5**

38. Financial Risk Management (continued)

Interest rate sensitivity analysis

The interest rate sensitivities set out in the tables below represent an effect on the historical net interest income for one-year period in case of a parallel shift in all yield curves. The calculations are based on the Group's actual interest rate risk exposures at the relevant reporting dates.

Interest rate sensitivity analysis as at 31 December 2011 as an effect on net interest income is as follows.

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	249	(19.6)	(249)	19.6
USD	15	(0.1)	(15)	0.1
EUR	15	0.2	(15)	(0.2)
GBP	17	–	(17)	–
Other	15	(0.1)	(15)	0.1
Total		**(19.6)**		**19.6**

Interest rate sensitivity analysis as at 31 December 2010 as an effect on net interest income is as follows.

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	100	(2.2)	(75)	1.6
USD	100	0.4	(25)	(0.1)
EUR	100	0.5	(25)	(0.1)
GBP	100	0.1	(25)	–
Other	100	0.1	(25)	–
Total		**(1.1)**		**1.4**

The total interest rate sensitivity, disclosed in the above tables, is attributable to assets and liabilities sensitive to possible changes of interest rates except current/settlement customer accounts. Management considers sensitivity of these accounts to fluctuations of interest rates in the financial market as low based on historical performance and competitive environment. The Group uses, and has access to, a number of market instruments, including IRS, to manage its interest rate sensitivity and repricing gaps.

Currency risk and VaR analysis

The Group is exposed to currency risk. Currency risk arises from open positions in foreign currencies and adverse movements of market exchange rates that may have a negative impact on financial performance of the Group.

The Group manages its currency risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within established limits. For VTB Bank, such limits include internal VaR limits for open currency position (OCP) and stop-loss limits set by the ALCO for trading operations and regulatory OCP limits set by the CBR.

The RD of VTB performs VaR evaluations, analyses the structure of open currency positions and prepares reports for the ALCO on a monthly basis. The ALCO approves the methodology of the currency risk analysis, management and control procedures and sets limits on open currency positions. The Treasury manages and hedges VTB's currency positions on a daily basis by entering into foreign exchange spot and forward/option transactions within the limits set by the ALCO. Compliance with these limits and the relevant CBR limits is monitored by the Bank on a daily basis.

VTB measures its currency risk exposures by using VaR approach. It estimates the largest potential negative effect in pre-tax profit due to changes in value of foreign currency denominated positions over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk measurement.

38. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. Even though positions may change throughout the day, the VaR only represents the risk of the open currency positions at the close of the reporting dates, and it does not account for any losses that may occur beyond the 99% confidence level. The use of ten-day holding period assumes as well that all positions can be liquidated or hedged in 10 business days. In practice, the actual effect on profit or loss before tax will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

The VaR model used by the Group is based on the historical simulation approach, which incorporates exchange rates interdependency. When calculating VaR the following parameters and assumptions were used:

- Currency exposures of the Group on the relevant reporting dates;
- Historical data on exchange rates for the last 2 years;
- 99% confidence level;
- 10 business days holding period.

As at 31 December 2011 and 2010, the Group had the following exposures to currency risk, which include balance sheet positions and off-balance sheet foreign currency derivatives positions against RUR (open positions).

	Open positions	
Currency	***31 December 2011***	***31 December 2010***
USD	(27.1)	(8.2)
EUR	1.1	(2.4)
GBP	4.2	0.2
CHF	(16.9)	(1.5)
JPY	(0.8)	–
UAH	41.9	30.5
GEL	2.7	2.5
A98	2.4	–
AMD	1.6	1.7
AZN	0.9	0.9
SGD	0.8	(0.2)
SEK	(0.7)	–
RSD	0.7	–
CNY	(0.6)	0.1
TRY	–	0.6
BYR	0.5	1.1
AOA	0.4	0.2
HKD	0.3	–
AUD	(0.3)	(0.9)
NOK	0.2	–
KZT	(0.2)	0.4
A99	(0.1)	–
Other	0.1	0.1
Total	**11.1**	**25.1**

As at 31 December 2011 and 2010, the Group had the following VaR for its foreign currency positions:

	31 December 2011	***31 December 2010***
Open currency position	11.1	25.1
Value at Risk	1.0	3.9

The VaR figures above take into account all currencies with exposures over RUR 100 million.

38. Financial Risk Management (continued)

Price risk

The Group is exposed to market risk of its securities portfolio, which is the risk of loss resulting from changes in market quotes of securities.

The RD reports on a weekly basis to the ALCO on price risk exposures and VaR analysis. To mitigate price risk ALCO sets exposure limits, VAR-limits and stop-loss limits for particular equity, transactions types and assets types. Exposure limits for particular debt securities are set by the Credit Committee.

VTB measures its securities portfolio risk exposures using VaR measurement of risk. The basic assumptions applicable to the calculation of VaR for currency risk, as described above, are also applicable for the calculation of VaR for securities portfolio market risk.

Parameters for VaR calculation are following:

- look-back period – 1 year;
- holding period – 10 trading days;
- confidence level – 99%;
- method – historical simulation.

Due to limited liquidity of the Russian market of corporate fixed income instruments (typical for emerging markets), historical quotes were chosen according to the following methodology.

Original historical data is used for instruments with quotes history at least for 100 days and not more than 10 successive days without quotes and the issue date of the instrument is as early as the reporting year.

Quote history of proxy instruments are used to estimate the VaR for less liquid securities which do not meet those requirements. Proxy instrument should fulfill following criteria:

- proxy instrument should be the same type of financial instruments as original security;
- issuer country and industry of proxy instrument has to be the same as original security and credit rating should be close to the original security rating;
- currencies of proxy instrument and original security have to coincide;
- the durations of the proxy instrument and the original one should be comparable.

Approximately one fourth of the portfolio by volume was interchanged by proxy instruments for VaR evaluation.

During 2011 the Bank enhanced its Risk valuation software through the implementation of Kamakura Risk Manager.

Total Group's VaR for 2011 with diversification amounts to RUR 19.0 billion (2010: RUR 11.9 billion).

Financial assets at fair value through profit or loss

	31 December 2011	*31 December 2010*
Debt securities	4.1	2.4
Equity securities	14.3	9.7
Commodities	3.0	–
Portfolio of financial assets at fair value through profit or loss	**14.6**	**12.1**

Financial assets available-for-sale

	31 December 2011	*31 December 2010*
Debt securities	0.9	0.2
Equity securities	5.6	0.5
Portfolio of financial assets available-for-sale	**5.0**	**0.5**

38. Financial Risk Management (continued)

Sensitivity analysis

Sensitivity analysis for low-liquid instruments, non-quoted securities was performed for the following market indicators:

- for fixed income securities – volatility of yield curve for similar instruments in the same currency for period of 12 months (or in absence of such instruments, approximations based on expert opinion);
- for shares – volatility of main stock exchange indices for period of 12 months (or in absence of such instruments, approximations based on expert opinion).

Interest rate shifts differ from the net interest income sensitivity analysis due to the structure and the maturity of the portfolio used for the low-liquid instruments sensitivity analysis.

The Group's interest rate sensitivity analysis is applicable to all assets and liabilities sensitive to interest rate.

Market value sensitivity figures on debt financial assets were as follows as at 31 December 2011:

Currency	*Interest rate increase, b.p.*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	657	–	(0.0)
EUR	15	(0.0)	(0.0)
RUR	249	(0.1)	(0.0)
UAH	1,528	(0.0)	–
USD	15	(0.0)	(0.0)
Total		**(0.1)**	**(0.0)**

Currency	*Interest rate decrease, b.p.*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	657	–	0.0
EUR	15	0.0	0.0
RUR	249	0.1	0.0
UAH	358	0.0	–
USD	15	0.0	0.0
Total		**0.1**	**0.0**

As at 31 December 2011 market value sensitivity figures on equity financial assets were as follows:

Country	*Currency*	*Index*	*Index change*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
Russia	RUR	MICEX	48.22%	(1.1)	43.9
USA	USD	S&P 500	29.73%	1.3	0.2
Great Britain	GBP	FTSE100	28.27%	0.9	0.0
Total				**1.1**	**44.1**

Country	*Currency*	*Index*	*Index change*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
Russia	RUR	MICEX	(48.22%)	1.1	(43.9)
USA	USD	S&P 500	(29.73%)	(1.3)	(0.2)
Great Britain	GBP	FTSE100	(28.27%)	(0.9)	(0.0)
Total				**(1.1)**	**(44.1)**

38. Financial Risk Management (continued)

Sensitivity analysis (continued)

Market value sensitivity figures on debt financial assets were as follows as at 31 December 2010:

Currency	*Interest rate increase, b.p.*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	1,825	–	(0.1)
AZN	679	(0.0)	–
BYR	800	(0.0)	(0.0)
EUR	100	(0.5)	(0.0)
GEL	2,695	(0.1)	–
KZT	3,863	(0.1)	–
RUR	100	(0.5)	(0.0)
UAH	2,859	–	(0.7)
USD	100	(0.4)	(0.1)
Total		**(1.6)**	**(0.9)**

Currency	*Interest rate decrease, b.p.*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	1,825	–	0.1
AZN	679	0.0	–
BYR	800	0.0	0.0
EUR	100	0.1	0.0
GEL	2,695	0.1	–
KZT	3,863	0.1	–
RUR	100	0.3	0.0
UAH	2,859	–	0.7
USD	100	0.1	0.0
Total		**0.7**	**0.8**

As at 31 December 2010 market value sensitivity figures on equity financial assets were as follows:

Country	*Currency*	*Index*	*Index change*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
EU	EUR	FTSE	18.3%	(0.0)	0.2
Russia	RUR	MICEX	23.4%	0.4	4.1
USA	USD	DJ	18.1%	(0.0)	0.5
Great Britain	GBP	FTSE100	17.4%	0.0	–
Ukraine	UAH	PFTS	31.6%	0.0	0.4
Total				**0.4**	**5.2**

Country	*Currency*	*Index*	*Index change*	*Sensitivity of profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
EU	EUR	FTSE	(18.3%)	0.0	(0.2)
Russia	RUR	MICEX	(23.4%)	(0.4)	(4.1)
USA	USD	DJ	(18.1%)	0.0	(0.5)
Great Britain	GBP	FTSE100	(17.4%)	(0.0)	–
Ukraine	UAH	PFTS	(31.6%)	(0.0)	(0.4)
Total				**(0.4)**	**(5.2)**

38. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis

Liquidity risk is a risk resulting from inability of the Group to meet in full its obligations when they fall due and without borrowing funds at rates higher than market rates. The Group's exposure to liquidity risk arises due to a mismatch of maturities of assets and liabilities.

Liquidity risk management within the Group is carried out at two main levels:

- Bank/company level: Each bank / company of the Group manages its liquidity on an individual basis to meet its obligations and to comply with the requirements of its national regulator and standards of the Group.
- Group level: Liquidity of the Group is managed on the basis of centralized control and management of key activities of the Group including:
  - universal policy and approaches to liquidity management, including hedging;
  - integrated methodology of liquidity risk;
  - centralized system of on-going reporting and data warehousing.

The tools used by VTB for measurement, management and mitigation of liquidity risk include:

- Contractual maturity analysis(gap analysis) and cash flow forecasts including:
  - planned transactions;
  - forecasted roll-over of clients' funds (deposits and promissory notes);
  - possible outflow of unstable "on-demand" funds (clients' current accounts);
- Analysis of deposit base concentration;
- Stress-test analysis;
- Setting of internal liquidity indicators/limits, including (1) the minimum amount of highly liquid assets to cover possible outflow of resources on demand/one day and other short-term liabilities (up to 30 days); (2) Treasury portfolio limits which are monitored on a daily basis;
- Allocation and utilization of securities from Treasury portfolio, which provide financing from the CBR through reverse repo operations and help manage short-term liquidity; and
- Development of emergency plans (funding contingency plans).

VTB and other banks of the Group are also subject to liquidity requirements set by regulatory authorities, including those set by the CBR in the form of prudential ratios.

The RD analyses the liquidity position of the Group and prepares liquidity forecasts and recommendations for ALCO on a monthly basis. VTB's Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities and prepares information on short-term liquidity of the Bank and reports to the ALCO on a weekly basis.

The Inflow column in the tables below includes gross amounts to be received by the Group within a certain time band upon maturities/redemptions of financial instruments (assets/claims). Outflow column includes gross amounts to be repaid by the Group in a certain time band upon maturities/redemptions of financial instruments (liabilities/obligations except current and settlement accounts). Gap represents the difference between Inflow and Outflow columns. Gap Cumulative column represents the cumulative gap. FX Swap Cumulative column represents the cumulative gaps on foreign exchange swaps. Dynamic Gap (total) Cumulative column represents the cumulative gap including FX Swap Cumulative. Opening balance represents highly liquid assets, which mostly consist of cash and Nostro accounts with other banks.

38. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As at 31 December 2011, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	*Inflow*	*Outflow*	*Gap*	*Gap Cumulative*	*FX Swap Cumulative*	*Dynamic Gap (total) Cumulative*
RUR positions						
Opening balance	–	–	285.9	285.9	–	285.9
Up to 1 month	358.8	(879.9)	(521.1)	(235.2)	105.5	(129.7)
From 1 to 3 months	228.3	(717.5)	(489.2)	(724.4)	98.5	(625.9)
From 3 months to 1 year	1,009.4	(678.0)	331.4	(393.0)	101.4	(291.6)
From 1 to 3 years	1,396.8	(486.9)	909.9	516.9	40.5	557.4
More than 3 years	1,852.6	(891.0)	961.6	1,478.5	10.1	1,488.6
Other currency positions						
Opening balance	–	–	150.8	150.8	–	150.8
Up to 1 month	609.8	(745.4)	(135.6)	15.2	(108.1)	(92.9)
From 1 to 3 months	213.8	(227.7)	(13.9)	1.3	(101.3)	(100.0)
From 3 months to 1 year	888.7	(951.2)	(62.5)	(61.2)	(106.7)	(167.9)
From 1 to 3 years	1,278.0	(1,178.1)	99.9	38.7	(46.6)	(7.9)
More than 3 years	811.5	(639.1)	172.4	211.1	(8.8)	202.3
Total						
Opening balance	–	–	436.7	436.7	–	436.7
Up to 1 month	968.6	(1,625.3)	(656.7)	(220.0)	(2.6)	(222.6)
From 1 to 3 months	442.1	(945.2)	(503.1)	(723.1)	(2.8)	(725.9)
From 3 months to 1 year	1,898.1	(1,629.2)	268.9	(454.2)	(5.3)	(459.5)
From 1 to 3 years	2,674.8	(1,665.0)	1,009.8	555.6	(6.1)	549.5
More than 3 years	2,664.1	(1,530.1)	1,134.0	1,689.6	1.3	1,690.9

Management believes that in spite of a substantial portion of customer accounts being on demand or short-term, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Also portfolios of Treasury and Trading securities could be used for short-term liquidity management through reverse sale and repurchase operations.

VTB Group medium-term liquidity needs are managed through interbank and customer deposits (new borrowings and renewal of existing deposits), repurchase agreements and in the form of CBR collateralized loans (against corporate loans or securities) which allow the Bank to reduce the negative medium-term liquidity gaps.

VTB Group has a number of additional funding facilities available to bridge negative medium term liquidity gaps such as Eurobonds (EMTN) and domestic stock exchange traded bonds.

Currency mismatches in the structure of liquidity gaps are managed with the use of foreign exchange swaps (FX Swaps).

38. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As at 31 December 2010, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	_Inflow_	_Outflow_	_Gap_	_Gap Cumulative_	_FX Swap Cumulative_	_Dynamic Gap (total) Cumulative_
RUR positions						
Opening balance	–	–	158.1	158.1	–	158.1
Up to 1 month	425.2	(499.7)	(74.5)	83.6	(13.2)	70.4
From 1 to 3 months	160.7	(293.7)	(133.0)	(49.4)	(14.6)	(64.0)
From 3 months to 1 year	587.9	(437.5)	150.4	101.0	(25.1)	75.9
From 1 to 3 years	814.8	(465.8)	349.0	450.0	(70.8)	379.2
More than 3 years	1,049.5	(409.3)	640.2	1,090.2	(64.5)	1,025.7
Other currency positions						
Opening balance	–	–	117.3	117.3	–	117.3
Up to 1 month	573.9	(613.9)	(40.0)	77.3	14.1	91.4
From 1 to 3 months	209.5	(215.5)	(6.0)	71.3	16.5	87.8
From 3 months to 1 year	439.3	(614.6)	(175.3)	(104.0)	25.9	(78.1)
From 1 to 3 years	964.3	(899.7)	64.6	(39.4)	69.5	30.1
More than 3 years	515.6	(390.4)	125.2	85.8	62.5	148.3
Total						
Opening balance	–	–	275.4	275.4	–	275.4
Up to 1 month	999.1	(1,113.6)	(114.5)	160.9	0.9	161.8
From 1 to 3 months	370.2	(509.2)	(139.0)	21.9	1.9	23.8
From 3 months to 1 year	1,027.2	(1,052.1)	(24.9)	(3.0)	0.8	(2.2)
From 1 to 3 years	1,779.1	(1,365.5)	413.6	410.6	(1.3)	409.3
More than 3 years	1,565.1	(799.7)	765.4	1176.0	(2.0)	1,174.0

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2011 by their remaining contractual maturity.

	On demand and up to 1 month	_From 1 month to 3 months_	_From 3 month to 6 months_	_From 6 months to 1 year_	_More than 1 year_	_Total_
Non-derivative liabilities						
Due to other banks	474.8	68.8	29.4	96.1	66.9	**736.0**
Customer deposits	1,921.5	461.0	221.8	520.9	571.2	**3,696.4**
Other borrowed funds	76.8	192.0	170.8	18.0	467.4	**925.0**
Debt securities issued	8.3	44.7	87.8	155.5	534.6	**830.9**
Subordinated debt	0.1	3.7	3.6	8.9	375.3	**391.6**
Other liabilities	22.7	8.3	1.1	36.0	–	**68.1**
Total cash flows payable under non-derivative liabilities	**2,504.2**	**778.5**	**514.5**	**835.4**	**2,015.4**	**6,648.0**
Derivative liabilities						
Negative fair value	9.3	8.2	8.1	6.7	49.2	**81.5**
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(165.5)	(161.8)	(61.6)	(72.2)	(358.9)	**(820.0)**
Outflow	165.0	156.7	58.0	65.9	317.0	**762.6**
Negative fair value of derivatives						
(Inflow)	(303.8)	(150.8)	(105.5)	(104.6)	(481.5)	**(1,146.2)**
Outflow	309.7	155.9	111.7	109.7	518.4	**1,205.4**
Derivative financial instruments – net settled						
(Inflow)	(2.2)	(3.2)	(1.4)	(4.6)	(10.1)	**(21.5)**
Outflow	3.0	3.2	1.9	1.6	12.6	**22.3**
Credit related commitments	**626.1**	**–**	**–**	**–**	**–**	**626.1**

38. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2010 by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Total*
Non-derivative liabilities						
Due to other banks	302.6	17.3	23.4	9.8	89.2	**442.3**
Customer deposits	952.5	303.4	236.2	268.9	542.8	**2,303.8**
Other borrowed funds	2.8	42.6	46.0	25.5	75.8	**192.7**
Debt securities issued	19.5	47.1	44.6	147.5	470.1	**728.8**
Subordinated debt	–	3.6	3.4	8.2	342.3	**357.5**
Other liabilities	13.5	3.6	6.7	5.7	–	**29.5**
Total cash flows payable	**1,290.9**	**417.6**	**360.3**	**465.6**	**1,520.2**	**4,054.6**
Derivative liabilities						
Negative fair value	4.3	3.6	2.4	6.3	19.4	**36.0**
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(195.5)	(102.3)	(79.3)	(85.3)	(198.9)	**(661.3)**
Outflow	193.3	96.7	76.0	83.3	185.5	**634.8**
Negative fair value of derivatives						
(Inflow)	(175.0)	(40.2)	(49.3)	(358.0)	(177.1)	**(799.6)**
Outflow	176.8	41.7	50.0	358.9	184.7	**812.1**
Derivative financial instruments – net settled						
(Inflow)	(1.9)	(2.9)	(1.5)	(3.4)	(2.7)	**(12.4)**
Outflow	2.5	2.1	1.7	5.4	11.8	**23.5**
Credit related commitments	**266.6**	**–**	**–**	**–**	**–**	**266.6**

A significant portion of liabilities of the Group is represented by customer term deposits and promissory notes, current accounts of corporate and retail customers, bonds, Eurobonds and syndicated loans.

Management believes that although a substantial portion of customer deposits are on demand and mature in less than one month, diversification of these deposits by number and type of depositors, and the past experience of the Group indicates that these deposits provide a long-term and stable source of funding for the Group. Therefore, an essential part of current accounts is considered as stable resources for the purposes of liquidity analysis and management. The stable part of resources on demand is statistically determined for separate currencies and based on the dynamics of the on these cumulative balances accounts.

38. Financial Risk Management (continued)

Current and non-current assets and liabilities

Assets or liabilities are classified as current if they are expected to be recovered or settled within 12 months after the reporting date.

The table below shows assets and liabilities at 31 December 2011 by their remaining contractual maturity.

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	407.0	–	–	**407.0**
Mandatory cash balances with central banks	60.1	11.8	–	**71.9**
Financial assets at fair value through profit or loss	550.9	8.7	11.9	**571.5**
Financial assets pledged under repurchase agreements and loaned financial assets	2.1	196.5	–	**198.6**
Due from other banks	400.0	24.3	0.3	**424.6**
Loans and advances to customers	1,390.7	2,838.1	72.8	**4,301.6**
Assets of disposal group held for sale	10.3	–	–	**10.3**
Financial assets available-for-sale	9.9	22.0	135.8	**167.7**
Investments in associates and joint ventures	–	–	32.5	**32.5**
Investment securities held-to-maturity	30.8	1.6	–	**32.4**
Premises and equipment	–	–	116.8	**116.8**
Investment property	–	–	122.5	**122.5**
Intangible assets and goodwill	–	–	141.2	**141.2**
Deferred tax asset	–	–	42.7	**42.7**
Other assets	71.3	48.8	28.2	**148.3**
Total assets	**2,933.1**	**3,151.8**	**704.7**	**6,789.6**
Liabilities				
Due to other banks	660.2	39.5	–	**699.7**
Customer deposits	2,967.0	629.7	–	**3,596.7**
Liabilities of disposal group held for sale	8.5	–	–	**8.5**
Other borrowed funds	447.0	287.6	–	**734.6**
Debt securities issued	264.8	399.7	–	**664.5**
Deferred tax liability	–	–	10.0	**10.0**
Other liabilities	150.6	49.6	9.2	**209.4**
Subordinated debt	0.3	240.8	–	**241.1**
Total liabilities	**4,498.4**	**1,646.9**	**19.2**	**6,164.5**

Management believes that although equity securities included in financial assets held for trading category have no contractual maturity these equity securities could be sold in less than one year and therefore they are included in respective contractual maturity category. Debt securities included in financial assets held for trading category are also classified as instruments with contractual maturity less than one year as Management believes that these debt securities could be sold in less than one year and it has no intentions to hold these debt securities until maturity.

38. Financial Risk Management (continued)

Current and non-current assets and liabilities (continued)

The table below shows assets and liabilities at 31 December 2010 by their remaining contractual maturity.

	Less than 1 year	***More than 1 year***	***Overdue, maturity undefined***	***Total***
Assets				
Cash and short-term funds	275.5	–	–	**275.5**
Mandatory cash balances with central banks	21.9	4.5	–	**26.4**
Financial assets at fair value through profit or loss	324.1	13.8	6.7	**344.6**
Financial assets pledged under repurchase agreements and loaned financial assets	10.6	6.3	–	**16.9**
Due from other banks	319.6	29.9	0.4	**349.9**
Loans and advances to customers	778.5	1,932.0	74.9	**2,785.4**
Financial assets available-for-sale	18.7	8.4	28.8	**55.9**
Investments in associates and joint ventures	–	–	15.7	**15.7**
Investment securities held-to-maturity	2.2	32.0	–	**34.2**
Premises and equipment	–	–	113.2	**113.2**
Investment property	–	–	102.2	**102.2**
Intangible assets and goodwill	–	–	30.5	**30.5**
Deferred tax asset	–	–	37.9	**37.9**
Other assets	47.7	26.8	28.1	**102.6**
Total assets	**1,798.8**	**2,053.7**	**438.4**	**4,290.9**
Liabilities				
Due to other banks	342.9	54.4	–	**397.3**
Customer deposits	1,712.5	500.4	–	**2,212.9**
Other borrowed funds	114.5	71.2	–	**185.7**
Debt securities issued	223.2	369.9	–	**593.1**
Deferred tax liability	–	–	7.3	**7.3**
Other liabilities	73.8	31.1	6.0	**110.9**
Subordinated debt	–	205.5	–	**205.5**
Total liabilities	**2,466.9**	**1,232.5**	**13.3**	**3,712.7**

39. Fair Values of Financial Instruments

The following table presents a fair value of financial instruments in comparison with its carrying amount as at 31 December 2011 and 2010:

	31 December 2011		***31 December 2010***	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Financial assets				
Cash and short-term funds	*407.0*	*407.0*	*275.5*	*275.5*
Financial assets at fair value through profit or loss	*571.5*	*571.5*	*344.6*	*344.6*
Financial assets pledged under repurchase agreements and loaned financial assets	*198.6*	*198.6*	*16.9*	*16.9*
Due from other banks	***424.6***	***424.6***	***349.9***	***350.0***
Russia	170.0	170.1	174.5	174.6
OECD	204.6	204.4	163.0	163.0
Other	50.0	50.1	12.4	12.4
Loans and advances to customers	***4,301.6***	***4,339.0***	***2,785.4***	***2,886.8***
Loans to legal entities	3,522.3	3,550.4	2,281.7	2,364.2
Loans to individuals	779.3	788.6	503.7	522.6
Financial assets available-for-sale	*167.7*	*167.7*	*55.9*	*55.9*
Investment securities held-to-maturity	*32.4*	*31.8*	*34.2*	*34.2*
Other financial assets	*17.5*	*17.5*	*21.9*	*21.9*
Financial liabilities				
Due to other banks	*699.7*	*703.6*	*397.3*	*397.3*
Customer deposits	***3,596.7***	***3,577.8***	***2,212.9***	***2,237.0***
Deposits of legal entities	2,435.3	2,433.8	1,465.0	1,473.9
Deposits of individuals	1,161.4	1,144.0	747.9	763.1
Other borrowed funds	*734.6*	*725.7*	*185.7*	*183.3*
Debt securities issued	*664.5*	*652.3*	*593.1*	*603.2*
Subordinated debt	*241.1*	*238.5*	*205.5*	*205.1*
Other financial liabilities	*149.6*	*149.6*	*65.5*	*65.5*

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2011:

	Level 1	***Level 2***	***Level 3***	***Total***
Financial assets				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading	408.1	52.0	1.7	**461.8**
Financial assets designated as at fair value through profit or loss	19.1	1.9	9.8	**30.8**
Trading Derivative financial instruments	*10.2*	*68.0*	*0.7*	***78.9***
Hedging Derivative financial instruments	*–*	*0.5*	*–*	***0.5***
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	3.4	–	–	**3.4**
Financial assets designated as at fair value through profit or loss	4.1	0.1	–	**4.2**
Financial assets available-for-sale	1.7	0.6	–	**2.3**
Financial assets available-for-sale	*20.6*	*97.7*	*49.4*	***167.7***
Financial liabilities				
Trading Derivative financial instruments	*(9.7)*	*(71.6)*	*(0.2)*	***(81.5)***
Other financial liabilities	–	–	(21.1)	**(21.1)**

39. 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 2010:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading	261.1	17.2	2.8	**281.1**
Financial assets designated as at fair value through profit or loss	23.0	1.2	0.4	**24.6**
Trading Derivative financial instruments	*0.4*	*37.5*	*1.0*	***38.9***
Hedging Derivative financial instruments	–	*0.6*	–	***0.6***
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	7.5	–	–	**7.5**
Financial assets designated as at fair value through profit or loss	1.0	2.4	–	**3.4**
Financial assets available-for-sale	4.7	–	–	**4.7**
Financial assets available-for-sale	*25.5*	*7.6*	*22.8*	***55.9***
Financial liabilities				
Trading Derivative financial instruments	*(0.6)*	*(35.4)*	–	***(36.0)***

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 and foreign exchange rates. A significant portion of the available-for-sale financial assets in Level 3 is invested in shares of a non-listed companies which are valued based on non-market observable information. Changes in assumptions can lead to adjustments in the fair value of the investment.

Movement in Level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2011 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***	***Financial derivative assets and liabilities (net)***	***Other financial liabilities***
Fair value at 1 January 2011	***2.8***	***0.4***	***22.8***	***1.0***	***–***
Gains less losses / (losses net of gains) recognized in profit or loss for the year	–	2.5	2.4	(0.5)	(1.0)
Losses net of gains recognized in other comprehensive income	–	–	(0.1)	–	–
Initial recognition (purchase or issue)	0.3	9.1	29.9	–	(21.9)
Derecognition (sale or settlement)	(1.2)	(1.8)	(11.3)	–	1.8
Acquisition of subsidiary	2.1	–	7.7	–	–
Transfers into level 3	–	–	0.2	–	–
Transfers out of level 3	(2.3)	(0.4)	(2.2)	–	–
Fair value at 31 December 2011	**1.7**	**9.8**	**49.4**	**0.5**	**(21.1)**
Unrealized gains less losses / (losses net of gains) recognized in profit or loss or other comprehensive income for the current period for assets and liabilities held at 31 December 2011	***–***	***2.4***	***(1.6)***	***0.5***	***(1.0)***

39. Fair Values of Financial Instruments (continued)

Movement in Level 3 financial instruments measured at fair value (continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2010 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*	*Financial derivative assets and liabilities (net)*
Fair value at 1 January 2010	–	***1.6***	***18.1***	***1.0***
Losses net of gains recognized in profit or loss for the year	–	(0.5)	–	–
Gains less losses recognized in other comprehensive income	–	–	0.2	–
Initial recognition (purchase or issue)	0.3	–	2.0	–
Derecognition (sale or settlement)	(0.3)	(0.7)	(0.5)	–
Acquisition of subsidiary	2.7	–	5.4	–
Eliminated at consolidation	–	–	(2.6)	–
Transfers into level 3	0.1	–	0.2	–
Fair value at 31 December 2010	***2.8***	***0.4***	***22.8***	***1.0***
Unrealized gains less losses recognized in profit or loss or other comprehensive income for the current period for assets and liabilities held at 31 December 2010	**–**	***(0.5)***	***0.2***	**–**

Methods and assumptions for Level 2 and Level 3 financial assets

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 modeling (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.

The fair value of financial assets at fair value through profit or loss, available for sale and derivative financial instruments valued according to Level 3 models was estimated based on DCF (discounted cash flows) method and peer based method. Peer based method is based on comparing certain financial ratios or multiples, such as the price to book value, price to earnings, EV/EBITDA, etc., of the equity in question to those of its peers. This type of approach, which is popular as a strategic tool in the financial industry, is mainly statistical and based on historical data. Main assumptions used in Level 3 models were short-term revenue projections (one year), cost of equity, liquidity discount, cost of debt and net margin fall forecast. The sensitivity to valuation assumptions disclosed below represents by how much the fair value could increase or decrease had management used reasonably possible alternative valuation assumptions that are not based on observable market data.

Sensitivity analysis to changes of key assumptions for financial instruments valued using Level 3 models

As at 31 December 2011, financial assets available-for-sale for the amount of RUR 49.4 billion were valued based on valuation models by using the peer based valuations, discounted cash flow or combinations of these two methods and others. The assumptions related to projections of discounted cash flows in the model up to 2015 were in the following range:

- WACC is 10.1-17.6%;
- Terminal Growth rate is 2-5%;
- Liquidity discount applied to the valuation is 0-33%.

39. Fair Values of Financial Instruments (continued)

Sensitivity analysis to changes of key assumptions for financial instruments valued using Level 3 models (continued)

If the Group had used other reasonably possible alternative assumptions at 31 December 2011, the fair value of the above equity securities valued based on valuation models, would have been in the range from RUR 43.6 billion to RUR 58.3 billion.

As at 31 December 2010, financial assets available-for-sale for the amount of RUR 22.8 billion were valued based on valuation models by using the peer based valuations model and discounted cash flow method. The average assumptions related to projections of discounted cash flows in the model up to 2013 were the following:

- WACC is 15.9%;
- Cost of debt is 10%;
- Net margin is 0.0001% less every next year;
- Liquidity discount applied to the valuation is 30%.

If the Group had used other reasonably possible alternative assumptions at 31 December 2010, the fair value of the above equity securities valued based on valuation models, would have been in the range from RUR 21.8 billion to RUR 23.4 billion.

Transfers between levels

During the period ended 31 December 2011 the Group transferred financial assets designated as at fair value through profit or loss and financial assets available-for-sale from Level 3 to Level 2 of the fair value hierarchy in the carrying amount of RUR 2.3 billion. The remaining amount of RUR 0.3 billion was reclassified to investments in associates. The Group transferred financial assets held for trading from Level 3 to Level 2 in the amount of RUR 2.3 billion. The reason for the transfers from Level 3 to Level 2 is that inputs to the valuation models became observable. Prior to transfer, the fair value of the instruments was determined incorporating significant non market-observable inputs.

During the period ended 31 December 2011 the financial assets held for trading were transferred from Level 1 to Level 2 in the amount of RUR 11.2 billion as they became estimated on the market internal model basis. Previously their fair values were determined using market quotes.

There have been no transfers from Level 2 to Level 1 during the period ended 31 December 2011.

During 2010 the financial assets designated as at fair value through profit or loss for the total amount of RUR 5.0 billion were transferred from Level 2 to Level 1 as they became actively traded during the year and fair values were consequently determined using market quotes.

There have been no transfers between Level 1 and Level 2 in 2010.

40. 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. A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

40. Related Party Transactions (continued)

Transactions and balances with related parties comprise transactions and balances with Russian government-related entities and associates and joint ventures and are stated in the tables below:

Statements of financial position

	31 December 2011		*31 December 2010*	
	Government-related entities	***Associates and joint ventures***	***Government-related entities***	***Associates and joint ventures***
Assets				
Cash and short-term funds	174.4	–	104.8	–
Mandatory reserve deposits with central banks	58.7	–	19.0	–
Financial assets at fair value through profit or loss	308.0	–	164.2	–
Financial assets pledged under repurchase agreements and loaned financial assets	191.4	–	9.0	–
Due from other banks	97.1	2.1	82.8	3.7
Loans and advances to customers	778.7	27.0	391.7	12.4
Allowance for loan impairment	(20.3)	(0.6)	(16.9)	(1.6)
Financial assets available-for-sale	19.4	–	8.3	0.3
Investment securities held-to-maturity	31.6	–	32.7	–
Liabilities				
Due to other banks	176.0	0.3	75.5	1.3
Customer deposits	1,276.5	8.4	565.8	3.5
Other borrowed funds	558.7	–	170.2	–
Subordinated debt	207.0	–	195.3	–
Other liabilities	35.6	0.2	1.1	–
Credit Related Commitments				
Guarantees issued	238.7	1.6	137.7	0.7
Undrawn credit lines	1.8	–	4.5	–
Import letters of credit	4.2	–	2.8	–

Income statements

	2011	***2010***
Interest income		
Loans and advances to customers	39.8	40.5
Securities	18.4	15.5
Due from other banks	3.0	2.3
Interest expense		
Customer deposits	(36.3)	(23.5)
Due to other banks and other borrowed funds	(9.2)	(7.0)
Subordinated debt	(16.4)	(16.6)
(Provision for) / recovery of impairment	(2.4)	3.4

For the period ended 31 December 2011, the total remuneration of the key management personnel of the Group including pension contributions amounted to RUR 5.7 billion (31 December 2010: RUR 3.8 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 31 December 2011 amounted to RUR 0.4 billion (31 December 2010: RUR 0.5 billion). Compensation to key management personnel primarily consists of short term employee benefits.

41. Consolidated Subsidiaries

The principal subsidiaries, associates and joint ventures included in these consolidated financial statements are presented in the table below:

Name	Activity	Country of registration	Percentage of ownership 31 December 2011	Percentage of ownership 31 December 2010
“VTB Bank (Austria)” AG	Banking	Austria	100.00%	100.00%
“Russian Commercial Bank (Cyprus) Limited”	Banking	Cyprus	60.00%	60.00%
“VTB Bank”, PJSC (Ukraine)	Banking	Ukraine	99.97%	99.97%
“VTB Bank (Armenia)”, CJSC	Banking	Armenia	100.00%	100.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	96.31%	96.31%
“VTB Bank (Belarus)”, CJSC	Banking	Belarus	71.42%	71.42%
“Bank VTB 24”, CJSC	Banking	Russia	100.00%	100.00%
“TransCreditBank”, JSC	Banking	Russia	74.62%	43.18%
“Bank of Moscow”, OJSC	Banking	Russia	94.85%	–
“Bezhitsa-Bank”, OJSC	Banking	Russia	100.00%	–
“Bank Moscow-Minsk”, OJSC	Banking	Belarus	100.00%	–
“BM Bank”, Ltd	Banking	Ukraine	100.00%	–
“Mosvodokanalbank”, OJSC	Banking	Russia	65.87%	–
“Bank of Moscow - Belgrade”, OJSC	Banking	Serbia	100.00%	–
“VTB Bank (Deutschland)”, AG	Banking	Germany	100.00%	100.00%
“Bank VTB (Kazakhstan)”, JSC	Banking	Kazakhstan	100.00%	100.00%
“VTB Bank (Azerbaijan)”, OJSC	Banking	Azerbaijan	51.00%	51.00%
“Bank VTB North-West”, OJSC	Banking	Russia	n/a	100.00%
“VTB Bank (France)”	Banking	France	96.22%	87.04%
“VTB Capital”, Plc	Banking	Great Britain	95.54%	95.54%
“Banco VTB Africa S.A.”	Banking	Angola	66.00%	66.00%
“VTB Capital (Namibia) (Proprietary)”, Ltd	Investment	Namibia	50.33%	50.33%
“Multicarta”, Ltd	Plastic cards (processing)	Russia	100.00%	100.00%
“ITC Consultants (Cyprus)”, Ltd	Finance	Cyprus	100.00%	100.00%
“VB-Service”, Ltd	Commerce	Russia	100.00%	100.00%
“Almaz-Press”, CJSC	Publishing	Russia	100.00%	100.00%
“VTB-Leasing”, OJSC	Leasing	Russia	100.00%	100.00%
“Embassy Development Limited”	Development	Jersey	100.00%	100.00%
“VTB-Development”, CJSC	Development	Russia	100.00%	100.00%
“VTB Europe Strategic Investments Limited”	Investment	Great Britain	100.00%	100.00%
“Nevsky Property”, Ltd	Property	Cyprus	100.00%	100.00%
“Business-Finance”, Ltd	Finance	Russia	100.00%	100.00%
“VTB Dolgovoi centre”, CJSC	Finance	Russia	100.00%	100.00%
“VTB DC”, Ltd	Finance	Russia	100.00%	–
“Sistema Leasing 24”, CJSC	Finance	Russia	100.00%	100.00%
“VTB-Capital”, CJSC	Finance	Russia	100.00%	100.00%
“Insurance Company VTB-Insurance”, Ltd	Insurance	Russia	100.00%	100.00%
“VTB-Leasing Ukraine”, Ltd	Leasing	Ukraine	100.00%	100.00%
“Capablue”, Ltd	Leasing	Ireland	100.00%	100.00%
“VTB Leasing (Europe)”, Ltd	Leasing	Cyprus	100.00%	100.00%
"VTB-Leasing Finance”, Ltd	Finance	Russia	99.99%	99.99%
“VTB-Leasing”, Ltd	Leasing	Belarus	99.00%	100.00%
“VTB-Leasing Capital”, Ltd	Finance	Ireland	100.00%	100.00%
"VTB Specialized Depository", CJSC	Finance	Russia	100.00%	100.00%
“VTB Capital Asset Management”, CJSC	Finance	Russia	19.00%	19.00%
“Holding VTB Capital”, CJSC	Finance	Russia	100.00%	100.00%
“VTB Factoring”, Ltd	Factoring	Russia	100.00%	100.00%
“Financial Assistant”, CJSC	Finance	Russia	100.00%	–
“VTB Registrar”, CJSC	Finance	Russia	100.00%	20.00%
“Hals-Development”, OJSC	Real Estate	Russia	51.24%	51.24%
“M”, CJSC	Real Estate	Russia	100.00%	100.00%
“VTB Arena”, CJSC	Real Estate	Russia	77.30%	75.00%
“VTB Real Estate”, LLC	Real Estate	Russia	100.00%	–
“Hotel and Office Complex ”Peking”, OJSC	Real Estate	Russia	100.00%	–
“Citer Invest”, B.V.	Real Estate	Netherlands	50.50%	–
“Pensionny Administator”, Ltd	Finance	Russia	100.00%	–
‘VTB Pension Fund’, NPF	Pension fund	Russia	100.00%	100.00%
"Consolidated companies", OJSC	Winery	Russia	100.00%	–

In January 2011, Management Company “Dinamo”, CJSC sold its 50.92% stake in Football Club “Dinamo”, CJSC to Petrovsky Park Arena, CJSC. In July 2011 the Group renegotiated the investment agreements between co-investors (including Football Club “Dinamo”, CJSC) and developer Management Company “Dinamo”, CJSC and materially finalized the Project concept. As a result of these transactions and other reallocations between subsidiaries of "VTB Arena", CJSC non-controlling interest decreased by RUR 1.1 billion.

41. Consolidated Subsidiaries (continued)

In March 2011, “VTB Dolgovoi centre”, CJSC, a 100%-owned Group’s subsidiary, issued 2,825.2 million additional ordinary shares with nominal value of RUR 2,825.2 million, which are fully purchased by VTB at par.

In March 2011, “Bank VTB North-West”, OJSC ceased its operations as a subsidiary of VTB following the legal merger of VTB and “Bank VTB North-West”, OJSC. As a result of the legal merger RUR 2.4 billion of currency translation difference was transferred to the retained earnings.

In June 2011, “Bank VTB (Kazakhstan)”, JSC issued 1,100,000 additional ordinary shares with nominal value of KZT 10,000 each for KZT 11 billion (RUR 2.1 billion), which were fully purchased by the Group.

In July and August 2011, the Group increased its ownership share in "TransCreditBank", JSC from 43.18% to 74.48% by purchasing 715,694,742 shares from the non-controlling interests for RUR 17.4 billion including 6,957,836 shares purchased under the binding offer.

In November 2011, the Group increased its ownership share in "TransCreditBank", JSC from 74.48% to 74.62% by purchasing 3,186,312 shares from the non-controlling interests for RUR 0.1 billion.

In December 2011, the Group increased its stake in “VTB Bank (France)” to 96.22%, receiving 15,275 shares of “VTB Bank (France)” from the Central Bank of the Russian Federation. This transfer was executed under the deal signed in 2006, which was subject to successful completion of the legal suit in relation to these shares between the Central Bank of the Russian Federation and the previous shareholder.

In December 2011, "VTB Arena", CJSC issued 135,248 additional ordinary shares with notional amount of RUR 24,010 each for the total amount of RUR 3.2 billion. 101,436 of these shares were purchased by the Group, which resulted in the increase of VTB's ownership in "VTB Arena", CJSC from 75% to 77.3%. The non-controlling shareholders can exercise their right to buy the remaining part of shares till August 2012.

In December 2011, "VTB Dolgovoi centre", CJSC purchased 20,967,789 shares of "Bank of Moscow", OJSC from non-controlling shareholders which are related parties to the Group for RUR 17.3 billion. Also in December 2011 "Bank of Moscow", OJSC placed an additional share issue of 100 million shares at RUR 1,111 per share. The transaction has been made in line with financial support program of “Bank of Moscow”, OJSC. The Group has acquired share totally worth about RUR 102 billion. As a result of these transactions, the Group’s stake in “Bank of Moscow”, OJSC has increased to 94.85%.

42. Business Combinations and Disposal of Subsidiaries

In March 2011, the Group acquired a 100% ownership share in OJSC “Hotel and Office Complex “Peking” for RUR 1.7 billion which was equal to the fair value of the identifiable net assets at the acquisition date.

In April 2011, VTB established a 100% subsidiary “VTB Real Estate”, LLC to manage its investment property projects.

In May 2011, the Group purchased 80% of shares of “VTB Registrar”, CJSC (former “Central United Registrar” CJSC) for USD 4.5 million (RUR 0.1 billion) increasing its share to 100% in “VTB Registrar”, CJSC.

In June 2011, the Group sold its 51% stake in “TCB Capital”, CJSC (a subsidiary of “TransCreditBank”, JSC) for RUR 0.4 billion to a third party. As at the date of disposal the net assets of “TCB Capital”, CJSC amounted to RUR 0.9 billion and cash items disposed amounted to RUR 1.5 billion.

In June 2011, the Group purchased 50.5% of shares of “Citer Invest”, B.V. for USD 45.6 million (RUR 1.3 billion). As at the date of acquisition the fair value of the net assets was RUR 2.4 billion and the share of non-controlling interest in the net assets of the acquired company was RUR 1.2 billion. As a result of the acquisition the Group recognized goodwill of RUR 0.1 billion.

In October 2011, the Group purchased 100% share in Closed Investment Real Estate Fund Aruji Real Estate 1 for RUR 2.1 billion which was equal to the fair value of the identifiable net assets at the acquisition date.

On 30 September 2011, the Group obtained control in “Bank of Moscow”, OJSC increasing its share to 80.57% through a 100% subsidiary of the Group “VTB Dolgovoi centre”, CJSC. “VTB Dolgovoi centre”, CJSC acquired “Bank of Moscow”, OJSC shares from the third parties, which are not related to the Group, and the Group’s associate. The transaction was done in accordance with the General Agreement on measures for financial support of “Bank of Moscow”, OJSC which was signed in July 2011 by “Bank of Moscow”, OJSC, DIA and the Group companies. The Group acquired “Bank of Moscow”, OJSC implementing its strategy of further increasing its retail and corporate market share and improving profitability through economies of scale.

42. Business Combinations (continued)

The goodwill is primarily attributable to the profitability of the acquired business, potential synergies and combined cost savings. The goodwill will not be deductible for tax purposes in future periods. The non-controlling interest has been recognized as a proportion of net assets acquired.

The initial accounting for this business combination had not been completed as at 30 September 2011 because the valuation of loans and advances to customers had not yet been finalized. When finalized, the fair value of loans and advances to customers at the acquisition date decreased by RUR 5.1 billion with a related increase in deferred tax asset of RUR 1.0 billion, increase in goodwill by RUR 3.3 billion and decrease of non-controlling interest by RUR 0.8 billion respectively.

The gross contractual amounts of loans and advances to customers of “Bank of Moscow”, OJSC at the acquisition date amounted to RUR 918.7 billion. The estimate of the contractual cash flows which are not expected to be collected amounted to RUR 273.7 billion.

The amounts of revenues and net profit of "Bank of Moscow", OJSC since the acquisition date included in the consolidated statement of comprehensive income of the Group are RUR 41.7 billion and RUR 7.5 billion, respectively. Revenues were calculated in accordance with methodology applied in analysis by segment disclosure.

For the purpose of determining goodwill from the acquisition the fair values of identifiable assets and liabilities of “Bank of Moscow”, OJSC based on results of both an independent external appraisal and management considerations, at the acquisition date were as follows:

	Fair value
Assets	
Cash and short-term funds	61.1
Mandatory reserve deposits with central banks	8.2
Financial assets at fair value through profit or loss	16.8
Financial assets pledged under repurchase agreements and loaned financial assets	13.1
Due from other banks	78.5
Loans and advances to customers	648.2
Financial assets available-for-sale	18.6
Investments in associates	6.0
Investment securities held-to-maturity	0.2
Premises and equipment	14.8
Investment property	3.3
Intangible assets (including core deposit and customer loan intangible)	26.9
Deferred tax asset	5.7
Other assets	11.1
Total assets	**912.5**
Liabilities	
Due to other banks	47.1
Customer deposits	513.1
Other borrowed funds	153.9
Debt securities issued	75.8
Deferred tax liability	0.1
Subordinated debt	36.0
Other liabilities	6.1
Total liabilities	**832.1**
Fair value of identifiable net assets of subsidiary	**80.4**
Goodwill arising from the acquisition:	
Consideration paid	50.2
Non-controlling interests (proportionate share of the acquiree’s identifiable net assets)	15.7
Fair value of the acquirer's previously held interest in the acquiree	99.2
Less: fair value of identifiable net assets of subsidiary	(80.4)
Goodwill arising from the acquisition	**84.7**

42. Business Combinations (continued)

In December 2011 the Group obtained control in several interrelated companies by acquiring a 100% ownership share in "Consolidated companies", OJSC including: "Kornet", OJSC (94.2%), "Moscow Inter-Republic Winery", OJSC (94.1%), "Inter-Republican Winery Trading House Limited", OJSC (95.6%).

The valuation of assets and liabilities, except for brands and trademarks, was carried out by the Group's internal appraisers. The valuation of brands and trademarks was carried out by independent appraisers.

The fair values of identifiable assets and liabilities of this group of companies at the acquisition date were as follows:

	Fair value
Assets	
Investments in associates and joint ventures	0.5
Premises and equipment	3.5
Intangible assets (brands and trademarks)	0.5
Other assets	1.2
Total assets	**5.7**
Liabilities	
Due to other banks	1.6
Customer deposits	0.5
Deferred tax liability	0.4
Other liabilities	3.1
Total liabilities	**5.6**
Fair value of identifiable net assets of subsidiary	**0.1**
Goodwill arising from the acquisition:	
Consideration paid	0.0
Non-controlling interests (proportionate share of the acquiree's identifiable net assets)	0.1
Less: fair value of identifiable net assets of subsidiary	(0.1)
Goodwill arising from the acquisition	**–**

If the acquisition of the OJSC "Consolidated companies" had taken place at the beginning of the year, the net profit of the Group and operating income would not have been materially different.

43. 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.

Capital adequacy ratio in accordance with CBR requirements

The CBR requires Russian banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, determined in accordance with CBR's requirements. In other countries the Group members comply with the regulatory capital requirements of the local central banks or other supervisory authorities.

During 2010 and 2011 the Bank's capital adequacy ratio in accordance with CBR requirements exceeded the minimum level and as at 31 December 2011 and 2010 was as follows:

	31 December 2011	***31 December 2010***
Capital	443.3	529.7
Risk-weighted assets	4,017.9	2,347.7
Capital adequacy ratio	11.0%	22.6%

43. Capital Management and Capital Adequacy (continued)

Capital adequacy ratio in accordance with the Basel Capital Accord 1988

The Group's objectives when managing capital is also to maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel Accord above 8%. The Group's international risk based capital adequacy ratio, computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, and modified as stated below, during 2010 and 2011 exceeded the minimum required level and as at 31 December 2011 and 2010 was 13.0% and 16.8% respectively.

The components of computation of capital adequacy ratio were as follows:

	31 December 2011	***31 December 2010***
Tier 1 capital	509.0	546.9
Tier 2 capital	245.4	214.8
Less: deductions from total capital	(21.0)	(21.7)
Total capital	**733.4**	**740.0**
Risk weighted assets	5,655.9	4,413.2
Tier 1 capital ratio	9.0%	12.4%
Capital adequacy ratio	13.0%	16.8%

44. Subsequent Events

In February 2012, CBR registered an additional share issue of "TransCreditBank", JSC that increased its share capital to RUR 2.6 billion. The Group purchased 334,373,607 shares of the additional issue at price of RUR 22.69 per share and increased its share in "TransCreditBank", JSC to 77.86%.

In March 2012 "VTB Dolgovoi centre", CJSC was reorganized in "VTB Dolgovoi centre", LLC according to the Group's decision.

In the first quarter of 2012, "Bank VTB 24", CJSC placed previously bought-back Series 2 RUR-denominated bonds in the total amount of RUR 6.6 billion.

In February 2012 a number of VTB Group entities introduced to its selected employees the equity-based remuneration plan (the "Plan"). The Plan represents a contingent right of those employees to receive common shares ("Shares Plan") or GDRs ("GDRs Plan") of VTB Bank (depending on the employing entity's country of incorporation) after a specified period of time. The vesting conditions envisage that an employee remains in service for three years to receive the full amount of the shares award. The awarded shares vest gradually in three equal installments over the vesting periods of approximately one, two and three years, subject to employee's continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

The total value of the award granted subsequent to the reporting date and up to the date of approval of these financial statements comprised RUR 1.4 bln for the Shares Plan and USD 0.03 bln. (ca. RUR 1.0 bln) for the GDRs Plan. The number of shares and GDRs granted under the Plan comprised 19.6 mln shares and 7.1 mln GDRs, respectively.

In March 2012, the Group made an offer to repurchase ordinary shares of the Bank from the shareholders participated in 2007 IPO of the Bank at the price of RUR 0.136 and maximum number of 3,676,471 shares from one eligible shareholder. The offer has expired on 13 April 2012. The payments to eligible shareholders, who has accepted the offer, will be executed by the end of April 2012 and will be finally completed in June 2012.

In January 2012, the Group obtained 100% control in "Sistemapsys S.a.r.l." by purchasing additional 50% for RUR 1.3 billion.

In January 2012, VTB placed RUR 10 billion series BO-07 local bond issue maturing in 2015 with 7.95% p.a coupon rate and 1 year put option.

In March 2012, VTB placed RUR 10 billion series BO-03 and BO-04 local bond issue maturing in 2015 with 8% p.a. coupon rate and 2 years put option.

44. Subsequent Events (continued)

In April 2012, VTB placed USD 1.5 billion Series 15 Eurobonds under EMTN Programme 2 with maturity in 2017 and a fixed coupon rate of 6% p.a.

In February 2012, "VTB Bank", PJSC (Ukraine) bought back Series C bonds in total amount of UAH 277.6 million (RUR 1.0 billion).

In the first quarter 2012 "VTB Capital", Plc has issued short and medium term notes in the outstanding amount of USD 219.6 million (RUR 6.5 billion) under USD 5.0 billion EMTN programme maturing in 2012, 2013 and 2015.

In February 2012, the Group obtained 84.91% controlling share in "Russian National Commercial Bank", OJSC by purchasing additional 45.11% for RUR 0.4 billion from the third parties which are not related to the Group.

In March 2012, the Group made a voluntary offer to purchase ordinary shares of "Bank of Moscow", OJSC from selected current shareholders of "Bank of Moscow", OJSC at the price RUR 1,108.65 per share. Maximum number of shares to be purchased by the Group from these selected current shareholders should not exceed the number of shares owned by these selected current shareholders at the date when the Group has purchased 46.48% "Bank of Moscow", OJSC in February 2011. The offer has expired on 15 April 2012. At the moment the Group is analyzing the number of offer acceptances received and the results of the offer. The Group expects that the share of non-controlling interests acquired as the result of the offer would not exceed 0.03% of total number of shares of "Bank of Moscow", OJSC.