VTB Bank

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

31 March 2014

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Supervisory Council of VTB Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group") as at 31 March 2014, comprising of the interim consolidated statement of financial position as at 31 March 2014 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statements of cash flows and changes in shareholders' equity for the three-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

27 May 2014

(in billions of Russian Roubles)

	Note	31 March 2014 (unaudited)	31 December 2013
Assets			
Cash and short-term funds	5	578.0	354.3
Mandatory cash balances with central banks		64.2	58.7
Financial assets at fair value through profit or loss	6	419.9	411.1
Financial assets pledged under repurchase agreements	7	504.5	466.6
Due from other banks	8	356.2	443.4
Loans and advances to customers	9	6,272.2	5,969.0
Investment financial assets			
- available-for-sale	10	229.8	135.4
- held-to-maturity		0.6	0.7
Investments in associates and joint ventures	11	77.8	87.6
Assets of disposal group held for sale	12	37.5	36.7
Land, premises and equipment		176.5	170.3
Investment property		171.4	160.7
Goodwill and other intangible assets		161.5	162.5
Deferred income tax asset		47.1	45.5
Other assets		305.1	266.0
Total assets		**9,402.3**	**8,768.5**
Liabilities			
Due to other banks	13	593.7	666.6
Customer deposits	14	4,928.6	4,341.4
Liabilities of disposal group held for sale	12	13.9	20.7
Other borrowed funds	15	1,531.6	1,485.9
Debt securities issued	16	751.7	738.2
Deferred income tax liability		15.3	15.0
Other liabilities		318.9	262.6
Total liabilities before subordinated debt		**8,153.7**	**7,530.4**
Subordinated debt		296.2	291.0
Total liabilities		**8,449.9**	**7,821.4**
Equity			
Share capital		138.1	138.1
Share premium		433.8	433.8
Perpetual loan participation notes		80.3	73.6
Treasury shares and perpetual loan participation notes		(3.1)	(3.6)
Other reserves	17	37.5	35.6
Retained earnings		259.6	262.0
Equity attributable to shareholders of the parent		**946.2**	**939.5**
Non-controlling interests		**6.2**	**7.6**
Total equity		**952.4**	**947.1**
Total liabilities and equity		**9,402.3**	**8,768.5**

Approved for issue and signed on 27 May 2014.

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

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

(in billions of Russian Roubles)

	Note	For the three-month period ended 31 March 2014	2013
Interest income	18	188.2	157.2
Interest expense	18	(98.3)	(83.4)
Net interest income		**89.9**	**73.8**
Provision charge for impairment of debt financial assets	24	(47.6)	(22.0)
Net interest income after provision for impairment		**42.3**	**51.8**
Net fee and commission income	19	14.3	11.5
Losses net of gains arising from financial instruments at fair value through profit or loss	20	(4.4)	(0.9)
Gains less losses from available-for-sale financial assets		0.5	0.7
Losses net of gains arising from foreign currencies	21	(8.2)	(2.9)
Gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers	22	0.1	2.6
Share in profit of associates and joint ventures		0.6	–
Gain from disposal of subsidiaries and associates	11,33	9.0	1.1
Net insurance premiums earned		11.4	5.4
Net insurance claims incurred and movement in liabilities to policyholders		(7.8)	(2.8)
Revenue from non-banking activities		7.2	8.3
Cost of sales and other expenses from non-banking activities		(9.5)	(6.7)
Losses net of gains arising from extinguishment of liability		(1.0)	(1.0)
Provision charge for impairment of other assets, credit related commitments and legal claims	24	(0.4)	(1.4)
Excess of fair value of acquired net asset over cost		–	0.2
Impairment of goodwill		(0.5)	–
Other operating income		3.1	1.5
Net non-interest income		**14.4**	**15.6**
Operating income		**56.7**	**67.4**
Staff costs and administrative expenses	23	(52.8)	(45.9)
Profit before tax		**3.9**	**21.5**
Income tax expense		(5.4)	(5.8)
Net loss after tax		**(1.5)**	**15.7**
Profit after tax from subsidiaries acquired exclusively with a view to resale		1.9	–
Net profit		**0.4**	**15.7**
Net profit/(loss) attributable to:			
Shareholders of the parent		**2.4**	**15.3**
Non-controlling interests		**(2.0)**	**0.4**
Basic and diluted earnings per share (expressed in Russian Roubles per share)	26	**0.0002**	**0.0015**
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian Roubles per share)	26	**0.00004**	**0.0015**

(in billions of Russian Roubles)

	For the three-month period ended 31 March	
	2014	*2013*
Net profit	**0.4**	**15.7**
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Net result on financial assets available-for-sale, net of tax	(4.5)	0.5
Cash flow hedges, net of tax	1.0	–
Share of other comprehensive income of associates and joint ventures	(0.1)	0.1
Effect of translation, net of tax	6.7	0.7
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	3.1	1.3
Other comprehensive income, net of tax	**3.1**	**1.3**
Total comprehensive income	**3.5**	**17.0**
Total comprehensive income attributable to:		
Shareholders of the parent	**4.9**	**16.5**
Non-controlling interests	**(1.4)**	**0.5**

(in billions of Russian Roubles)

	Note	For the three-month period ended 31 March 2014	2013
Cash flows from operating activities			
Interest received		180.7	157.0
Interest paid		(83.0)	(72.6)
Income received / (loss incurred) on operations with financial assets at fair value through profit or loss		12.5	(1.0)
Income received from extinguishment of liability		0.3	–
Income received / (loss incurred) on dealing in foreign currency		8.4	(7.3)
Fees and commissions received		19.0	14.8
Fees and commissions paid		(3.9)	(3.1)
Other operating income received		2.4	1.7
Staff costs, administrative expenses paid		(55.0)	(42.3)
Income received from non-banking activities		11.4	5.8
Expenses paid in non-banking activities		(11.1)	(3.7)
Insurance premium received		17.4	12.4
Net insurance claims paid		(7.3)	(2.4)
Income tax paid		(5.8)	(7.4)
Cash flows from operating activities before changes in operating assets and liabilities		**86.0**	**51.9**
Net decrease / (increase) in operating assets			
Net increase in mandatory cash balances with central banks		(5.2)	(3.9)
Net decrease / (increase) in restricted cash		0.5	(1.8)
Net (increase) / decrease in correspondent accounts in precious metals		(26.2)	3.1
Net decrease / (increase) in financial assets at fair value through profit or loss		20.4	(42.2)
Net decrease in due from other banks		96.8	108.7
Net increase in loans and advances to customers		(353.4)	(224.7)
Net increase in other assets		(25.2)	(13.0)
Net (decrease) increase in operating liabilities			
Net decrease in due to other banks		(54.6)	(4.3)
Net increase in customer deposits		548.1	50.2
Net increase in debt securities issued other than bonds issued		3.0	0.9
Net increase in other liabilities		19.9	18.6
Net cash from / (used in) operating activities		**310.0**	**(56.5)**
Cash flows used in investing activities			
Proceeds from sales or maturities of financial assets available-for-sale		36.8	22.0
Purchase of financial assets available-for-sale		(121.7)	(35.5)
Purchase of subsidiaries, net of cash		0.2	–
Disposal of subsidiaries, net of cash		(3.7)	–
Purchase of and contributions to associates and joint ventures		(0.7)	(0.7)
Proceeds from sale of associates		4.0	0.6
Proceeds from distribution to shareholders of associates		1.4	–
Purchase of land, premises and equipment		(11.5)	(4.4)
Proceeds from sale of land, premises and equipment		1.2	1.0
Purchase or construction of investment property		(9.5)	(0.9)
Proceeds from sale of investment property		1.2	0.3
Purchase of intangible assets		(1.6)	(1.0)
Proceeds from sale of intangible assets		0.1	0.3
Net cash used in investing activities		**(103.8)**	**(18.3)**

(in billions of Russian Roubles)

		For the three-month period ended 31 March	
	Note	***2014***	***2013***
Cash flows (used in) / from financing activities			
Proceeds from issuance of bonds at local bonds		0.9	41.4
Repayment of local bonds		(5.8)	(40.7)
Buy-back of local bonds		(7.6)	(12.6)
Proceeds from sale of previously bought-back local bonds		3.9	3.2
Proceeds from issuance of Eurobonds		0.1	19.3
Repayment of Eurobonds		(17.5)	(6.6)
Buy-back of Eurobonds		(6.9)	(4.6)
Proceeds from sale of previously bought-back Eurobonds		–	13.5
Proceeds from syndicated loans		0.4	22.8
Repayment of syndicated loans		(0.2)	(24.1)
Proceeds from other borrowings and funds from local central banks		1,060.9	384.8
Repayment of other borrowings and funds from local central banks		(1,050.8)	(305.6)
Repayment of subordinated debt		(4.3)	–
Buy-back of subordinated debt		(0.9)	(1.3)
Proceeds from sale of previously bought-back subordinated debt		0.6	–
Cash received from sale of treasury shares		4.9	–
Cash paid for treasury shares		(4.3)	(0.1)
Proceeds from sale of non-controlling interests in subsidiaries		–	(0.1)
Purchase of perpetual loan participation notes		(0.6)	(2.4)
Proceeds from sale of perpetual loan participation notes		0.5	2.3
Net cash (used in) / from financing activities		**(26.7)**	**89.2**
Effect of exchange rate changes on cash and cash equivalents		18.7	2.7
Effect of hyperinflation		(0.3)	(0.3)
Net increase in cash and cash equivalents		**197.9**	**16.8**
At the beginning of period	5	**348.6**	**560.9**
At the end of period	5	**546.5**	**577.7**

(in billions of Russian Roubles)

	Attributable to shareholders of the parent								
	Share capital	***Share premium***	***Perpetual loan participation notes***	***Treasury shares and perpetual loan participation loan notes***	***Other reserves (Note 17)***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total equity***
Balance at 1 January 2013	**113.1**	**358.5**	**68.3**	**(13.7)**	**33.9**	**193.7**	**753.8**	**12.3**	**766.1**
Net result from treasury shares transactions	–	–	–	(0.1)	–	0.1	**–**	–	**–**
Net result from treasury perpetual loan participation notes transactions	–	–	–	(0.1)	–	–	**(0.1)**	–	**(0.1)**
Profit for the period	–	–	–	–	–	15.3	**15.3**	0.4	**15.7**
Other comprehensive income	–	–	–	–	1.1	0.1	**1.2**	0.1	**1.3**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**1.1**	**15.4**	**16.5**	**0.5**	**17.0**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.3)	0.3	**–**	–	**–**
Share-based payments	–	–	–	–	–	0.2	**0.2**		**0.2**
Acquisition of subsidiaries	–	–	–	–	–	–	**–**	0.2	**0.2**
Disposal of subsidiaries	–	–	–	–	–	–	**–**	(0.3)	**(0.3)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	**–**	–	**–**
Acquisition of non-controlling interests and other capital transactions	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Issuance of perpetual loan participation notes	–	–	–	–	–	–	**–**	–	**–**
Foreign exchange translation of perpetual loan participation notes	–	–	1.6	–	–	(1.6)	**–**	–	**–**
Transaction costs on perpetual loan participation notes issuance	–	–	–	–	–	–	**–**	–	**–**
Amounts paid on perpetual loan participation notes	–	–	–	–	–	–	**–**	–	**–**
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	0.3	**0.3**	–	**0.3**
Balance at 31 March 2013	**113.1**	**358.5**	**69.9**	**(13.9)**	**34.7**	**208.3**	**770.6**	**12.7**	**783.3**
Balance at 1 January 2014	**138.1**	**433.8**	**73.6**	**(3.6)**	**35.6**	**262.0**	**939.5**	**7.6**	**947.1**
Net result from treasury shares transactions	–	–	–	0.6	–	–	**0.6**	–	**0.6**
Net result from treasury perpetual loan participation notes transactions	–	–	–	(0.1)	–	–	**(0.1)**	–	**(0.1)**
Profit for the period	–	–	–	–	–	2.4	**2.4**	(2.0)	**0.4**
Other comprehensive income	–	–	–	–	2.4	0.1	**2.5**	0.6	**3.1**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2.4**	**2.5**	**4.9**	**(1.4)**	**3.5**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.5)	0.5	**–**	–	**–**
Share-based payments	–	–	–	–	–	(0.2)	**(0.2)**	–	**(0.2)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	**–**	–	**–**
Acquisition of subsidiaries	–	–	–	–	–	–	**–**	–	**–**
Disposal of subsidiaries	–	–	–	–	–	–	**–**	–	**–**
Acquisition of non-controlling interests	–	–	–	–	–	0.2	**0.2**	–	**0.2**
Amounts paid on perpetual loan participation notes	–	–	–	–	–	–	**–**	–	**–**
Foreign exchange translation of perpetual loan participation notes	–	–	6.7	–	–	(6.7)	**–**	–	**–**
Tax effect recognized on perpetual loan participation notes	–	–	–	–	–	1.3	**1.3**	–	**1.3**
Balance at 31 March 2014	**138.1**	**433.8**	**80.3**	**(3.1)**	**37.5**	**259.6**	**946.2**	**6.2**	**952.4**

1. Principal Activities

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

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

On 2 January 1991, VTB received a general banking license (number 1000) from the Central Bank of the Russian Federation (CBR). In addition, VTB holds licenses required for trading and holding securities and engaging in other securities-related activities, including acting as a broker, a dealer and a custodian, and providing asset management and special depositary services. VTB and other Russian Group banks are regulated and supervised by the CBR 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). The Group subsidiary banks in Russia: "Bank VTB 24", CJSC, "Bank of Moscow", OJSC and "Leto Bank", OJSC are also members of the obligatory deposit insurance system provided by DIA. The State deposit insurance scheme implies that DIA guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 700 thousand with a 100% compensation of deposited amount from 1 October 2008.

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

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks with its network of 82 full service branches, including 23 branches of VTB, 49 branches of "Bank VTB 24", CJSC, 10 branches of "Bank of Moscow", OJSC located in major Russian regions. In November 2013, "TransCreditBank", OJSC ceased its operations as a subsidiary of VTB following the legal merger of "Bank VTB 24", CJSC and "TransCreditBank", OJSC.

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 2 branches of "VTB Capital", Plc in Singapore and Dubai. The Group investment banking division also performs broker/dealer operations in the United States of America, securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

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

The number of employees of the Group at 31 March 2014 was 106,456 (31 December 2013: 103,808).

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

2. Operating Environment of the Group

The Russian Federation. The most part of the Group operations are conducted in the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. Its economy is particularly sensitive to oil and gas prices.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2014 the Russian Government and the CBR continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. 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.

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.

2. Operating Environment of the Group (continued)

Other jurisdictions. In addition to Russia the Group conducts operations in CIS (Ukraine, Belarus, Kazakhstan, Azerbaijan and Armenia) and Georgia, European countries (Austria, Germany, France, Great Britain, Cyprus and Serbia) and some other countries. Tough economic and liquidity situation in many jurisdictions led to decrease or insignificant growth of GDP followed by shrinking in consumption as well as in investment activities. The primary targets of the local regulators were support of monetary stability, management of GDP deficit and inflation level regulation. In 2014 economy of the Republic Belarus remained hyperinflatory.

In the first quarter 2014, the economic and political uncertainty in Ukraine increased significantly. The combination of these events has resulted in deterioration of liquidity and tighter credit conditions where credit is available. At 31 March 2014, the Group's investments in Ukrainian sovereign and municipal securities as well as loans to Ukrainian government fully or majority owned enterprises amounted to less than 0.5% of the total Group's assets. Further, international rating agencies downgraded Russia's sovereign credit rating in local and foreign currency to minimal investment grade ratings. These and any further negative developments in Ukraine could adversely impact results and financial position of the Group and or the Group's Ukrainian subsidiaries in a manner not currently determinable.

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

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

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

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

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

These interim condensed consolidated financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at 31 March 2014, the principal closing rate of exchange used for translating balances in USD to Russian Roubles was USD 1 to RUR 35.6871 (at 31 December 2013: USD 1 to RUR 32.7292), and the principal closing rate of exchange used for translating balances in Euro was EUR 1 to RUR 49.0519 (at 31 December 2013: EUR 1 to RUR 44.9699).

(in billions of Russian Roubles)

4. Adoption of New or Revised Standards and Interpretations

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

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

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

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

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

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

5. Cash and Short-Term Funds

	31 March 2014 (unaudited)	*31 December 2013*
Cash on hand	155.5	116.9
Cash balances (other than mandatory) with central banks	248.9	120.4
Correspondent accounts with other banks		
- Russia	70.8	44.3
- OECD	61.2	70.0
- Other countries	41.6	2.7
Total cash and short-term funds	**578.0**	**354.3**
Less: correspondent accounts in precious metals	(30.0)	(3.8)
Less: restricted cash	(1.5)	(1.9)
Total cash and cash equivalents	**546.5**	**348.6**

(in billions of Russian Roubles)

6. Financial Assets at Fair Value through Profit or Loss

	31 March 2014 (unaudited)	*31 December 2013*
Financial assets held for trading	373.9	377.1
Financial assets designated as at fair value through profit or loss	46.0	34.0
Total financial assets at fair value through profit or loss	**419.9**	**411.1**

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

Financial assets held for trading

	31 March 2014 (unaudited)	*31 December 2013*
Debt securities		
-Bonds and eurobonds of Russian companies and banks	114.2	159.1
-Bonds and eurobonds of foreign companies and banks	31.8	47.5
-Bonds and eurobonds of foreign governments	16.4	14.4
-Russian Federal loan bonds (OFZ)	8.5	4.4
-Russian municipal bonds and eurobonds	4.5	5.0
-Promissory notes of Russian companies and banks	1.0	1.1
-Eurobonds of the Russian Federation	0.3	1.6
Total debt securities	*176.7*	*233.1*
Derivative financial assets	*125.0*	*80.2*
Trading credit products	*54.8*	*49.0*
Equity securities	*17.4*	*14.8*
Total financial assets held for trading	**373.9**	**377.1**

At 31 March 2014, bonds and eurobonds of Russian companies and banks are represented mostly by debt securities issued by oil, metal and banks; equity securities are represented mostly by securities issued by Russian oil, car manufacturing, precious stones mining companies and a Russian stock-exchange.

Reclassifications

In March 2014, the Group reclassified certain financial assets that met the definition of loans and receivables out of financial assets at fair value through profit or loss category to loans and receivables. The Group considered holding these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers' credit risk. Information about the reclassified financial assets is presented in the table below:

	31 March 2014 (unaudited)
Fair value as at the date of reclassification	7.2
Carrying amount as at 31 March	7.2
Fair value as at 31 March	7.2
Fair value gain/(loss) recognized up to the date of reclassification	(0.2)
Fair value gain/(loss) that would have been recognized on the reclassified assets for the three-months period ended 31 March 2014 if the reclassification had not been made	(0.2)
Gain/(loss), income/(expense) recognized after reclassification in profit or loss for the three-months period ended 31 March 2014	0.1

(in billions of Russian Roubles)

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

Financial assets designated as at fair value through profit or loss

	31 March 2014 (unaudited)	***31 December 2013***
Equity securities	*27.3*	*16.9*
Reverse sale and repurchase agreements to maturity	*12.4*	*11.4*
Debt securities		
-Bonds and eurobonds of foreign companies and banks	6.1	5.5
-Bonds and eurobonds of Russian companies and banks	0.2	0.2
Total debt securities	*6.3*	*5.7*
Total financial assets designated as at fair value through profit or loss	**46.0**	**34.0**

At 31 March 2014 equity securities are represented mostly by securities issued by foreign mass-media and retail companies.

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

	31 March 2014 (unaudited)	***31 December 2013***
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt securities		
-Bonds and eurobonds of Russian companies and banks	155.0	133.7
-Russian Federal loan bonds (OFZ)	2.4	0.8
-Bonds and eurobonds of foreign companies and banks	1.2	0.8
-Russian municipal bonds	0.6	–
-Bonds and eurobonds of foreign governments	0.4	0.8
-Eurobonds of the Russian Federation	–	0.2
Equity securities	11.7	8.7
Total financial assets held for trading	*171.3*	*145.0*
Total financial assets at fair value through profit or loss	***171.3***	***145.0***
Financial assets available-for-sale		
-Russian Federal loan bonds (OFZ)	12.3	12.8
-Bonds and eurobonds of Russian companies and banks	6.4	11.2
-Bonds and eurobonds of the Russian Federation	4.7	4.1
-Bonds and eurobonds of foreign governments	1.0	–
Total financial assets available-for-sale	***24.4***	***28.1***
Investment securities held-to-maturity	–	***0.1***
Financial assets classified as loans and advances to customers	**305.9**	**290.6**
Financial assets classified as due from other banks	**2.9**	**2.8**
Total financial assets pledged under repurchase agreements	**504.5**	**466.6**

As at 31 March 2014, bonds and eurobonds of Russian companies and banks included in financial assets pledged under repurchase agreements are mostly represented by debt securities issued by Russian oil companies and banks.

As at 31 March 2014, 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 260.3 billion (31 December 2013: RUR 259.2 billion) which were purchased by “Bank of Moscow”, OJSC in September 2011 from proceeds of loan from DIA.

(in billions of Russian Roubles)

8. Due from Other Banks

	31 March 2014 (unaudited)	*31 December 2013*
OECD	222.5	303.9
Russia	90.3	99.8
Other countries	46.8	42.5
Total gross due from other banks	**359.6**	**446.2**
Less: Allowance for impairment (Note 24)	(3.4)	(2.8)
Total due from other banks	**356.2**	**443.4**

9. Loans and Advances to Customers

	31 March 2014 (unaudited)	*31 December 2013*
Loans to legal entities		
Current activity financing	3,404.9	3,196.8
Project finance and other	1,204.2	1,125.5
Finance leases	273.0	277.6
Reverse sale and repurchase agreements	191.6	209.4
Total gross loans to legal entities	**5,073.7**	**4,809.3**
Loans to individuals		
Consumer loans and other	797.9	758.6
Mortgages	584.8	539.9
Car loans	131.6	133.2
Credit cards	93.5	86.2
Reverse sale and repurchase agreements	2.3	2.9
Total gross loans to individuals	**1,610.1**	**1,520.8**
Less: Allowance for impairment (Note 24)	(411.6)	(361.1)
Total loans and advances to customers	**6,272.2**	**5,969.0**

Finance leases represent loans to leasing companies and net investment in leases. As at 31 March 2014, included in gross loans are finance lease receivables of RUR 191.6 billion (31 December 2013: RUR 192.0 billion), equal to the net investment in lease before allowance for impairment.

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

	31 March 2014 (unaudited)		*31 December 2013*	
	Amount	*%*	*Amount*	*%*
Individuals	1,610.1	25	1,520.8	24
Building construction	746.8	11	725.6	11
Manufacturing	738.1	11	649.0	10
Trade and commerce	565.7	8	556.6	9
Metals	559.2	8	519.4	8
Finance	467.2	7	536.7	9
Chemical	356.8	5	305.3	5
Oil and gas	344.5	5	297.0	5
Energy	327.6	5	320.7	5
Transport	301.8	5	269.5	4
Government bodies	187.2	3	150.5	2
Coal mining	122.4	2	130.3	2
Food and agriculture	113.7	2	109.1	2
Telecommunications and media	95.4	1	107.2	2
Aircraft	19.5	–	12.2	–
Other	127.8	2	120.2	2
Total gross loans and advances to customers	**6,683.8**	**100**	**6,330.1**	**100**

(in billions of Russian Roubles)

9. Loans and Advances to Customers (continued)

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 March 2014, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 1,305.5 billion, or 18.7% of the gross loan portfolio and loans pledged under repurchase agreements (31 December 2013: RUR 1,189.2 billion or 18.0%).

As at 31 March 2014, the gross amount of non-performing loans which the Group defines as impaired loans with repayments overdue by over 90 days was RUR 407.6 billion or 5.8% of the aggregate of the gross loan portfolio and loans pledged under repurchase agreements (31 December 2013: RUR 312.7 billion, or 4.7%).

10. Investment Financial Assets Available-for-Sale

	31 March 2014 (unaudited)	***31 December 2013***
Debt securities		
-Bonds and eurobonds of Russian companies and banks	118.1	36.2
-Bonds and eurobonds of foreign governments	43.6	32.3
-Russian Federal loan bonds (OFZ)	28.0	26.3
-Bonds and eurobonds of foreign companies and banks	13.4	9.3
-Promissory notes of Russian companies and banks	1.6	1.3
-Eurobonds of the Russian Federation	0.6	5.3
Total debt securities	*205.3*	*110.7*
Equity securities	*24.5*	*24.7*
Total investment financial assets available-for-sale	**229.8**	**135.4**

As at 31 March 2014, bonds and eurobonds of Russian companies and banks are represented mostly by bonds of banks and bonds issued by oil, railway transportation and metal companies; equity securities are represented mostly by shares of Russian metal, manufacturing and building construction companies and foreign retail company.

Reclassifications

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

	31 March 2014 (unaudited)
Fair value as at the reclassification date	28.1
Carrying amount as at 31 March	28.2
Fair value as at 31 March	28.3
Fair value gain/(loss) recognized up to the date of reclassification	(0.6)
Fair value loss that would have been recognized on the reclassified assets for the three-months period ended 31 March 2014 if the reclassification had not been made	(0.4)
Gain/(loss), income/(expense) recognized after reclassification in profit or loss for the three-months period ended 31 March 2014	0.2

(in billions of Russian Roubles)

11. Investments in Associates and Joint Ventures

	31 March 2014 (unaudited)	*31 December 2013*
Investments in associates and joint ventures designated as at fair value through profit or loss	56.1	55.2
Investments in associates and joint ventures accounted under equity method	21.7	32.4
Total investments in associates and joint ventures	**77.8**	**87.6**

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

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

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

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

12. Disposal Groups Held for Sale

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

		31 March 2014 (unaudited)	*31 December 2013*
Assets of disposal groups held for sale			
Segezha Pulp and Paper Mill, OJSC	100% owned subsidiary	15.5	17.2
Derevoobrabotka - Proekt, LLC	100% owned subsidiary	8.9	n/a
Mariisky NPZ, CJSC	99.3% owned subsidiary	6.2	6.1
Tower B of Skylight Business Centre	non-current asset held for sale	5.6	5.2
BM Bank, Ltd., Ukraine	100% owned subsidiary	n/a	7.0
Other		1.3	1.2
Total assets of disposal groups held for sale		**37.5**	**36.7**
Liabilities of disposal groups held for sale			
Segezha Pulp and Paper Mill, OJSC	100% owned subsidiary	7.6	12.7
Derevoobrabotka - Proekt, LLC	100% owned subsidiary	4.9	n/a
Mariisky NPZ, CJSC	99.3% owned subsidiary	0.4	0.4
BM Bank, Ltd., Ukraine	100% owned subsidiary	n/a	6.9
Other		1.0	0.7
Total liabilities of disposal groups held for sale		**13.9**	**20.7**

In February 2014 the Group obtained 100% share in Derevoobrabotka-Proekt, LLC for non-cash consideration of RUR 4.0 billion. As at 31 March 2014 the acquisition accounting was incomplete and the Group consolidated the acquiree based on preliminary amounts. This investment is disclosed within segment "Other".

As at 31 March 2014 the Group ceased to classify BM Bank, Ltd., Ukraine as a disposal group held for sale as significantly increased economic and political uncertainty in Ukraine did not allow the Group to classify the sale of BM Bank, Ltd., as highly probable.

(in billions of Russian Roubles)

13. Due to Other Banks

	31 March 2014 (unaudited)	*31 December 2013*
Term loans and deposits	302.6	345.5
Correspondent accounts and overnight deposits of other banks	190.0	214.7
Sale and repurchase agreements with other banks	101.1	106.4
Total due to other banks	**593.7**	**666.6**

14. Customer Deposits

	31 March 2014 (unaudited)	*31 December 2013*
Government bodies		
Current/settlement deposits	160.1	126.9
Term deposits	635.9	258.9
Other legal entities		
Current/settlement deposits	776.8	751.5
Term deposits	1,480.4	1,398.7
Individuals		
Current/settlement deposits	334.2	337.2
Term deposits	1,528.1	1,456.2
Sale and repurchase agreements	13.1	12.0
Total customer deposits	**4,928.6**	**4,341.4**

At 31 March 2014 term deposits of other legal entities include RUR 43.0 billion (31 December 2013: RUR 70.2 billion) of promissory notes issued, which represent in-substance deposit relationships.

As at 31 March 2014, the Group's 10 largest groups of interrelated customers had aggregated balances amounting to RUR 1,537.8 billion or 31.2% of total customer deposits (31 December 2013: RUR 1,060.6 billion or 24.4%).

15. Other Borrowed Funds

	31 March 2014 (unaudited)	*31 December 2013*
Funds from local central banks	1,041.1	1,028.5
Syndicated loans	195.5	179.1
Other borrowings	295.0	278.3
Total other borrowed funds	**1,531.6**	**1,485.9**

As at 31 March 2014 funds from local central banks contain the amount of RUR 351.2 billion (31 December 2013: RUR 547.7 billion) secured by pledged loans to customers in the amount of RUR 487.4 billion (31 December 2013: RUR 625.6 billion) (Note 9).

In September 2011, "Bank of Moscow", OJSC received a RUR 294.8 billion loan from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support of "Bank of Moscow", OJSC earlier signed by CBR and DIA. The Group recognized the loan initially at fair value. As at 31 March 2014 the carrying amount of the loan of RUR 159.5 billion was included in other borrowings (31 December 2013: RUR 159.0 billion). The loan was securitized with a pledge of loans to customers with carrying amount of RUR 189.6 billion (31 December 2013: RUR 205.4 billion).

(in billions of Russian Roubles)

16. Debt Securities Issued

	31 March 2014 (unaudited)	_31 December 2013_
Bonds	601.5	592.1
Promissory notes	137.2	133.4
Deposit certificates	13.0	12.7
Total debt securities issued	**751.7**	**738.2**

Promissory notes represent notes primarily issued by VTB in the local market as an alternative to customer/bank deposits. As at 31 March 2014 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to January 2029 (31 December 2013: from demand to October 2028).

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

	Rates, p.a.	_Maturity_	_31 March 2014 (unaudited)_	_31 December 2013_
USD Eurobonds (EMTN)	2.04% to 6.88%	2014-2035	262.2	249.2
CHF Eurobonds (EMTN)	2.90% to 5.00%	2015-2018	48.7	43.9
ECP	n/a	2014	10.8	21.7
Other Eurobonds	1.30% to 13.23%	2014-2034	104.4	97.6
Local bonds	0.01% to 12.75%	2014-2046	175.4	179.7
Total bonds			**601.5**	**592.1**

17. Other Reserves

Movements in other reserves were as follows:

	Unrealized gain on financial assets available-for-sale and cash flow hedge	_Land and premises revaluation reserve_	_Currency translation difference_	_Total_
Balance at 1 January 2013	**4.3**	**20.8**	**8.8**	**33.9**
Total comprehensive income for the period	0.5	0.1	0.5	**1.1**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.3)	–	**(0.3)**
Balance at 31 March 2013	**4.8**	**20.6**	**9.3**	**34.7**
Balance at 1 January 2014	**3.0**	**20.1**	**12.5**	**35.6**
Total comprehensive income for the period	(3.5)	–	5.9	**2.4**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.5)	–	**(0.5)**
Balance at 31 March 2014	**(0.5)**	**19.6**	**18.4**	**37.5**

(in billions of Russian Roubles)

18. Interest Income and Expense

	For the three-month period ended 31 March (unaudited)	
	2014	***2013***
Interest income		
Loans and advances to customers	176.3	145.0
Other financial assets, including securities	10.1	10.1
Due from other banks	1.8	2.1
Total interest income	**188.2**	**157.2**
Interest expense		
Customer deposits	(52.5)	(46.8)
Due to other banks and other borrowed funds	(27.7)	(19.3)
Debt securities issued	(12.6)	(11.9)
Subordinated debt	(5.5)	(5.4)
Total interest expense	**(98.3)**	**(83.4)**
Net interest income	**89.9**	**73.8**

19. Fee and Commission Income and Expense

	For the three-month period ended 31 March (unaudited)	
	2014	***2013***
Commission on settlement transactions	11.4	9.4
Commission on guarantees issued and trade finance	2.9	2.3
Commission on operations with securities and capital markets	1.7	1.1
Commission on cash transactions	1.0	1.0
Other	1.4	0.9
Total fee and commission income	**18.4**	**14.7**
Commission on settlement transactions	(2.5)	(2.6)
Commission on cash transactions	(0.7)	(0.3)
Other	(0.9)	(0.3)
Total fee and commission expense	**(4.1)**	**(3.2)**
Net fee and commission income	**14.3**	**11.5**

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

	For the three-month period ended 31 March (unaudited)	
	2014	***2013***
Gains less losses / (Losses net of gains) arising from trading financial instruments	1.9	(1.5)
(Losses net of gains) / gains less losses arising from financial instruments designated as at fair value through profit or loss	(6.6)	0.6
Gains less losses arising from associates and joint-ventures designated as at fair value through profit or loss	0.3	–
Total losses net of gains arising from financial instruments at fair value through profit or loss	**(4.4)**	**(0.9)**

(in billions of Russian Roubles)

21. Losses Net of Gains Arising from Foreign Currencies

	For the three-month period ended 31 March (unaudited)	
	2014	***2013***
Gains less losses arising from dealing in foreign currencies	16.4	5.9
Foreign exchange translation losses net of gains	(24.6)	(8.8)
Total losses net of gains arising from foreign currencies	**(8.2)**	**(2.9)**

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

	For the three-month period ended 31 March (unaudited)	
	2014	***2013***
Net losses on initial recognition of financial instruments	(0.1)	(0.2)
Other gains on loans and advances to customers	0.2	2.8
Total gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers	**0.1**	**2.6**

23. Staff Costs and Administrative Expenses

	For the three-month period ended 31 March (unaudited)	
	2014	***2013***
Staff costs	28.2	24.5
Defined contribution pension expense	3.5	3.1
Depreciation and other expenses related to premises and equipment	5.6	4.1
Leasing and rent expenses	2.7	2.4
Payments to deposit insurance system	1.7	1.3
Professional services	1.4	1.1
Taxes other than on income	1.3	2.1
Amortization of core deposit and customer loan intangibles	1.3	1.3
Advertising expenses	1.2	1.0
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit and customer loan intangibles	1.2	0.9
Post and telecommunication expenses	0.8	0.7
Security expenses	0.8	0.7
Transport expenses	0.8	0.4
Charity	0.6	0.4
Insurance costs	0.1	0.3
Other	1.6	1.6
Total staff costs and administrative expenses	**52.8**	**45.9**

(in billions of Russian Roubles)

24. Allowances for Impairment and Provisions

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

	Due from other banks	*Loans and advances to customers*	*Investment securities held-to-maturity*	*Credit related commit-ments*	*Other assets*	*Legal claims*	*Total*
Balance at 1 January 2013 (audited)	**2.2**	**323.3**	**2.0**	**0.9**	**3.2**	**1.9**	**333.5**
Provision / (reversal of provision) for impairment during the period	–	21.9	0.1	(0.2)	1.5	0.1	**23.4**
Write-offs	–	(2.7)	–	–	(0.1)	–	**(2.8)**
Recoveries of amounts written-off in previous periods	–	(0.3)	–	–	–	–	**(0.3)**
Effect of translation	–	2.3	–	–	–	–	**2.3**
Balance at 31 March 2013	**2.2**	**344.5**	**2.1**	**0.7**	**4.6**	**2.0**	**356.1**
Balance at 1 January 2014 (audited)	**2.8**	**361.1**	**–**	**0.8**	**3.6**	**2.8**	**371.1**
Provision for impairment during the period	0.4	47.1	0.1	–	0.4	–	**48.0**
Write-offs	–	(9.7)	–	–	(0.1)	(0.3)	**(10.1)**
Effect of translation	0.2	9.2	–	0.2	0.1	(0.4)	**9.2**
Reclassification from assets of disposal group held for sale (IFRS 5)	–	3.9	–	–	–	–	**3.9**
Balance at 31 March 2014	**3.4**	**411.6**	**0.1**	**1.0**	**4.0**	**2.1**	**422.1**

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.

25. Share-Based Payments

Shares Plan. As at 31 March 2014 the total value of the award granted under the Shares Plan was RUR 1.3 billion (31 December 2013: RUR 1.6 billion) represented by 22.1 billion shares of VTB (31 December 2013: 24.7 billion).

GDRs Plan. As at 31 March 2014 the total value of the award granted under the GDRs Plan was RUR 1.5 billion (31 December 2013: RUR 1.3 billion) represented by 11.8 million of GDRs of VTB (31 December 2013: 9.7 million). Each GDR contains 2,000 VTB shares.

For the three-months ended 31 March 2014 the Group recognized in Staff costs the amount of RUR 0.4 billion as expenses related to the above equity-settled share-based payment transactions with a corresponding credit to Retained earnings (net of tax) as the above share-based payments have not vested yet (31 March 2013: RUR 0.4 billion).

(in billions of Russian Roubles)

26. Basic and Diluted Earnings per Share

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

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

	For the three-month period ended 31 March (unaudited)	
	2014	*2013*
Weighted average number of ordinary shares in issue	12,960,541,337,338	10,333,176,970,061
Net profit attributable to shareholders of the parent	2.4	15.3
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.0002**	**0.0015**
Profit after tax from subsidiaries acquired exclusively with a view to resale	1.9	–
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.0001**	–
Total net profit attributable to shareholders of the parent net of profit after tax from subsidiaries acquired exclusively with a view to resale	0.5	15.3
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian Roubles per share)	**0.00004**	**0.0015**

27. Income Tax

The Group's effective income tax rate for the first three months of 2014 was 138% (the first three months of 2013: 27%). The effective income tax rate for the first three months of 2014 differs from the theoretical tax rate mainly due to unrecognised deferred tax assets of Ukrainian subsidiaries and due to difference associated with non-deductible expenses and income taxed at different rates.

The following tables provide disclosure of income tax effects relating to each component of other comprehensive income for the three months and the three months ended 31 March 2014 and 2013:

	For the three-month period ended 31 March (unaudited)					
	2014			*2013*		
	Before tax	*Tax (expense)/ credit*	*Net of tax*	*Before tax*	*Tax expense*	*Net of tax*
Unrealised gain/(loss) on financial assets available-for-sale	(5.2)	0.7	**(4.5)**	0.7	(0.2)	**0.5**
Cash flow hedges	1.2	(0.2)	**1.0**	–	–	**–**
Effect of translation	6.7	–	**6.7**	0.7	–	**0.7**
Share of other comprehensive income of associates	(0.1)	–	**(0.1)**	0.1	–	**0.1**
Other comprehensive income	**2.6**	**0.5**	**3.1**	**1.5**	**(0.2)**	**1.3**

(in billions of Russian Roubles)

28. 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 assessed probable outflow of resources and respective provision in the amount of RUR 2.1 billion has been made in these consolidated financial statements (31 December 2013: RUR 2.8 billion).

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

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

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

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

As at 31 March 2014 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Credit related commitments.

The total outstanding contractual amount of irrevocable undrawn credit lines, letters of credit and guarantees 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 March 2014 (unaudited)	*31 December 2013*
Guarantees issued	883.5	975.2
Letters of credit	52.3	46.0
Undrawn credit lines	33.8	28.0
Commitments to extend credit	2.7	2.6
Less: provision for impairment on credit related commitments	(1.0)	(0.8)
Total credit related commitments	**971.3**	**1,051.0**

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 March 2014 is RUR 122.0 billion (31 December 2013: RUR 109.0 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 15.2 billion (31 December 2013: RUR 10.5 billion).

As at 31 March 2014, included in guarantees issued are guarantees issued for a related Russian entity of RUR 53.2 billion or 6% of the guarantees issued. (31 December 2013: RUR 52.9 billion or 5% of the guarantees issued).

(in billions of Russian Roubles)

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

Purchase commitments. As at 31 March 2014 the Group had RUR 48.1 billion of outstanding commitments for the purchase of precious metals (31 December 2013: RUR 27.8 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognized on these contracts.

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

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

	31 March 2014		*31 December 2013*	
	Positive fair value	***Negative fair value***	***Positive fair value***	***Negative fair value***
Derivative financial assets and liabilities at fair value through profit or loss held for trading				
Foreign exchange and precious metals contracts				
Forwards	9.8	(5.7)	4.6	(4.3)
Futures	4.2	(0.4)	0.1	(0.7)
Swaps	20.6	(13.9)	13.4	(10.2)
Options	10.9	(11.1)	3.1	(4.9)
Contracts with securities				
Swap with securities	0.4	(0.6)	0.2	(0.2)
Options	4.1	(5.1)	4.2	(8.1)
Interest Rate contracts				
Single Currency Interest Rate swaps	10.7	(10.6)	10.1	(10.0)
Cross Currency Interest Rate swaps	50.2	(43.3)	34.1	(23.4)
Swaptions	0.5	(0.8)	0.6	(0.8)
Cap/Floor	–	(0.2)	–	(0.1)
Contracts with other basic variables				
Sale of Credit Default swaps	2.9	(1.5)	3.2	(1.4)
Purchase of Credit Default swaps	2.2	(2.4)	0.9	(1.9)
Futures on Indexes	–	(0.2)	0.1	–
Options on Indexes	2.2	(1.5)	1.7	(1.2)
Commodity swaps	0.1	(0.7)	0.4	(0.2)
Commodity futures	0.3	(0.3)	0.5	(0.5)
Commodity options	0.1	(0.2)	0.1	(0.2)
Commodity forwards	0.2	(0.2)	–	–
Embedded derivatives on structured instruments				
Embedded derivatives on foreign exchange instruments	4.8	(0.1)	1.9	–
Embedded derivatives on interest rate instruments	0.8	–	1.0	–
Embedded derivatives on securities instruments	–	(0.1)	–	(1.0)
Embedded derivatives on indexes	–	(0.5)	–	–
Total derivative financial assets and liabilities at fair value through profit or loss held for trading	**125.0**	**(99.4)**	**80.2**	**(69.1)**
Derivative financial assets and liabilities designated as hedging instruments				
Derivatives held as fair value hedges				
Interest Rate swaps	0.1	(2.4)	0.1	(2.4)
Foreign exchange swaps	0.1	–	–	–
Derivatives held as cash flow hedges				
Interest Rate swaps	0.1	–	0.2	(0.1)
Foreign exchange swaps	1.0	–	0.8	–
Forward sale of equity securities	9.7	–	7.8	–
Total derivative financial assets and liabilities designated as hedging instruments	**11.0**	**(2.4)**	**8.9**	**(2.5)**
Total derivatives	**136.0**	**(101.8)**	**89.1**	**(71.6)**

29. Analysis by Segment

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

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

As at 31 March 2014 the Group introduced a new reportable segment *Mid-Corporate banking (MCB)* previously combined in CIB following introduction of a new global business line of Mid-Corporate banking and subsequent client segmentation on the base of the clients' revenue and global business line geographical scope.

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

(in billions of Russian Roubles)

29. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 March 2014 (unaudited) and results for the three months ended 31 March 2014 (unaudited) is set out below:

	Corporate-Investment banking (CIB)					*Mid-Corporate banking (MCB)*					*Retail business (RB)*									
	Invest-ment banking	*Loans and deposits*	*Transac-tion banking*	*Inter-CIB elimi-nations*	*Total CIB*	*Invest-ment banking*	*Loans and deposits*	*Transac-tion banking*	*Inter-MCB elimi-nations*	*Total MCB*	*Retail banking*	*Insurance*	*Inter-RB elimi-nations*	*Total RB*	*Treasury*	*Corporate centre*	*Other*	*Total before Inter-segment elimi-nations*	*Inter-segment elimi-nations*	*Total*
For the three months ended 31 March 2014:																				
Revenues from:																				
External customers	33.4	67.1	2.4	–	102.9	0.1	20.2	3.0	–	23.3	81.9	11.9	–	93.8	19.4	–	8.2	247.6	–	247.6
Other segments	14.7	5.8	2.9	(0.3)	23.1	–	3.8	2.5	–	6.3	11.7	0.7	(0.3)	12.1	91.2	–	0.5	133.2	(133.2)	–
Total revenues	48.1	72.9	5.3	(0.3)	126.0	0.1	24.0	5.5	–	29.6	93.6	12.6	(0.3)	105.9	110.6	–	8.7	380.8	(133.2)	247.6
Segment income and expense																				
Interest income	36.3	71.4	2.8	(0.1)	110.4	0.1	23.3	2.5	–	25.9	80.8	0.4	(0.2)	81.0	102.6	–	0.3	320.2	(132.0)	188.2
Interest expense	(28.8)	(55.6)	(0.6)	0.1	(84.9)	(0.1)	(19.0)	(0.4)	–	(19.5)	(36.2)	(0.1)	0.1	(36.2)	(84.7)	–	(4.8)	(230.1)	131.8	(98.3)
Treasury result allocation	0.6	4.9	–	–	5.5	–	2.1	–	–	2.1	0.2	–	–	0.2	(12.4)	–	4.6	–	–	–
Net interest income	8.1	20.7	2.2	–	31.0	–	6.4	2.1	–	8.5	44.8	0.3	(0.1)	45.0	5.5	–	0.1	90.1	(0.2)	89.9
(Provision charge) / reversal of provision for impairment of debt financial assets	(1.4)	(14.4)	–	–	(15.8)	–	(6.5)	–	–	(6.5)	(26.7)	–	(0.1)	(26.8)	1.5	–	–	(47.6)	–	(47.6)
Net interest income after provision for impairment	6.7	6.3	2.2	–	15.2	–	(0.1)	2.1	–	2.0	18.1	0.3	(0.2)	18.2	7.0	–	0.1	42.5	(0.2)	42.3
Net fee and commission income/(expense)	1.4	0.1	2.3	(0.1)	3.7	–	–	2.4	–	2.4	7.5	–	–	7.5	0.5	–	0.2	14.3	–	14.3
Other gains less losses arising from financial instruments and foreign currencies	(2.9)	(1.2)	–	–	(4.1)	–	(0.1)	–	–	(0.1)	1.6	(0.1)	–	1.5	(5.4)	–	(2.7)	(10.8)	(2.2)	(13.0)
Share in income of associates and joint ventures	–	–	–	–	–	–	0.6	–	–	0.6	–	–	–	–	–	–	–	0.6	–	0.6
Profit from disposal of subsidiaries and associates	7.9	1.2	–	–	9.1	–	–	–	–	–	–	–	–	–	(0.1)	–	–	9.0	–	9.0
Other operating income/(expense) items	0.3	1.0	–	–	1.3	–	(0.4)	(0.1)	–	(0.5)	0.5	3.7	0.2	4.4	(0.1)	–	(1.0)	4.1	(0.6)	3.5
Net operating income	13.4	7.4	4.5	(0.1)	25.2	–	–	4.4	–	4.4	27.7	3.9	–	31.6	1.9	–	(3.4)	59.7	(3.0)	56.7
Staff costs and administrative expenses	(6.5)	(4.9)	(1.7)	0.1	(13.0)	–	(3.6)	(3.0)	–	(6.6)	(26.2)	(1.8)	0.3	(27.7)	(1.9)	(2.9)	(1.5)	(53.6)	0.8	(52.8)
Segment results: profit before taxation	6.9	2.5	2.8	–	12.2	–	(3.6)	1.4	–	(2.2)	1.5	2.1	0.3	3.9	–	(2.9)	(4.9)	6.1	(2.2)	3.9
Income tax expense	(1.1)	(2.8)	(0.8)	–	(4.7)	–	0.2	(0.4)	–	(0.2)	(0.7)	(0.8)	–	(1.5)	–	0.5	0.5	(5.4)	–	(5.4)
Net profit after tax	5.8	(0.3)	2.0	–	7.5	–	(3.4)	1.0	–	(2.4)	0.8	1.3	0.3	2.4	–	(2.4)	(4.4)	0.7	(2.2)	(1.5)
Profit after tax from subsidiaries acquired exclusively with a view to resale	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1.5	1.5	0.4	1.9
Net profit	5.8	(0.3)	2.0	–	7.5	–	(3.4)	1.0	–	(2.4)	0.8	1.3	0.3	2.4	–	(2.4)	(2.9)	2.2	(1.8)	0.4

(in billions of Russian Roubles)

29. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)					*Mid-Corporate banking (MCB)*					*Retail business (RB)*									
31 March 2014 (unaudited)	***Invest-ment banking***	***Loans and deposits***	***Transac-tion banking***	***Inter-CIB elimi-nations***	***Total CIB***	***Invest-ment banking***	***Loans and deposits***	***Transac-tion banking***	***Inter-MCB elimi-nations***	***Total MCB***	***Retail banking***	***Insurance***	***Inter-RB elimi-nations***	***Total RB***	***Treasury***	***Corporate centre***	***Other***	***Total before Inter-segment elimi-nations***	***Inter-segment elimi-nations***	***Total***
Cash and short-term funds	*94.3*	*0.4*	–	–	94.7	–	–	*1.4*	–	1.4	*132.8*	*0.5*	–	133.3	348.1	–	0.5	**578.0**	–	**578.0**
Mandatory cash balances with central banks	–	–	–	–	–	–	–	–	–	–	*18.4*	–	–	18.4	45.8	–	–	**64.2**	–	**64.2**
Due from other banks	*169.1*	*34.7*	–	–	203.8	*0.6*	–	–	–	0.6	*4.7*	*1.8*	–	6.5	145.1	–	0.2	**356.2**	–	**356.2**
Loans and advances to customers	*727.3*	*3,060.7*	–	–	3,788.0	*0.4*	*737.0*	–	–	737.4	*1,696.3*	–	–	1,696.3	20.0	–	30.5	**6,272.2**	–	**6,272.2**
Other financial instruments	*584.5*	*5.9*	–	–	590.4	*2.4*	*1.9*	–	–	4.3	*99.7*	*7.4*	–	107.1	421.8	–	31.2	**1,154.8**	–	**1,154.8**
Investments in associates and joint ventures	*64.4*	–	–	–	64.4	–	*7.4*	–	–	7.4	–	–	–	–	5.9	–	0.1	**77.8**	–	**77.8**
Other assets items	*106.6*	*118.0*	*19.0*	–	243.6	–	*127.3*	*30.0*	–	157.3	*104.5*	*27.8*	–	132.3	15.3	–	350.6	**899.1**	–	**899.1**
Net amount of intersegment settlements	–	–	*462.6*	*(462.6)*	–	–	–	*253.7*	*(253.7)*	–	*543.2*	*23.7*	–	566.9	2,084.6	–	–	**2,651.5**	(2,651.5)	**–**
Segment assets	***1,746.2***	***3,219.7***	***481.6***	***(462.6)***	**4,984.9**	***3.4***	***873.6***	***285.1***	***(253.7)***	**908.4**	***2,599.6***	***61.2***	–	**2,660.8**	**3,086.6**	–	**413.1**	**12,053.8**	**(2,651.5)**	**9,402.3**
Due to other banks	*83.3*	*7.1*	–	–	90.4	–	*0.7*	–	–	0.7	*17.9*	–	–	17.9	484.7	–	–	**593.7**	–	**593.7**
Customer deposits	*1,124.9*	*333.1*	*467.3*	–	1,925.3	–	*207.8*	*246.9*	–	454.7	*2,162.1*	–	–	2,162.1	382.2	–	4.3	**4,928.6**	–	**4,928.6**
Other borrowed funds	*55.1*	*99.3*	–	–	154.4	–	–	–	–	–	*85.4*	*1.2*	–	86.6	1,284.9	–	5.7	**1,531.6**	–	**1,531.6**
Debt securities issued	*35.3*	*58.5*	–	–	93.8	–	*11.6*	–	–	11.6	*51.1*	–	–	51.1	593.3	–	1.9	**751.7**	–	**751.7**
Subordinated debt	–	–	–	–	–	–	–	–	–	–	*6.4*	–	–	6.4	289.8	–	–	**296.2**	–	**296.2**
Other liabilities items	*157.7*	*23.7*	*2.6*	–	184.0	–	*6.2*	*2.3*	–	8.5	*19.2*	*46.7*	–	65.9	7.4	–	82.3	**348.1**	–	**348.1**
Net amount of intersegment settlements	*136.5*	*2,456.3*	–	*(462.6)*	2,130.2	*3.1*	*466.2*	–	*(253.7)*	215.6	–	–	–	–	–	–	305.7	**2,651.5**	(2,651.5)	**–**
Segment liabilities	***1,592.8***	***2,978.0***	***469.9***	***(462.6)***	**4,578.1**	***3.1***	***692.5***	***249.2***	***(253.7)***	**691.1**	***2,342.1***	***47.9***	**–**	**2,390.0**	**3,042.3**	**–**	**399.9**	**11,101.4**	**(2,651.5)**	**8,449.9**

(in billions of Russian Roubles)

29. Analysis by Segment (continued)

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

	Corporate-Corporate banking (CIB)										
	Investment banking	***Loans and deposits***	***Transaction banking***	***Inter-CIB eliminations***	***Total CIB***	***Retail banking***	***Treasury***	***Other***	***Total before inter-segment eliminations***	***Inter-segment eliminations***	***Total***
For the three months ended 31 March 2013:											
Revenues from:											
External customers	16.1	79.8	4.8	–	100.7	61.0	18.7	14.2	**194.6**	–	**194.6**
Other segments	13.9	11.4	6.6	(0.2)	31.7	14.9	78.0	1.6	**126.2**	(126.2)	**–**
Total revenues	**30.0**	**91.2**	**11.4**	**(0.2)**	**132.4**	**75.9**	**96.7**	**15.8**	**320.8**	**(126.2)**	**194.6**
Segment income and expense											
Interest income	25.0	88.7	6.6	–	120.3	64.2	93.2	0.5	**278.2**	(121.0)	**157.2**
Interest expense	(21.1)	(68.8)	(1.4)	–	(91.3)	(30.0)	(79.6)	(3.3)	**(204.2)**	120.8	**(83.4)**
Treasury result allocation	0.3	2.4	–	–	2.7	5.9	(8.6)	–	**–**	–	**–**
Net interest income	**4.2**	**22.3**	**5.2**	–	**31.7**	**40.1**	**5.0**	**(2.8)**	**74.0**	**(0.2)**	**73.8**
(Provision charge) / reversal of provision for impairment of debt financial assets	0.2	(10.7)	–	–	(10.5)	(11.1)	(0.3)	–	**(21.9)**	(0.1)	**(22.0)**
Net interest income after provision for impairment	**4.4**	**11.6**	**5.2**	**–**	**21.2**	**29.0**	**4.7**	**(2.8)**	**52.1**	**(0.3)**	**51.8**
Net fee and commission income / (expense)	1.3	0.2	4.2	–	5.7	8.2	–	0.1	**14.0**	(2.5)	**11.5**
Other gains less losses arising from financial instruments and foreign currencies	3.1	0.4	–	–	3.5	0.6	(2.9)	(2.5)	**(1.3)**	(0.2)	**(1.5)**
Share in income of associates and joint ventures	(0.2)	–	–	–	(0.2)	–	0.2	–	**–**	–	**–**
Profit from disposal of subsidiaries and associates	0.2	–	–	–	0.2	–	–	0.9	**1.1**	–	**1.1**
Other operating income / (expense) items	0.1	0.9	–	–	1.0	0.2	–	2.8	**4.0**	0.5	**4.5**
Net operating income	**8.9**	**13.1**	**9.4**	–	**31.4**	**38.0**	**2.0**	**(1.5)**	**69.9**	**(2.5)**	**67.4**
Staff costs and administrative expenses	(6.0)	(9.9)	(5.3)	–	(21.2)	(22.2)	(2.0)	(1.9)	**(47.3)**	1.4	**(45.9)**
Segment results: Profit before taxation	**2.9**	**3.2**	**4.1**	**–**	**10.2**	**15.8**	**–**	**(3.4)**	**22.6**	**(1.1)**	**21.5**
Income tax expense											**(5.8)**
Net profit											**15.7**

(in billions of Russian Roubles)

29. Analysis by Segment (continued)

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

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments

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

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

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

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

The following table shows an analysis of financial instruments recorded at recurring fair value by level of the fair value hierarchy as at 31 March 2014 (unaudited):

	Quoted prices in active markets *Level 1*	*Significant observable inputs* *Level 2*	*Significant unobservable inputs* *Level 3*	*Total*
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities	130.4	45.2	1.1	**176.7**
Trading credit products	–	52.3	2.5	**54.8**
Equity securities	14.1	3.3	–	**17.4**
Financial assets designated as at fair value through profit or loss				
Equity securities	14.2	–	13.1	**27.3**
Reverse sale and repurchase agreements to maturity	12.4	–	–	**12.4**
Debt securities	0.4	–	5.9	**6.3**
Financial assets available-for-sale				
Debt securities	122.9	81.0	1.4	**205.3**
Equity securities	0.2	2.1	22.2	**24.5**
Derivative financial assets at fair value through profit or loss				
Trading derivative financial instruments				
Interest rate contracts	–	61.4	–	**61.4**
Foreign exchange and precious metals contracts	–	39.9	5.6	**45.5**
Other basic assets contracts	–	8.0	–	**8.0**
Contracts with securities	–	4.5	–	**4.5**
Embedded derivatives on structured instruments	–	5.6	–	**5.6**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	0.2	–	**0.2**
Derivatives held as cash flow hedges	–	1.1	9.7	**10.8**
Financial assets pledged under repurchase agreements	109.3	86.4	–	**195.7**
Investments in associates and joint ventures at fair value through profit or loss	–	–	56.1	**56.1**
Financial liabilities measured at fair value				
Financial liabilities				
Trading derivative financial instruments				
Interest rate contracts	–	(54.9)	–	**(54.9)**
Foreign exchange and precious metals contracts	–	(31.1)	–	**(31.1)**
Contracts with securities	–	(2.2)	(3.5)	**(5.7)**
Other basic assets contracts	–	(7.0)	–	**(7.0)**
Embedded derivatives on structured instruments	–	(0.7)	–	**(0.7)**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	(2.4)	–	**(2.4)**
Derivatives held as cash flow hedges	–	–	–	**–**
Obligation to deliver securities	(32.2)	(1.3)	–	**(33.5)**

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

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

	Quoted prices in active markets *Level 1*	*Significant observable inputs* *Level 2*	*Significant unobservable inputs* *Level 3*	*Total*
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities	170.9	58.1	4.1	**233.1**
Trading credit products	–	49.0	–	**49.0**
Equity securities	9.4	5.4	–	**14.8**
Financial assets designated as at fair value through profit or loss				
Equity securities	–	1.4	15.5	**16.9**
Reverse sale and repurchase agreements to maturity	11.4	–	–	**11.4**
Debt securities	0.4	–	5.3	**5.7**
Financial assets available-for-sale				
Debt securities	56.0	54.1	0.6	**110.7**
Equity securities	0.1	0.7	23.9	**24.7**
Derivative financial assets at fair value through profit or loss				
Trading derivative financial instruments				
Interest rate contracts	–	44.8	–	**44.8**
Foreign exchange and precious metals contracts	–	16.1	5.1	**21.2**
Other basic assets contracts	–	6.9	–	**6.9**
Contracts with securities	–	4.4	–	**4.4**
Embedded derivatives on structured instruments	–	2.9	–	**2.9**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	0.1	–	**0.1**
Derivatives held as cash flow hedges	–	1.0	7.8	**8.8**
Financial assets pledged under repurchase agreements	101.7	71.1	0.3	**173.1**
Investments in associates and joint ventures at fair value through profit or loss	–	–	55.2	**55.2**
Financial assets measured at fair value within assets of disposal group held for sale	–	0.2	–	**0.2**
Financial liabilities measured at fair value				
Financial liabilities				
Trading derivative financial instruments				
Interest rate contracts	–	(34.3)	–	**(34.3)**
Foreign exchange and precious metals contracts	–	(20.1)	–	**(20.1)**
Contracts with securities	–	(2.0)	(6.3)	**(8.3)**
Other basic assets contracts	–	(5.4)	–	**(5.4)**
Embedded derivatives on structured instruments	–	(1.0)	–	**(1.0)**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	(2.4)	–	**(2.4)**
Derivatives held as cash flow hedges	–	(0.1)	–	**(0.1)**
Obligation to deliver securities	(25.5)	(1.4)	–	**(26.9)**

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

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

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

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

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the three months ended 31 March 2014 (unaudited) is as follows:

	Financial assets at fair value through profit or loss		*Financial assets pledged under repurchase agreements*				
	Financial assets held for trading	*Financial assets designated as at fair value through profit or loss*	*Financial assets held for trading*	*Financial assets available-for-sale*	*Investments in associates and joint ventures at fair value through profit or loss*	*Financial derivative assets and liabilities (net)*	*Financial derivative assets and liabilities (net) designated as hedginng instrument*
Fair value at 1 January 2014	**4.1**	**20.8**	**0.3**	**24.5**	**55.2**	**(1.2)**	**7.8**
Gains less losses arising from financial instruments at fair value through profit or loss	(0.1)	(1.8)	–	–	0.2	2.6	–
Gains less losses recognized in net result on financial assets available-for-sale and cash flow hedge	–	–	–	(0.1)	–	–	1.9
Initial recognition – purchase	0.1			0.7	0.7	–	–
Derecognition – sale	(0.2)	–	–	–	–	–	–
Derecognition – settlement	–	–	–	(0.1)	–	0.7	–
Acquisition of subsidiaries	–	–	–	–	–	–	–
Transfers into Level 3	2.5	–	–	–	–	–	–
Transfers out of Level 3	(2.8)	–	(0.3)	(1.4)	–	–	–
Fair value at 31 March 2014	**3.6**	**19.0**	**–**	**23.6**	**56.1**	**2.1**	**9.7**
Unrealized gains less losses recognized in net result on financial assets available-for-sale and cash flow hedge in other comprehensive income	–	–	–	**0.5**	–	–	**1.9**
Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss	**(0.1)**	**(1.8)**	–	–	–	**2.6**	–
Gains less losses from available-for-sale financial assets	–	–	–	**(0.6)**	–	–	–

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

Movement in Level 3 financial assets and liabilities measured at fair value (continued)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the period ended 31 March 2013 (unaudited) is as follows:

	Financial assets at fair value through profit or loss				
	Financial assets held for trading	*Financial assets designated as at fair value through profit or loss*	*Financial assets available-for-sale*	*Investments in associates at fair value through profit or loss*	*Financial derivative assets and liabilities (net)*
Fair value at 1 January 2013	**1.9**	**9.5**	**40.0**	**1.3**	**7.0**
Gains less losses arising from financial instruments at fair value through profit or loss	–	–	–	0.1	0.4
Gains less losses recognized in net result on financial assets available-for-sale	–	–	0.3	–	–
Initial recognition (purchase or issue)	2.1	–	0.1	–	–
Derecognition (sale or settlement)	–	–	(0.1)	–	–
Transfers out of Level 3 to other Levels	–	–	(5.9)	–	–
Fair value at 31 March 2013	**4.0**	**9.5**	**34.4**	**1.4**	**7.4**
Unrealized gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income	**–**	**–**	**0.2**	**–**	**–**
Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss	**–**	**–**	**–**	**0.1**	**0.4**

Transfers between levels

During the period ended 31 March 2014	*Reason for transfer (valuation at the reporting date)*	*Financial assets held for trading*	*Financial assets designated as at fair value through profit or loss*	*Financial Assets Pledged under Repurchase Agreements – financial assets held for trading*	*Financial assets available-for-sale*	*Total*
From Level 1:						
- to Level 2	valuation models with market observable inputs	13.7	–	29.2	0.7	**43.6**
From Level 2:						
- to Level 1	active market quotes	10.4	1.1	4.1	0.1	**15.7**
- to Level 3	valuation models with non- market-observable inputs	2.5	–	–	–	**2.5**
From Level 3:						
- to Level 2	valuation models with market observable inputs	0.3	–	0.3	1.4	**2.0**
Total		**26.9**	**1.1**	**33.6**	**2.2**	**63.8**

During the period ended 31 March 2013	*Reason for transfer (valuation at the reporting date)*	*Financial assets held for trading*	*Financial assets available-for-sale*	*Total*
From Level 1:				
- to Level 2	valuation models with market observable inputs	0.3	0.6	**0.9**
From Level 2:				
- to Level 1	active market quotes	0.2	–	**0.2**
From Level 3:				
- to Level 1	active market quotes	–	5.7	**5.7**
- to Level 2	valuation models with market observable inputs	–	0.2	**0.2**
Total		**0.5**	**6.5**	**7.0**

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

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

The following table shows the quantitative information as at 31 March 2014 about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

	Carrying amount	*Valuation techniques*	*Unobservable input description*	*Input*
Financial Assets Available-for-Sale				
Debt securities	1.4	Cost	n/a	n/a
Equity securities				
Finance companies, banks and leasing companies	1.2	Discounted cash flow	Weighted average cost of capital	11.3%-15.3% (13.3%)
			exit multiple	0.6-1 (0.8)
			Terminal growth rate	1%-3% (2%)
	0.7	Cost	n/a	n/a
Trade and commerce	2.1	Cost	n/a	n/a
Railway vehicle construction	1.1	Discounted Cash flow	Weighted average cost of capital	10.22%-12.22% (11.22%)
Telecommunications	4.1	Comparative method	EV/EBITDA (defense/security systems)	6.22-10.22 (8.22)
			EV/EBITDA (microelectronics)	7.99-11.99 (9.99)
Non-ferrous metals	5.6	Discounted cash flow	Weighted average cost of capital	12.4%-15.5% (12.8%)
			Terminal growth	3%-3% (3%)
			Cost of Debt	8.5%-8.5% (8.5%)
Real estate	0.5	Cost approach	Real estate prices	-10%-10% (0%)
Air transport	2.0	Market comparable companies	EV/pax, comparable airports	100 - 132.9 (123.22)
Building construction	3.2	Cost	n/a	n/a
Other mechanical engineering	0.5	Discounted cash flow	Weighted average cost of capital	10%-20% (15.2%)
			Terminal growth	2%-7% (5%)
			Cost of Debt	6%-10% (8.3%)
Other economic sectors	1.2	Cost	n/a	n/a
Financial assets designated as at fair value through profit or loss				
Equity securities				
Finance companies and banks	1.8	Cost	n/a	n/a
Mass Media	11.0	Cost	n/a	n/a
Other economic sectors	0.3	Cost	n/a	n/a
Debt securities				
Finance companies and banks	2.3	NAV+option adjustment	Volatility	10% - 30% (20%)
	3.6	NAV+option adjustment	Volatility	71.6% - 91.6% (81.6%)
Financial assets at fair value through profit or loss				
Trading credit products				
Finance companies and banks	2.5	Discounted Cash flow	Credit spread	5.41% - 6.61% (6.01%)
Debt securities				
Other economic sectors	1.1	Cost	n/a	n/a
Derivatives				
Equity options	(0.3)	Option model	Volatility	10% - 30% (20%)
	(3.2)	Option model	Volatility	71.6% - 91.6% (81.6%)
Foreign exchange	5.6	Discounted Cash flow	BYR curve	20% - 35% (26.8%)
Derivative financial assets and liabilities designated as hedging instruments				
Equity forward	9.7	Forward model	CDS spread	4.5% - 6.5% (5.5%)
			Fair value of underlying equity investment	RUR 5.6 billion- RUR 7.4 billion (5.6bln)
Investments in associates and joint ventures at fair value through profit or loss				
Building construction and development	2.0	Discounted dividend flow	Weighted average cost of capital	14.4% - 22.8% (17.1%)
	0.3	Discounted cash flow	Base equity risk premium	7% - 8% (7.5%)
	0.7	Cost	n/a	n/a
Telecommunications	53.1	Discounted cash flow	Weighted average cost of capital	13.1%-15.1% (14.08%)
			Terminal growth	1%-5% (3%)
			Minutes of use additional growth	-1.5%-1.5% (0%)
			CAGR in 2G subscribers	-4.65% - -0.65%
			Long-term CAPEX/Sales ratio after 2020	5.77% - 11.77%

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

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

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

31 December 2013	*Carrying amount*	*Valuation techniques*	*Unobservable input description*	*Input*
Financial Assets Available-for-Sale				
Finance companies, banks and leasing companies	1.1	Discounted cash flow	Weighted average cost of capital	12.3%-16.3% / (14.3%)
			exit multiple	0.6%-1% / (0.8%)
	2.4	Net asset value	n/a	n/a
Trade and commerce	2.0	Net asset value	n/a	n/a
Telecommunications	4.1	Comparative method	EV/EBITDA (defense/security systems)	6.22-10.22 / (8.22)
			EV/EBITDA (microelectronics)	7.99-11.99 / (9.99)
Railway vehicle construction	1.2	Discounted cash flow	Weighted average cost of capital	8%-12% / (9.97%)
			Utilization Rate	97%-100% / (98.50%)
			Change in Price of Railcars	-6%-6% / (0%)
			Change in Rental Rate	-5%-5% / (0%)
Non-ferrous metals	6.3	Discounted cash flow	Weighted average cost of capital	12.4%-15.5% / (12.8%)
			Terminal growth	3%-3% / (3%)
			Cost of Debt	8.5%-8.5% / (8.5%)
Real estate	0.5	Cost approach	Real estate prices	-10%-10% / (0%)
Air transport	1.8	Market comparable companies	EV/pax, comparable airports	100-132.9 / (123.22)
Building construction	3.2	Cost	n/a	n/a
Other mechanical engineering	0.5	Discounted cash flow	Weighted average cost of capital	10%-20% / (15.2%)
			Terminal growth	2%-7% / (5%)
			Cost of Debt	6%-10% / (8.3%)
Other economic sectors	1.4	Net asset value	n/a	n/a
Financial assets designated as at fair value through profit or loss				
Equity securities				
Finance companies and banks	1.7	Net asset value	n/a	n/a
Mass Media	13.6	Net asset value	n/a	n/a
Other economic sectors	0.2	Net asset value	n/a	n/a
Debt securities				
Finance companies and banks	5.3	Probable yield	Volatility	10%-30% / (20%)
Financial assets at fair value through profit or loss				
Equity securities				
Other mechanical engineering	17.1	Market prices	n/a	n/a
Other economic sectors	4.4	Net asset value	n/a	n/a
Derivatives				
Equity options	(6.3)	Option model	Volatility	10%-30% / (20%)
Foreign exchange	5.1	Discounted Cash flow	BYR interest rate curve	20%-30%/ (25%)
Derivative financial assets and liabilities designated as hedging instruments				
Equity forward	7.8	Forward model	CDS spread	4.5%-6.5% / (5.5%)
			Fair value of underlying equity investment	RUR 4.7 billion – RUR 6.2 billion (RUR 6.2 billion)
Investments in associates and joint ventures at fair value through profit or loss				
Building construction and development	2.1	Discounted dividend flow	Weighted average cost of capital	14.4%-22.8% / (17.1%)
			Base equity risk premium	7%-8% / (7.5%)
Telecommunications	53.1	Discounted cash flow	Weighted average cost of capital	13.1%-15.1% / (14.08%)
			Terminal growth	1%-5% / (3%)
			Minutes of use additional growth	-1.5%-1.5% / (0%)
			CAGR in 2G subscribers	-4.65%-0.65%
			Long-term CAPEX/Sales ratio after 2020	5.77%-11.77%
Non-financial assets				
Land and premises	103.5	Comparative method	Trade discount	5.0%-24.2% / (7.0%)
	2.7	Discounted cash flow	Capitalisation ratio	11.5%-15.1% / (12.5%)
Investment property	160.7	Combination of comparative, discounted cash flow and cost	Trade discount	7.0%-30.0% / (13.8%)
			Capitalisation ratio	9.4%-18.0% / (16.7%)
			Rate of return on investments	7.8%-20.0% / (17.7%)
Investment property within Assets of disposal group held for sale	5.3	Discounted cash flow	Capitalisation ratio	16.0%-18.0% / (17.0%)

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

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

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

	31 March 2014 (unaudited)		*31 December 2013*	
	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
Investment financial assets – available-for-sale	23.6	21.5-27.8	24.5	20.2-26.8
Financial assets designated as at fair value through profit or loss	19.0	19.0-19.1	20.8	19.6-20.1
Financial assets at fair value through profit or loss excluding derivatives	3.6	3.6-3.7	4.4	4.4-4.4
Financial instruments at fair value through profit or loss – derivatives	2.1	1.9-2.3	(1.2)	(1.2)-(1.2)
Derivative financial assets and liabilities designated as hedging instruments	9.7	7.9-10.1	7.8	7.5-9.5
Investments in associates and joint ventures designated as at fair value through profit or loss	56.1	47.3-65.8	55.2	46.3-64.8

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

Methods and assumptions for Level 2 financial instruments

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

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

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

	31 March 2014 (unaudited)		*31 December 2013*	
	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
Financial assets				
Cash and short-term funds	578.0	578.0	354.3	354.3
Mandatory cash balances with central banks	64.2	64.2	58.7	58.7
Financial assets pledged under repurchase agreements	308.8	302.3	293.5	304.8
Due from other banks	356.2	356.8	443.4	450.8
Russia	*89.4*	*92.8*	*98.4*	*98.9*
OECD	*222.4*	*220.7*	*303.8*	*309.7*
Other countries	*44.4*	*43.3*	*41.2*	*42.2*
Loans and advances to customers	6,272.2	6,356.5	5,969.0	6,081.1
Loans to legal entities	*4,766.8*	*4,802.3*	*4,531.1*	*4,582.5*
Loans to individuals	*1,505.4*	*1,554.2*	*1,437.9*	*1,498.6*
Investment securities held-to-maturity	0.6	0.6	0.7	0.7
Financial assets within Assets of disposal group held for sale	0.9	0.9	6.9	6.9
Other financial assets	90.3	90.3	66.4	66.4
Financial liabilities				
Due to other banks	593.7	595.0	666.6	679.9
Customer deposits	4,928.6	4,917.5	4,341.4	4,299.2
Deposits of legal entities	*3,066.4*	*3,055.7*	*2,548.0*	*2,528.8*
Deposits of individuals	*1,862.2*	*1,861.8*	*1,793.4*	*1,770.4*
Other borrowed funds	1,531.6	1,545.3	1,485.9	1,496.5
Debt securities issued	751.7	762.7	738.2	743.6
Subordinated debt	296.2	272.9	291.0	288.4
Financial liabilities within Liabilities of disposal group held for sale	1.7	1.7	13.4	13.4
Other financial liabilities	64.5	64.5	25.5	25.5

(in billions of Russian Roubles)

30. Fair Values of Financial Instruments (continued)

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

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

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

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

31. Related Party Transactions

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

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

Statements of financial position

	31 March 2014 (unaudited)		*31 December 2013*	
	Government-related entities	*Associates and joint ventures and other*	*Government-related entities*	*Associates and joint ventures and other*
Assets				
Cash and short-term funds	230.0	–	135.3	0.3
Mandatory reserve deposits with central banks	55.2	–	48.7	–
Financial assets at fair value through profit or loss	108.6	–	128.5	1.9
Financial assets pledged under repurchase agreements	471.5	–	439.2	0.1
Due from other banks	24.8	0.8	39.7	0.2
Loans and advances to customers	1,254.9	81.7	1,147.0	127.4
Allowance for loan impairment	(18.8)	(4.8)	(18.5)	(6.7)
Financial assets available-for-sale	125.9	–	48.4	0.1
Investment securities held-to-maturity	0.3	–	0.4	–
Other assets	19.6	0.1	40.5	3.7
Liabilities				
Due to other banks	258.8	6.0	253.8	5.4
Customer deposits	1,702.6	33.3	1,178.4	48.8
Other borrowed funds	1,199.2	–	1,190.9	–
Subordinated debt	200.9	0.2	201.5	0.2
Other liabilities	21.4	0.5	3.3	0.5
Credit Related Commitments				
Guarantees issued	302.3	6.8	400.5	6.6
Undrawn credit lines	1.8	–	1.3	–
Import letters of credit	13.5	–	13.6	–
Commitments to extend credit	0.1	–	0.1	–

Income statements

	For the three-month period ended 31 March	
	2014	*2013*
Interest income		
Loans and advances to customers	34.7	27.1
Securities	6.9	4.6
Due from other banks	0.4	0.5
Interest expense		
Customer deposits	(16.4)	(14.9)
Due to other banks and other borrowed funds	(22.2)	(19.7)
Subordinated debt	(4.0)	(4.2)
Reversal of / (provision charge) for impairment of debt financial assets	0.9	(5.7)

(in billions of Russian Roubles)

31. Related Party Transactions (continued)

Gain from disposal of associates disclosed in the Note 11.

For the three month-period ended 31 March 2014, the total remuneration of the directors and key management personnel of the Group including pension contributions amounted to RUR 1.3 billion (31 March 2013: RUR 1.5 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 March 2014 amounted to RUR 0.7 billion (31 December 2013: RUR 1.3 billion). Compensation to key management personnel primarily consists of short term employee benefits.

32. Capital Management and Capital Adequacy

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

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

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

	31 March 2014 (unaudited)	*31 December 2013*
Tier 1 capital		
Share capital	138.1	138.1
Share premium	433.8	433.8
Treasury shares and perpetual loan participation notes	(3.1)	(3.6)
Perpetual loan participation notes	80.3	73.6
Retained earnings	259.6	262.0
Unrealized gain on financial assets available-for-sale and cash flow hedge	(0.5)	3.0
Currency translation difference	18.4	12.5
Non-controlling interests	6.2	7.6
Deducted: Goodwill	(120.4)	(120.4)
Total Tier 1 capital	***812.4***	***806.6***
Tier 2 capital		
Land and premises revaluation reserve	19.6	20.1
Subordinated debt	273.6	271.9
Total Tier 2 capital	***293.2***	***292.0***
Total capital before deductions	**1,105.6**	**1,098.6**
Deducted: Investments in the capital of other banks and financial institutions	(5.9)	(5.8)
Total capital after deductions	**1,099.7**	**1,092.8**
Risk-weighted assets		
Credit risk	7,242.5	6,735.8
Market risks	636.9	695.0
Total risk-weighted assets	***7,879.4***	***7,430.8***
Tier 1 capital ratio to total risk-weighted assets	**10.3%**	**10.9%**
Total capital ratio to total risk-weighted assets	**14.0%**	**14.7%**

(in billions of Russian Roubles)

33. Business Combinations and Disposal of Subsidiaries

In the first quarter 2014 the Group disposed of its shares in "Orenburgskaya burovaya companiya" to a government-related entity. The values of identifiable assets and liabilities disposed by the Group were as follows:

	RUR billion
Assets	
Cash and short-term funds	0.3
Financial assets at fair value through profit or loss	–
Due from other banks	–
Financial assets available-for-sale	–
Premises and equipment	3.4
Investment property	–
Intangible assets and goodwill	–
Other assets	5.2
Total assets	**8.9**
Liabilities	
Due to other banks and other borrowed funds	2.0
Other borrowed funds	0.4
Deferred tax liability	0.2
Other liabilities	3.9
Total liabilities	**6.5**
Identifiable net assets of subsidiary	**2.4**
Financial result from disposal of subsidiary:	
Consideration received	2.8
Liability to non-controlling interests	0.8
Less: identifiable net assets of subsidiary	(2.4)
Financial result from disposal of subsidiary	**1.2**

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

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

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

34. Subsequent Events

In April and May 2014, VTB redeemed Euro-Commercial Paper (ECP) notes in the total amount of USD 214 million (RUR 7.6 billon) upon maturity.

In April 2014 VTB issued Euro-Commercial Paper (ECP) notes in the total amount of USD 172.5 million (RUR 6.2 billon) and EUR 13.5 million (RUR 0.7 billion) maturing in April 2015.

In April 2014, “Bank VTB 24”, CJSC redeemed its RUR 4.0 billion local bonds payable upon maturity.