VTB BANK

Consolidated Financial Statements
and Auditors' Report

For the years ended 31 December 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Supervisory Council and Shareholders of VTB Bank:

We have audited the accompanying consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statements of financial position as at 31 December 2009 and 2008, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the years then ended, and a summary of principal accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

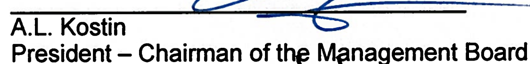
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

25 March 2010

A member firm of Ernst & Young Global Limited

	Note	2009	2008
Assets			
Cash and short-term funds	7	260.2	416.1
Mandatory cash balances with central banks		23.9	7.6
Financial assets at fair value through profit or loss	8	267.9	170.8
Financial assets pledged under repurchase agreements and loaned financial assets	9	96.2	44.5
Due from other banks	10	345.6	308.0
Loans and advances to customers	11	2,309.9	2,555.6
Financial assets available-for-sale	12	24.9	23.9
Investments in associates	13	13.9	4.5
Investment securities held-to-maturity	14	11.7	20.7
Premises and equipment	15	65.9	60.8
Investment property	16	79.8	4.3
Intangible assets and goodwill	17	11.9	11.3
Deferred tax asset	32	31.4	9.3
Other assets	18	67.6	60.0
Total assets		**3,610.8**	**3,697.4**
Liabilities			
Due to other banks	19	287.0	388.7
Customer deposits	20	1,568.8	1,101.9
Other borrowed funds	21	470.9	848.7
Debt securities issued	22	485.7	560.1
Deferred tax liability	32	7.0	5.5
Other liabilities	24	91.2	174.1
Total liabilities before subordinated debt		**2,910.6**	**3,079.0**
Subordinated debt	23	195.3	226.3
Total liabilities		**3,105.9**	**3,305.3**
Equity			
Share capital	25	113.1	75.7
Share premium		358.5	215.8
Treasury shares		(0.4)	(0.4)
Unrealized gain on financial assets available-for-sale and cash flow hedge		3.4	0.1
Premises revaluation reserve		11.8	14.2
Currency translation difference		13.2	13.1
Retained earnings		2.7	70.9
Equity attributable to shareholders of the parent		**502.3**	**389.4**
Non-controlling interests		2.6	2.7
Total equity		**504.9**	**392.1**
Total liabilities and equity		**3,610.8**	**3,697.4**

Approved for issue and signed on 25 March 2010.



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

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

	Note	*2009*	*2008*
Interest income	26	373.7	245.2
Interest expense	26	(221.5)	(131.6)
Net interest income		**152.2**	**113.6**
Provision charge for impairment	31	(154.7)	(63.2)
Net interest (expense) / income after provision for impairment		**(2.5)**	**50.4**
(Losses net of gains) / gains less losses arising from financial instruments at fair value through profit or loss	27	(21.3)	4.0
Gains less losses arising from extinguishment of liability	19, 22, 23	14.7	9.5
Gains less losses / (losses net of gains) from available-for-sale financial assets		1.1	(1.6)
Losses on initial recognition of financial instruments and on loans restructuring		(19.7)	–
Losses net of gains arising from dealing in foreign currencies		(12.4)	(64.7)
Foreign exchange translation gains less losses		26.6	67.0
Fee and commission income	28	25.5	19.4
Fee and commission expense	28	(4.5)	(3.1)
Share in income of associates		0.3	0.2
Provision charge for impairment of other assets and credit related commitments	31	(1.7)	(1.5)
Income arising from non-banking activities		2.8	3.2
Other operating income	29	3.0	4.4
Net non-interest income		**14.4**	**36.8**
Operating income		**11.9**	**87.2**
Staff costs and administrative expenses	30	(76.4)	(67.5)
Expenses arising from non-banking activities		(1.1)	(1.4)
Impairment of goodwill	17, 41	(3.7)	(0.2)
Profit from disposal of subsidiaries and associates	41	1.0	–
(Loss) / profit before taxation		**(68.3)**	**18.1**
Income tax recovery / (expense)	32	8.7	(13.5)
Net (loss) / profit		**(59.6)**	**4.6**
Net (loss) / profit attributable to:			
Shareholders of the parent		**(63.4)**	**4.8**
Non-controlling interests		**3.8**	**(0.2)**
Basic and diluted earnings per share (expressed in Russian Roubles per share)	33	**(0.00821)**	**0.00072**

	2009	*2008*
Net (loss) / profit for the period	**(59.6)**	**4.6**
Other comprehensive income:		
Unrealized gain / (loss) on financial assets available-for-sale, net of tax	3.8	(1.3)
Cash flow hedges, net of tax	(0.4)	(0.8)
Revaluation of premises, net of tax	(1.0)	0.6
Actuarial gains less losses arising from difference between pension plan assets and obligations	–	(0.5)
Effect of translation, net of tax	0.7	1.7
Reclassification adjustment of currency translation difference due to disposal of subsidiary (Note 41)	(1.2)	–
Other comprehensive income for the period, net of tax	**1.9**	**(0.3)**
Total comprehensive income for the period	**(57.7)**	**4.3**
Total comprehensive income attributable to:		
Shareholders of the parent	(61.0)	4.7
Non-controlling interests	3.3	(0.4)

	Note	*2009*	*2008*
Cash flows from (used in) operating activities			
Interest received		324.1	236.3
Interest paid		(219.1)	(120.2)
Income received / (losses incurred) on operations with financial instruments at fair value through profit or loss		2.7	(8.0)
Income received from extinguishment of liability		7.4	–
Loss incurred on dealing in foreign currency		(37.4)	(33.2)
Fees and commissions received		25.7	18.5
Fees and commissions paid		(4.0)	(2.7)
Income arising from non-banking activities and other operating income received		5.7	5.0
Staff costs, administrative expenses and expenses arising from non-banking activities paid		(65.4)	(59.9)
Income tax paid		(13.2)	(14.6)
Cash flows from operating activities before changes in operating assets and liabilities		**26.5**	**21.2**
Net decrease / (increase) in operating assets			
Net (increase) /decrease in mandatory cash balances with central banks		(16.1)	13.1
Net (increase) / decrease in restricted cash		(0.3)	0.7
Net (increase) / decrease in financial assets at fair value through profit or loss		(216.8)	115.2
Net increase in due from other banks		(17.2)	(23.9)
Net increase in loans and advances to customers		(65.4)	(888.9)
Net decrease / (increase) in other assets		9.8	(18.6)
Net (decrease) / increase in operating liabilities			
Net decrease in due to other banks		(67.8)	(20.1)
Net increase in customer deposits		465.3	126.7
Net (decrease) / increase in promissory notes and deposit certificates issued		(5.5)	66.5
Net (decrease) / increase in other liabilities		(10.5)	7.7
Net cash from (used in) operating activities		**102.0**	**(600.4)**
Cash flows from (used in) investing activities			
Dividends received		0.2	1.3
Proceeds from sale or maturities of financial assets available-for-sale		69.2	25.7
Purchase of financial assets available-for-sale		(15.6)	(13.6)
Purchase of subsidiaries, net of cash acquired		(0.4)	(0.2)
Share issue to minorities		1.5	–
Decrease of share capital of subsidiaries, paid to minorities		(0.1)	–
Disposal of subsidiaries, net of cash disposed		(0.4)	–
Purchase of / contributions to associates		(4.8)	(0.4)
Purchase of non-controlling interest in subsidiaries		(0.2)	(7.8)
Purchase of investment securities held-to-maturity		(1.4)	(8.3)
Proceeds from redemption of investment securities held-to-maturity		3.4	–
Purchase of premises and equipment		(11.5)	(10.4)
Proceeds from sale of premises and equipment		1.6	2.6
Purchase of intangible assets		(0.8)	(0.8)
Net cash from (used in) investing activities		**40.7**	**(11.9)**

	Note	*2009*	*2008*
Cash flows (used in) from financing activities			
Dividends paid		(4.6)	(9.0)
Proceeds from issuance of local bonds		35.9	26.0
Repayment of local bonds		(4.9)	(7.6)
Buy-back of local bonds		(6.9)	(0.2)
Proceeds from sale of previously bought-back local bonds		6.3	–
Proceeds from issuance of Eurobonds		22.2	84.7
Repayment of Eurobonds		(116.4)	(68.8)
Buy-back of Eurobonds		(18.0)	(18.6)
Proceeds from sale of previously bought-back Eurobonds		1.1	–
Proceeds from syndicated loans		–	38.9
Repayment of syndicated loans		(38.4)	(27.2)
Proceeds from other borrowings		1,261.8	699.5
Repayment of other borrowings		(1,617.3)	(47.3)
Proceeds from share issue, less transaction costs		180.1	–
Proceeds from subordinated debt		–	200.0
Repayment of subordinated debt		–	(0.4)
Buy-back of subordinated debt		(6.4)	(3.9)
Proceeds from sale of treasury shares		–	0.1
Net cash (used in) from financing activities		**(305.5)**	**866.2**
Effect of exchange rate changes on cash and cash equivalents		**6.6**	**36.0**
Net (decrease) / increase in cash and cash equivalents		**(156.2)**	**289.9**
Cash and cash equivalents at the beginning of the year	7	415.0	125.1
Cash and cash equivalents at the end of the year	**7**	**258.8**	**415.0**

	Attributable to shareholders of the parent									
	Share capital	***Share premium***	***Treasury shares***	***Unrealized gain on financial assets available-for-sale and cash flow hedge***	***Premises revaluation reserve***	***Currency translation difference***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total equity***
Balance at 1 January 2008	**93.5**	**232.1**	**(0.5)**	**2.9**	**15.2**	**(25.7)**	**80.3**	**397.8**	**7.2**	**405.0**
Effect of changes in functional currency	(17.8)	(16.3)	–	(0.7)	(0.8)	37.0	(1.4)	**–**	–	**–**
Balance at 1 January 2008	**75.7**	**215.8**	**(0.5)**	**2.2**	**14.4**	**11.3**	**78.9**	**397.8**	**7.2**	**405.0**
Dividends declared	–	–	–	–	–	–	(9.0)	**(9.0)**	(0.6)	**(9.6)**
Treasury shares	–	–	0.1	–	–	–	–	**0.1**	–	**0.1**
Acquisition of subsidiaries	–	–	–	–	–	–	–	**–**	0.1	**0.1**
Acquisition of non-controlling interests	–	–	–	–	–	–	(4.3)	**(4.3)**	(3.5)	**(7.8)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	0.1	**0.1**	(0.1)	**–**
Total comprehensive income for the period	–	–	–	(2.1)	0.7	1.8	4.3	**4.7**	(0.4)	**4.3**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.9)	–	0.9	**–**	–	**–**
Balance at 31 December 2008	**75.7**	**215.8**	**(0.4)**	**0.1**	**14.2**	**13.1**	**70.9**	**389.4**	**2.7**	**392.1**
Share issue (Note 25)	37.4	142.7	–	–	–	–	–	**180.1**	–	**180.1**
Acquisition of subsidiaries (Note 41)	–	–	–	–	–	–	–	**–**	(2.8)	**(2.8)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	0.4	**0.4**	1.0	**1.4**
Acquisition of non-controlling interests	–	–	–	–	–	–	(0.2)	**(0.2)**	–	**(0.2)**
Total comprehensive income for the period	–	–	–	3.3	(1.0)	0.1	(63.4)	**(61.0)**	3.3	**(57.7)**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.4)	–	1.4	**–**	–	**–**
Dividends declared (Note 34)	–	–	–	–	–	–	(3.0)	**(3.0)**	(1.6)	**(4.6)**
Put options over non-controlling interests (Note 24)	–	–	–	–	–	–	(3.4)	**(3.4)**	–	**(3.4)**
Balance at 31 December 2009	**113.1**	**358.5**	**(0.4)**	**3.4**	**11.8**	**13.2**	**2.7**	**502.3**	**2.6**	**504.9**

1. Principal Activities

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

VTB Bank, formerly known as Vneshtorgbank (the “Bank”, or “VTB”), was formed as Russia’s foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganisations, VTB was reorganized into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. Simultaneously, the names of some of VTB’s subsidiaries were changed as presented in Note 40. 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”. The main retail subsidiary bank - VTB 24, CJSC is also a member of the obligatory deposit insurance system provided by the State Corporation “Deposit Insurance Agency” since 22 February 2005. OJSC “Bank VTB North-West” (former OJSC “Industry & Construction Bank”), a subsidiary acquired at the end of 2005, is also a member of the obligatory deposit insurance system since 11 January 2005. The State deposit insurance scheme implies that the State Corporation “Deposit Insurance Agency” guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 700 thousand with a 100% compensation of deposited amount from 1 October 2008.

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

A list of major subsidiaries and associates included in these consolidated financial statements is provided in Note 40.

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. The Group’s operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through VTB as a parent and 2 subsidiary banks with its network of 81 full service branches, including 55 branches of VTB, 9 branches of VTB 24 and 17 branches of VTB North-West, located in major Russian regions. The Group operates outside Russia through 12 bank subsidiaries, located in the Commonwealth of Independent States (“CIS”) (Armenia, Ukraine, Belarus, Kazakhstan and Azerbaijan), Europe (Austria, Cyprus, Germany, France and Great Britain), Georgia, Africa (Angola) and through 3 representative offices located in Italy, China and the Kyrgyz Republic and through 2 VTB branches in China and India and 2 branches of “VTB Capital”, Plc in Singapore and Dubai.

VTB’s majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 85.50% of VTB’s issued and outstanding shares at 31 December 2009 (31 December 2008: 77.47%).

The number of employees of the Group at 31 December 2009 was 40,447 (31 December 2008: 41,992).

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

2. Operating Environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, increased unemployment in Russia, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures, including these aimed at providing liquidity to Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects.

2. Operating Environment of the Group (continued)

Subject to fluctuations in prices in global and Russian securities markets, the Group may face a significant decrease in the values of securities, which may have a material negative impact on the financial result of the Group. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

Also, the borrowers of the Group may be affected by the deterioration in liquidity, which could in turn impact their ability to repay the amounts due to the Group. Due to the fall in securities markets, the Group may face a significant decrease in the values of securities pledged as collateral against loans extended by the Group. The Group also bears the risk of adverse effect from the credit related commitments as a result of deterioration in the market situation. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

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

3. Basis of Preparation

General

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

These financial statements have been prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, revaluation of premises and investment properties, available-for-sale financial assets, and financial instruments categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below in Note 4. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian Rouble (RUR). Historically, for the purpose of preparation of IFRS financial statements, the Management of the Bank selected the United States Dollar (USD) as the functional currency.

In 2007, the Bank performed a re-assessment of its functional currency for the purposes of International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" (IAS 21) due to the following reasons:

- The Rouble share of the Bank's assets and liabilities is constantly increasing;
- The Bank's customer base is expanding to include more Russian corporations and individuals, whose revenues are generated in Russian Roubles;
- The Russian Rouble is the currency of the primary economic environment in which the Bank operates.

As a result, the Bank changed the functional currency of the Bank from the USD to the Russian Rouble (RUR) starting from 1 January 2008.

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", the change in the functional currency was accounted for prospectively from 1 January 2008.

These financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. Historically, for the purpose of presentation of IFRS financial statements, the Management of the Group used the United States Dollar (USD). Starting from 1 January 2009 the Management of the Group has decided to use Russian Roubles as the presentation currency and translated the comparative data for the purpose of these financial statements at the applicable exchange rates in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates".

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the certain new standards and interpretations, which became effective for the Group from 1 January 2009, and certain revised standards, early adopted by the Group, as described below:

IAS 1 "Presentation of Financial Statements" (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income, which also includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income.

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

The Group has opted to present two separate statements: income statement and statement of comprehensive income. As a result of other changes the Group has presented the statement of financial position previously referred as the balance sheet.

IFRS 7 "Financial Instruments: Disclosures" - Amendment "Improving Disclosures about Financial Instruments" (effective for annual periods beginning on or after 1 January 2009). The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group is presenting the fair value measurement disclosures in these financial statements as shown in Note 38 with relative comparative information.

IFRS 8 "Operating segments" (effective for periods beginning on or after 1 January 2009) – The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments on a similar basis to that used for internal reporting purposes. The Management of the Group has determined the operating segments as shown in Note 36 and presented the revised comparative information.

IAS 23 "Borrowing Costs" (effective for periods beginning on or after 1 January 2009) – A revised IAS 23 was issued in March 2007. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Group has adopted this as a prospective change. Accordingly, borrowing costs are capitalized on qualifying assets with a commencement date on or after 1 January 2009. No changes have been made for borrowing costs incurred to this date that have been expensed.

IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – "Puttable Financial Instruments" (effective for annual periods beginning on or after 1 January 2009) – Amendment was issued in February 2008 and requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The revised IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. These amendments had no impact on the financial statements of the Group.

IFRS 3 "Business Combinations" (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009) – The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group early adopted revised IFRS 3 from 1 January 2009.

IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009) – The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions – which is in line with current Group accounting policies. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group early adopted the revised IAS 27 from 1 January 2009.

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

“Improvements to International Financial Reporting Standards” (issued in May 2008) – In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The first omnibus of amendments consists of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets, which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments had no material effect on Group’s financial statements except:

- ***IAS 40 “Investment Property”*** (and consequential amendments to IAS 16) – Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date, at which the fair value becomes reliably measurable. The Group applied the amendment prospectively from 1 January 2009.
- ***IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”*** – IAS 20 has been amended to require that loans received from the government that have a below-market rate of interest be recognized and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognised in the statement of financial position. This benefit is accounted for in accordance with IAS 20. The amendment is early applied by the Group to government loans received on or after 1 January 2008.
- ***IAS 16 “Property, Plant and Equipment”*** (and consequential amendments to IAS 7) – Under the amended standard, entities that routinely sell assets previously held for rental are required to classify such assets as inventories from the point that the assets cease to be leased and become held for sale, while the proceeds from sale are recognised as revenue. The rent and proceeds from sale have to be classified as cash flows from operating activities. The Group amended its accounting policies accordingly.

IFRS 1 ”First-time Adoption of IFRS” and IAS 27 “Consolidated and Separate Financial Statements” – “Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate” (revised in May 2008; effective for annual periods beginning on or after 1 January 2009) – The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendment has no impact on the Group’s financial statements.

IAS 39 “Financial Instruments: Recognition and Measurement” and IFRIC 9 “Reassessment of Embedded Derivatives” – “Embedded Derivatives” (issued in March 2009) – The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have any impact on the Group’s financial statements.

IFRS 2 “Share-based Payments” – ***“Vesting Conditions and Cancellations”*** (issued in January 2008, effective for periods beginning on or after 1 January 2009) – Amendment restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation**.** The Group has not entered into share-based payment schemes and, therefore, the amendment has no impact on the Group’s financial statements.

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

IFRIC 13 "Customer Loyalty Programmes" (effective for annual periods beginning on or after 1 July 2008) – IFRIC Interpretation 13 was issued in June 2007. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction, in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. This interpretation has no material impact on the Group's financial statements.

IFRIC 15 "Agreements for the Construction of Real Estate" (effective for annual periods beginning on or after 1 January 2009) – The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. This interpretation has no material impact on the Group's financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 October 2008) – The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure, to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. The Group's financial statements were not affected by application of this interpretation.

IFRIC 18 "Transfers of Assets from Customers" (effective for transfers received on or after 1 July 2009) – The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances, in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 had no impact on the Group's financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) – IFRS for SMEs is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognizing and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

IFRSs (IASs) and IFRIC interpretations not yet effective

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

IAS 39 "Financial Instruments: Recognition and Measurement" – "Eligible Hedged Items" (effective for annual periods beginning on or after 1 July 2009) – The amendment to IAS 39 was issued in August 2008. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment is not expected to have an impact on the Group's future financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners" (effective for annual periods beginning on or after 1 July 2009) – The Interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not applicable to the Group's operations because it does not distribute non-cash assets to owners.

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

3. Basis of Preparation (continued)

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

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

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (following an Amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009) – The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRS 2 "Share-based Payment" – "Group Cash-settled Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2010) – The amendment provides a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendment incorporates into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendment expands on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendment also clarifies the defined terms in the Appendix to the standard. The Group does not expect the amendment to have any material effect on its financial statements.

IFRS 1 "First-time Adoption of **International Financial Reporting Standards" – "Additional Exemptions for First-time Adopters"** (effective for annual periods beginning on or after 1 January 2010) – The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, "Determining Whether an Arrangement Contains a Lease" when the application of their national accounting requirements produced the same result. The Group does not expect the amendments to have any impact on its financial statements.

IAS 24 "Related Party Disclosures" (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011) – IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group considers the ability of early adoption of the revised standard as it will significantly affect disclosures in the Group's financial statements as the parent company is controlled by the government.

"Improvements to International Financial Reporting Standards" (issued in April 2009) – The second omnibus of amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16, effective for annual periods beginning on or after 1 July 2009; and amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39, effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations,

(ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

3. Basis of Preparation (continued)

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

IFRS 9 "Financial Instruments Part 1: Classification and Measurement" – IFRS 9 was issued in November 2009 and will replace those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into one of the two measurement categories: those to be measured subsequently at fair value, or those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses in other comprehensive income rather than in profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

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

4. Summary of Principal Accounting Policies

Subsidiaries

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

Acquisition of subsidiaries

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

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

Non-controlling interest is the interest in subsidiaries not attributable, directly or indirectly to the Group. Non-controlling interest at the acquisition date is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This choice is made by the acquirer for each business combination. Non-controlling interest at the subsequent reporting date represents the initially recognized amount of non-controlling interest at the acquisition date and the minorities' portion of movements in other comprehensive income and equity since the date of the combination. Non-controlling interest is presented as a separate component within the Group's equity except for the non-controlling interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

4. Summary of Principal Accounting Policies (continued)

Subsidiaries (continued)

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

Increases in ownership interests in subsidiaries

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

Investments in associates and joint ventures

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

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

Financial assets

Initial recognition of financial assets

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

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

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

Classification and reclassification of financial assets

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

4. Summary of Principal Accounting Policies (continued)

Financial Assets (continued)

Financial assets at fair value through profit or loss

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

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

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

Other financial assets at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities and is in accordance with IAS 39 revised for the fair value option.

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

Loans and receivables

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

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

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

Held-to-maturity investments

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

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

4. Summary of Principal Accounting Policies (continued)

Financial Assets (continued)

Available-for-sale financial assets

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

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

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

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

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

Derecognition of financial assets

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

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

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

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

4. Summary of Principal Accounting Policies (continued)

Financial Assets (continued)

Restructuring of financial assets

The Group from time to time restructures some of its financial assets. This mostly relates to loans and receivables. The accounting treatment of such restructuring is conducted in 3 basic scenarios:

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

Securitization of financial assets

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

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

4. Summary of Principal Accounting Policies (continued)

Offsetting

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

Cash and cash equivalents

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

Mandatory cash balances with central banks

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

Due from other banks

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

Repurchase and reverse repurchase agreements and lending of financial instruments

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

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

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

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

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

Derivative financial instruments

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

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

4. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

Hedge accounting

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

Promissory notes purchased

Promissory notes purchased are included in trading securities, or in due from other banks, or in loans and advances to customers or in investment securities held-to-maturity, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. When promissory notes are pledged under repurchase agreements and the counterparty has the right to resell them, they are accounted within the relevant section within "Financial assets pledged under repurchase agreements and loaned financial assets".

Leases

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

4. Summary of Principal Accounting Policies (continued)

Leases (continued)

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

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

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

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

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

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

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

Impairment of Available-for-sale financial assets

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

Investment property

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

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

4. Summary of Principal Accounting Policies (continued)

Investments property (continued)

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

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

Premises and equipment

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

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

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

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

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

Land and premises have been revalued to market value at 31 December 2009. The revaluation was performed based on the reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

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

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to income statement to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

4. Summary of Principal Accounting Policies (continued)

Depreciation

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

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

Estimated useful lives and residual values are reassessed annually.

Goodwill

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

(a) the aggregate of:

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

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

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

As stated above, the revised IFRS 3, which was early adopted by the Group, allows the acquirer for each business combination to measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This results in different amount of goodwill or gain from bargain purchase to be recognized in financial statements depending on the choice of the acquirer.

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

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

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

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

4. Summary of Principal Accounting Policies (continued)

Intangible assets

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

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

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

Core deposit intangible

Core deposit intangible relates to the acquisition of the Group's subsidiaries and is attributable to the customer demand deposits and stable client base, and is identified as an intangible asset. The identification was based on examination of the subsidiaries' customer base. It was concluded that the acquired subsidiaries had a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The useful life of the core deposit intangible was estimated as five years and it is amortized over its useful life using the straight-line method.

Due to other banks

Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The liability is carried at amortized cost using the effective interest method. If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from extinguishment of liability in the income statement.

Customer deposits

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

Debt securities issued

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

Other borrowed funds

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

Taxation

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

4. Summary of Principal Accounting Policies (continued)

Taxation (continued)

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

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

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

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

Provisions for liabilities and charges

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

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, including letters of credit and guarantees. Financial guarantee contracts are recognized initially at fair value and remeasured at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 “Revenue”. Commitments to provide loans at a below-market interest rate are initially recognized at fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. Specific provisions are recorded against other credit related commitments when losses are considered more likely than not.

Share premium

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

Dividends

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

4. Summary of Principal Accounting Policies (continued)

Income and expense recognition

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

Salary costs

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

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

Foreign currency translation

The Group's parent Bank changed the functional currency of the Bank from the USD to the Russian Rouble (RUR) with effect from 1 January 2008 (Note 3). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate equivalent, translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. Historically, for the purpose of presentation of IFRS financial statements, the Management of the Group used the United States Dollar (USD). Starting from 1 January 2009 the Management of the Group has decided to use Russian Roubles as the presentation currency and translated the comparative data for the purpose of these financial statements at the applicable exchange rates in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". As at the reporting date, the assets and liabilities of the entities, whose functional currency is different from the presentation currency of the Group, are translated into RUR at the closing rate of exchange at the reporting date and, their income statements are translated at the weighted average exchange rates for the preceding reporting period. The exchange differences arising on the translation are recognized in other comprehensive income in a separate component of equity. On disposal of a subsidiary or an associate, whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in equity relating to that particular entity is reclassified to the income statement.

At 31 December 2009, the principal rate of exchange used for translating balances in RUR to USD was USD 1 to RUR 30.2442 (at 31 December 2008: USD 1 to RUR 29.3804) and the principal rate of exchange used for translating balances in Euro (EUR) was EUR 1 to RUR 43.3883 (at 31 December 2008: EUR 1 to RUR 41.4411).

Fiduciary assets

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

4. Summary of Principal Accounting Policies (continued)

Segment reporting

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

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

5. Significant Accounting Estimates and Judgements

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

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates.

Allowance for impairment of loans and receivables and on commitments to provide loans

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

For the purposes of calculation of loan loss allowances as of 31 December, 2009, the Bank applied the internally approved formalized provisioning methodology, in particular in relation to IBNR (incurred but not reported) losses attributable to collectively assessed portfolios with similar credit risk characteristics, by industry and by borrower creditworthiness class. Historic loss patterns as of 31 December 2009 modelled in accordance with IAS 39 were adjusted to reflect current conditions. Application of the IBNR-loss model used by the Bank displayed decrease of loss concentrations in certain homogeneous loan portfolios due to the improvement of situation in the appropriate industries during the fourth quarter of 2009. Taking into account the short duration of the period as well as internal and external experienced judgement, the Bank generalized that these improvements may not necessarily be indicative of a fundamental improvement of the quality of the loan portfolio. On this basis, the Bank opted to maintain the collective loan loss provisioning rates at the same level as at 30 September 2009 for such loan portfolios that displayed indicators of quality improvement as defined by the methodology used by the Bank. If the previously applied methodology had been used, allowances for impairment of loans and advances as of 31 December 2009 and for the year then ended, would have been lower by RUR 4.6 billion.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units, to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was RUR 7.9 billion (31 December 2008: RUR 7.6 billion). More details are provided in Note 17.

5. Significant Accounting Estimates and Judgements (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently, unexpectedly and with retroactive effect. Further, the provisions of Russian tax law applicable to financial instruments (including derivative transactions) are subject to significant uncertainty and lack interpretive guidance. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, provided that the transaction price differs from the market price by more than 20 per cent. “Controlled” transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with third (unrelated) parties with significant price fluctuations (i.e., if the price of such transactions differs from the prices on similar transactions by more than 20 per cent within a short period of time). In addition, specific transfer pricing rules allow the tax authorities to make transfer pricing adjustments in respect of securities and derivative transactions. There has been no formal guidance as to how some of the rules relating to transfer pricing legislation should apply. It is possible that with the evolution of the interpretation of the transfer pricing rules and the changes in the approach of the Russian tax authorities, additional tax liabilities as a result of transfer pricing adjustments in respect of intercompany and securities transactions may be imposed on certain Russian entities of the Group.

The Group also operates in various jurisdictions and includes companies incorporated outside of Russia that are taxed at different rates and under different legislation. Tax liabilities of the Group are determined on the basis that these companies are not subject to Russian profits tax. 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, the non-taxable status of some or all of the foreign companies of the Group may be challenged in Russia.

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

Consolidation of funds

The Group consolidates mutual funds considering the following key factors:

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

Fair value estimation of unquoted shares

Details of fair value estimation of unquoted shares, classified as financial assets at fair value through profit or loss and financial assets available-for-sale are provided in Note 38. Fair value measurements for each class of financial instruments in accordance with a value hierarchy are disclosed in Note 38.

6. Reclassifications

Following the amendments to IAS 39 and IFRS 7, “Reclassification of Financial Assets”, the Group reclassified certain financial assets held for trading to loans and advances to customers, due from other banks and investment securities held-to-maturity.

The Asset and Liability Management Committee of VTB acknowledged the occurrence of “rare circumstances” due to the crisis in international financial markets starting from 1 September 2008. The declines in market prices that occurred in the third quarter of 2008 represent a rare event, as they significantly exceeded historical volatilities observed in financial markets.

6. Reclassifications (continued)

The Group identified debt instruments previously booked either as held for trading or available-for-sale, which were no longer held for the purpose of selling or repurchasing in the near term, for which the Group has the intention and ability to hold them for the foreseeable future or until maturity and for which markets have become inactive. These debt instruments were reclassified into loans and advances to customers or to amounts due from other banks.

The Group also identified debt instruments previously booked as held for trading, which are traded in active markets and for which the Group has the positive intention and ability to hold them to maturity. These debt instruments were reclassified to investment securities held-to-maturity upon occurrence of “rare circumstances”, i.e. 1 September 2008. The following tables show carrying values and fair values of the reclassified debt securities, which are not pledged under repurchase agreements, in respect of each reclassification date.

	31 December 2009		*31 December 2008*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Financial assets held for trading reclassified to due from other banks	17.1	17.2	9.2	9.3
Financial assets held for trading reclassified to loans and advances to customers	7.3	6.2	15.3	12.8
Financial assets available-for-sale reclassified to due from other banks	1.4	1.2	1.8	1.9
Financial assets available-for-sale reclassified to loans and advances to customers	1.6	1.8	2.1	2.1
Total financial assets reclassified on 1 July 2008	**27.4**	**26.4**	**28.4**	**26.1**

	31 December 2009		*31 December 2008*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Financial assets held for trading reclassified to loans and advances to customers	–	–	1.5	1.2
Financial assets held for trading reclassified to investment securities held-to-maturity	10.3	10.2	13.6	12.8
Total financial assets reclassified on 1 September 2008	**10.3**	**10.2**	**15.1**	**14.0**

	31 December 2009		*31 December 2008*	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
Financial assets held for trading reclassified to due from other banks	0.1	0.2	2.3	1.7
Financial assets held for trading reclassified to loans and advances to customers	1.2	1.3	4.0	3.3
Financial assets available-for-sale reclassified to due from other banks	0.3	0.3	0.3	0.3
Financial assets available-for-sale reclassified to loans and advances to customers	0.1	0.1	0.1	0.1
Total financial assets reclassified on other dates of 2008	**1.7**	**1.9**	**6.7**	**5.4**

6. Reclassifications (continued)

The following tables show carrying values and fair values of the reclassified debt securities, pledged under repurchase agreements, in respect of each reclassification date.

	31 December 2009		*31 December 2008*	
	Carrying value	***Fair value***	***Carrying value***	***Fair value***
Financial assets held for trading reclassified to due from other banks	–	–	9.5	9.5
Financial assets held for trading reclassified to loans and advances to customers	–	–	1.7	1.6
Financial assets available-for-sale reclassified to loans and advances to customers	–	–	0.6	0.6
Total financial assets reclassified on 1 July 2008	**–**	**–**	**11.8**	**11.7**

	31 December 2009		*31 December 2008*	
	Carrying value	***Fair value***	***Carrying value***	***Fair value***
Financial assets held for trading reclassified to due from other banks	–	–	0.8	0.8
Financial assets held for trading reclassified to loans and advances to customers	–	–	0.7	0.7
Financial assets held for trading reclassified to investment securities held-to-maturity	21.2	21.2	18.4	18.1
Total financial assets reclassified on 1 September 2008	**21.2**	**21.2**	**19.9**	**19.6**

	31 December 2009		*31 December 2008*	
	Carrying value	***Fair value***	***Carrying value***	***Fair value***
Financial assets held for trading reclassified to loans and advances to customers	1.8	1.9	–	–
Total financial assets reclassified on other dates of 2008	**1.8**	**1.9**	**–**	**–**

Fair value gain or loss that would have been recognized for the year ended 31 December 2009 if the assets had not been reclassified and income or loss recognized for 2009, were as follows:

	Interest income	***Provision charge***	***Gain /(loss), that would have been recognized if the assets had not been reclassified***
Financial assets held for trading reclassified to due from other banks	0.8	–	0.4
Financial assets held for trading reclassified to loans and advances to customers	0.6	(0.2)	(0.2)
Financial assets held for trading reclassified to investment securities held-to-maturity	3.4	–	–
Financial assets available-for-sale reclassified to due from other banks	–	–	(0.2)
Financial assets available-for-sale reclassified to loans and advances to customers	–	–	0.2
Total for financial assets reclassified	**4.8**	**(0.2)**	**0.2**

6. Reclassifications (continued)

Fair value gain or loss that would have been recognized for the year ended 31 December 2008 if the assets had not been reclassified and income or loss recognized for 2008, were as follows:

	Interest income	*Provision charge*	*(Loss) / gain, that would have been recognized if the assets had not been reclassified*
Financial assets held for trading reclassified to due from other banks	0.5	(0.2)	0.4
Financial assets held for trading reclassified to loans and advances to customers	1.0	(0.5)	(3.3)
Financial assets held for trading reclassified to investment securities held-to-maturity	1.0	(0.1)	(0.8)
Financial assets available-for-sale reclassified to due from other banks	0.1	–	0.2
Financial assets available-for-sale reclassified to loans and advances to customers	0.1	–	(0.1)
Total for financial assets reclassified	**2.7**	**(0.8)**	**(3.6)**

7. Cash and Short-Term Funds

	31 December 2009	*31 December 2008*
Cash on hand	52.3	52.6
Cash balances with central banks (other than mandatory reserve deposits)	115.6	229.7
Correspondent accounts with other banks		
- Russian Federation	21.5	78.8
- Other countries	70.8	55.0
Total cash and short-term funds	**260.2**	**416.1**
Less: restricted cash	(1.4)	(1.1)
Total cash and cash equivalents	**258.8**	**415.0**

Restricted cash balances represent the balances on escrow accounts in the amount of nil (31 December 2008: RUR 0.1 billion in freely convertible currencies), and other balances in non-freely convertible currencies in the amount of RUR 1.4 billion (31 December 2008: RUR 1.0 billion). Restricted cash balances were collateralized by amounts due to customers and banks in the amount of RUR 1.0 billion (31 December 2008: RUR 1.0 billion). For the purposes of the consolidated statement of cash flows, restricted cash is not included in cash and cash equivalents.

8. Financial Assets at Fair Value Through Profit or Loss

	31 December 2009	*31 December 2008*
Financial assets held for trading	244.6	142.6
Financial assets designated as at fair value through profit or loss	23.3	28.2
Total financial assets at fair value through profit or loss	**267.9**	**170.8**

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

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

Financial assets held for trading

	31 December 2009	*31 December 2008*
Debt securities denominated in USD		
Bonds and eurobonds of foreign companies and banks	11.9	6.1
Eurobonds of Russian companies and banks	6.6	0.6
Eurobonds of the Russian Federation	0.1	–
Debt securities denominated in RUR		
Bonds of Russian companies and banks	166.9	12.9
Russian municipal bonds	2.1	3.8
Russian Federal loan bonds (OFZ)	1.8	1.3
Promissory notes of Russian companies and banks	1.1	1.1
Eurobonds of foreign companies and banks	1.0	–
Debt securities denominated in other currencies		
Eurobonds of Russian companies and banks	1.1	–
Bonds of foreign governments	1.0	0.6
Equity securities	26.0	45.7
Balances arising from derivative financial instruments (Note 35)	25.0	70.5
Total financial assets held for trading	**244.6**	**142.6**

At 31 December 2009 bonds of Russian companies and banks are mostly represented by debt securities issued by Russian oil and gas companies, energy, telecommunication, transportation companies and banks.

At 31 December 2009 equity securities are represented by securities issued by Russian metal, energy and construction companies.

Financial assets designated as at fair value through profit or loss

	31 December 2009	*31 December 2008*
Bonds of Russian companies and banks	8.2	11.0
Bonds of foreign companies and banks	7.5	8.0
Bonds of foreign governments	2.7	1.6
Equity securities	2.1	7.3
Investments in mutual funds	–	0.2
Russian municipal bonds	–	0.1
Balances arising from derivative financial instruments (Note 35)	2.8	–
Total financial assets designated as at fair value through profit or loss	**23.3**	**28.2**

Equity securities in the amount of RUR 2.1 billion at 31 December 2009 (31 December 2008: RUR 6.6 billion) represent structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities (recorded within derivative instruments). These equity securities are issued by Russian energy companies. Financial assets at fair value through profit or loss – held for trading (positive fair value of derivatives) relating to these transactions are accounted for within Balances arising from derivative financial instruments in the amount of RUR 2.8 billion at 31 December 2009 (31 December 2008: Financial liabilities at fair value through profit and loss in Other liabilities of RUR 2.3 billion (Note 24)).

Financial assets at fair value through profit or loss include the amount of RUR 1.1 billion, which is pledged against other borrowings (Note 21).

Fair value measurements for each class of financial instruments in accordance with a value hierarchy are disclosed in Note 38.

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

	31 December 2009	*31 December 2008*
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Bonds of Russian companies and banks	59.6	3.7
Eurobonds of Russian companies and banks	0.5	–
Total Financial assets held for trading	*60.1*	*3.7*
Financial assets designated as at fair value through profit or loss		
Eurobonds of Russian companies and banks	0.4	2.1
Bonds of foreign governments	–	1.9
Total Financial assets designated as at fair value through profit or loss	*0.4*	*4.0*
Total Financial assets at fair value through profit or loss	***60.5***	***7.7***
Financial assets available-for-sale		
Bonds of foreign governments	0.3	0.4
Bonds of foreign companies and banks	–	4.6
Total Financial assets available-for-sale	***0.3***	***5.0***
Investment securities held-to-maturity		
Bonds of Russian companies and banks	21.2	18.4
Total Investment securities held-to-maturity	***21.2***	***18.4***
Financial assets classified as loans and advances to customers	***14.2***	***3.1***
Financial assets classified as due from other banks	**–**	***10.3***
Total financial assets pledged under repurchase agreements and loaned financial assets	**96.2**	**44.5**

At 31 December 2009 bonds of Russian companies and banks included in the above table are mostly represented by debt securities issued by Russian oil and gas companies, transportation, telecommunication companies and banks.

10. Due from Other Banks

	31 December 2009	*31 December 2008*
Current term placements with other banks	334.6	302.1
Reverse sale and repurchase agreements with other banks	10.7	5.9
Overdue placements	1.6	0.7
Total gross due from other banks	**346.9**	**308.7**
Less: Allowance for impairment (Note 31)	(1.3)	(0.7)
Total due from other banks	**345.6**	**308.0**

At 31 December 2009, the Group received collateral of securities under reverse sale and repurchase agreements with other banks with fair value of RUR 11.9 billion (31 December 2008: RUR 10.6 billion).

At 31 December 2009, amount included in Due from other banks of RUR 1.0 billion is pledged against issued local mortgage-backed bonds (Note 22) (31 December 2008: nil).

11. Loans and Advances to Customers

	31 December 2009	**_31 December 2008_**
Current loans and advances	1,998.4	2,527.5
Reverse sale and repurchase agreements	49.0	58.6
Renegotiated loans and advances	300.5	16.3
Overdue loans and advances	196.9	47.9
Total gross loans and advances to customers	**2,544.8**	**2,650.3**
Less: Allowance for impairment (Note 31)	(234.9)	(94.7)
Total loans and advances to customers	**2,309.9**	**2,555.6**

For the purposes of the above table, the amount of overdue loans and advances includes overdue portions of loans where the payment of either principal or interest is overdue by one day or more, rather than the entire outstanding amount of the loans.

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

	31 December 2009	**_31 December 2008_**
Loans to legal entities		
Finance leases	105.9	114.1
Current activity financing	1,313.2	1,478.9
Reverse sale and repurchase agreements	23.8	58.0
Project finance and other	666.6	612.2
Total loans to legal entities	**2,109.5**	**2,263.2**
Loans to individuals		
Mortgages	181.7	190.6
Car loans	45.5	40.6
Reverse sale and repurchase agreements	25.2	0.6
Consumer loans and other	182.9	155.3
Total loans to individuals	**435.3**	**387.1**
Less: Allowance for impairment (Note 31)	(234.9)	(94.7)
Total loans and advances to customers	**2,309.9**	**2,555.6**

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

At 31 December 2009 finance lease receivables of RUR 97.2 billion equal to the net investment in lease are included in current loans (31 December 2008: RUR 96.2 billion).

The finance lease receivables were as follows:

	31 December 2009	**_31 December 2008_**
Gross investment in leases	131.1	134.8
Less: Unearned finance lease income	(33.9)	(38.6)
Net investment in leases before allowance	**97.2**	**96.2**
Less: Allowance for uncollectible finance lease receivables	(10.0)	(0.7)
Net investment in leases	**87.2**	**95.5**

At 31 December 2009, the Group has 4 significant lessees represented by two railway and two airline companies with an aggregated net investment in lease of RUR 56.6 billion (31 December 2008: one railway company with an aggregated net investment in lease of RUR 36.0 billion).

11. Loans and Advances to Customers (continued)

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

	31 December 2009	31 December 2008
Within 1 year	35.6	20.5
From 1 to 5 years	73.2	81.0
More than 5 years	22.3	33.3
Minimum lease payments receivable	**131.1**	**134.8**

Net investments in leases were as following:

	31 December 2009	31 December 2008
Within 1 year	22.4	14.3
From 1 to 5 years	49.7	58.2
More than 5 years	15.1	23.0
Net investment in leases	**87.2**	**95.5**

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

	31 December 2009		31 December 2008	
	Amount	%	Amount	%
Individuals	435.3	17	387.1	15
Metals	417.3	16	196.3	7
Finance	359.0	14	492.6	19
Building construction	278.6	11	375.9	14
Manufacturing	219.8	9	196.2	7
Trade and commerce	169.1	7	253.0	10
Transport	141.5	5	146.7	5
Oil and Gas	103.1	4	145.2	5
Energy	88.6	3	62.7	2
Coal mining	73.7	3	69.3	3
Food and agriculture	71.5	3	75.1	3
Government bodies	70.3	3	88.6	3
Chemical	28.6	1	71.5	3
Aircraft	24.0	1	17.7	1
Telecommunications and media	17.9	1	18.5	1
Other	46.5	2	53.9	2
Total gross loans and advances to customers	**2,544.8**	**100**	**2,650.3**	**100**

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

At 31 December 2009, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 583.0 billion, or 23% of the gross loan portfolio (31 December 2008: RUR 546.9 billion, or 21%).

At 31 December 2009 and 2008, outstanding loans issued under reverse repurchase agreements do not contain any significant concentrations.

At 31 December 2009, the Bank received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of RUR 57.4 billion (31 December 2008: RUR 97.3 billion).

The total amount of pledged loans is RUR 172.3 billion (31 December 2008: RUR 103.6 billion). The loans are pledged against the funds accounted within Other borrowed funds – Other borrowings and Due to other banks captions in Liabilities. Included in the above amount of pledged loans are mortgage loans of RUR 20.8 billion (31 December 2008: nil). At 31 December 2009, the carrying value of mortgage loans pledged against debt securities issued amounted to RUR 14.4 billion (Note 22).

During 2009 interest income on impaired loans, recognized by the Group amounted to RUR 18.4 billion (2008: RUR 4.9 billion).

12. Financial Assets Available-for-Sale

	31 December 2009	_31 December 2008_
Equity investments	19.3	11.9
Bonds of foreign companies and banks	4.2	9.5
Bonds of foreign governments	1.1	1.1
Russian municipal bonds	–	0.6
Eurobonds of Russian companies and banks	–	0.5
Promissory notes of Russian companies and banks	0.3	0.3
Total financial assets available-for-sale	**24.9**	**23.9**

During 2009, the Group recognized a negative revaluation of financial assets available-for-sale in the amount of RUR 2.0 billion (2008: RUR 4.3 billion) before tax, which contains impairment in the amount of RUR 1.0 billion (2008: RUR 3.4 billion), before tax, transferred from equity to the income statement, and a loss on initial recognition of financial instruments of RUR 1.0 billion, booked to the income statement.

13. Investments in Associates

			31 December 2009		_31 December 2008_	
	Country of registration	_Activity_	_Carrying amount_	_Ownership percentage_	_Carrying amount_	_Ownership percentage_
“Eurofinance Mosnarbank”, OJSC	Russia	Banking	4.0	34.83%	3.8	34.83%
“Vietnam-Russia Joint Venture Bank”	Vietnam	Banking	0.9	49.00%	0.7	49.00%
“Interbank Trading House”, Ltd	Russia	Commerce	–	50.00%	–	50.00%
“KS Holding”, CJSC	Russia	Insurance	4.8	49.00%	–	–
“POLIEF”, OJSC	Russia	Chemical	1.1	32.50%	–	–
"Sistemapsys S.A.R.L.", JCS	Luxembourg	Construction	1.2	50.00%	–	–
"Astanda", Ltd	Cyprus	Construction	0.4	50.00%	–	–
"Sistema Saraya", Ltd	Cayman Island	Construction	0.1	50.00%	–	–
"Telecom-Development", CJSC	Russia	Construction	1.4	50.00%	–	–
"Izumrudniy Gorod 2000", Ltd	Russia	Construction	–	50.00%	–	–
"Tagar-City", Ltd	Russia	Construction	–	50.00%	–	–
"Amiral' B. V.", Ltd	Russia	Construction	–	50.00%	–	–
"Ilinoza investments limited", Ltd	Russia	Construction	–	45.00%	–	–
Total investments in associates			**13.9**		**4.5**	

In March 2008, the share capital of Vietnam-Russia Joint Venture Bank was increased. VTB contributed to the capital RUR 0.4 billion retaining a 49% ownership.

As a result of the acquisition of Sistema-Hals the Group has obtained the following investments in associates: Sistemapsys S.A.R.L., Astanda, Sistema Saraya, Telecom-Development, Izumrudniy Gorod 2000, Tagar-City, Amiral’ B. V., Ilinoza investments limited (Note 41).

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

	31 December 2009	_31 December 2008_
Assets	95.0	64.5
Liabilities	68.3	53.9
Net assets	26.7	10.6
Revenue	30.0	5.6
Net profit	(0.9)	–

The unrecognized share in losses of associates for 2009 and cumulatively at 31 December 2009 was RUR 0.1 billion and RUR 0.8 billion, respectively (31 December 2008: RUR 0.1 billion and RUR 0.7 billion, respectively).

14. Investment Securities Held-to-Maturity

	31 December 2009	*31 December 2008*
Bonds of Russian companies and banks	11.1	14.8
Eurobonds of Russian companies and banks	2.1	2.5
Bonds of foreign companies and banks	0.4	2.8
Bonds of foreign governments	0.3	0.2
Promissory notes of Russian companies and banks	–	1.7
Total gross investment securities held-to-maturity	**13.9**	**22.0**
Less: Allowance for impairment (Note 31)	(2.2)	(1.3)
Total investment securities held-to-maturity	**11.7**	**20.7**

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

15. Premises and Equipment

The movements in property and equipment were as follows:

	Premises	*Equipment*	*Construction in progress*	*Total*
Net book amount at 31 December 2008	**40.6**	**9.3**	**10.9**	**60.8**
Cost or revalued amount				
Opening balance at 1 January 2009	**41.5**	**16.8**	**10.9**	**69.2**
Acquisitions of subsidiaries	0.1	0.4	–	**0.5**
Disposal of subsidiaries	–	(0.1)	–	**(0.1)**
Additions	0.7	9.3	6.6	**16.6**
Transfer	4.1	1.1	(5.2)	**–**
Disposals	(2.5)	(1.0)	(0.4)	**(3.9)**
Revaluation and impairment	(5.1)	–	(0.4)	**(5.5)**
Translation difference	(0.9)	–	(0.1)	**(1.0)**
Closing balance at 31 December 2009	**37.9**	**26.5**	**11.4**	**75.8**
Accumulated depreciation				
Opening balance at 1 January 2009	**0.9**	**7.5**	**–**	**8.4**
Depreciation charge	1.3	3.1	–	**4.4**
Disposals	(0.1)	(0.8)	–	**(0.9)**
Revaluation	(2.3)	–	–	**(2.3)**
Translation difference	0.2	0.1	–	**0.3**
Closing balance at 31 December 2009	**–**	**9.9**	**–**	**9.9**
Net book amount at 31 December 2009	**37.9**	**16.6**	**11.4**	**65.9**

15. Premises and Equipment (continued)

	Premises	*Equipment*	*Construction in progress*	*Total*
Net book amount at 31 December 2007	**40.0**	**6.7**	**2.3**	**49.0**
Cost or revalued amount				
Opening balance at 1 January 2008	**40.0**	**12.2**	**2.3**	**54.5**
Additions	2.4	5.0	10.6	**18.0**
Transfer	1.5	0.4	(1.9)	**–**
Disposals	(2.9)	(0.4)	–	**(3.3)**
Translation difference	0.5	(0.4)	(0.1)	**–**
Closing balance at 31 December 2008	**41.5**	**16.8**	**10.9**	**69.2**
Accumulated depreciation				
Opening balance at 1 January 2008	**–**	**5.5**	**–**	**5.5**
Depreciation charge	1.2	2.3	–	**3.5**
Disposals	(0.2)	(0.6)	–	**(0.8)**
Translation difference	(0.1)	0.3	–	**0.2**
Closing balance at 31 December 2008	**0.9**	**7.5**	**–**	**8.4**
Net book amount at 31 December 2008	**40.6**	**9.3**	**10.9**	**60.8**

The Transfer caption includes movements from Construction in progress to Premises and Equipment captions upon completion of construction and/or putting of the premises and equipment in use.

Premises of the Group are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2009. The Group engaged an independent appraiser to determine the fair value of its premises. Fair value was determined by reference to market-based evidence. The negative revaluation amounted to RUR 2.8 billion. The decrease of the premises' carrying amount was recognized as operating expenses in the amount of RUR 1.5 billion to the extent it exceeded the previous revaluation surplus in equity, and the amount of RUR 1.3 billion, which were posted to premises revaluation reserve within the shareholders' equity net of tax in the amount of RUR 0.3 billion.

The Group recognized impairment losses with regard to construction in progress in the amount of RUR 0.4 billion.

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

	31 December 2009	*31 December 2008*
Cost	28.5	23.4
Accumulated depreciation and impairment	2.1	1.9
Net carrying amount	**26.4**	**21.5**

16. Investment Property

	31 December 2009	*31 December 2008*
Investment property as at 1 January	**4.3**	**4.1**
Acquisitions of subsidiaries (Note 41)	20.0	–
Additions	54.6	–
Reclassified from premises	0.7	–
Reclassified from property held for sale	0.2	–
Revaluation	(0.3)	0.1
Capitalization of borrowing costs	0.3	–
Translation effect	–	0.1
Investment property as at 31 December	**79.8**	**4.3**

16. Investment property (continued)

At 31 December 2009, as a result of revaluation, investment property decreased by RUR 0.3 billion (in 2008 - increased by RUR 0.1 billion). The valuation was carried out by independent appraisers on the basis of market prices for comparable real estate.

In 2009, the Group's investment property increased due to property worth of RUR 74.6 billion received mainly from Russian real estate development companies. The Group received directly a property title for land plots worth of RUR 54.0 billion in exchange for settlement of the outstanding loans granted by the Group. Real estate property worth of RUR 20.0 billion increase is a result of acquisition of "Sistema-Hals", OJSC (Note 41). The remaining property of RUR 0.6 billion was obtained through foreclosure of collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

As at 31 December 2009, investment property contains the amount of RUR 3.2 billion, which is pledged against Other borrowings within Other borrowed funds (Note 21).

The Group leased out a portion of its investment property under operating lease. Future minimum receivables under non-cancellable operating lease are RUR 0.1 billion to be received in less than 1 year.

In 2009 the Group has recognized rental income as part of income arising from non-banking activities of RUR 0.1 billion and direct operating expenses of RUR 0.1 billion in relation to investment property than generated rental income during 2009.

17. Intangible Assets and Goodwill

The movements in intangible assets were as follows:

	Core deposit intangible	*Computer software*	*Other rights*	*Goodwill*	*Total*
Net book amount at 31 December 2008	**2.1**	**1.6**	**–**	**7.6**	**11.3**
Cost less impairment					
Opening balance at 1 January 2009	**5.0**	**2.7**	**–**	**7.6**	**15.3**
Additions	–	0.8	–	–	**0.8**
Acquisition through business combinations	–	0.1	0.7	4.1	**4.9**
Disposals	–	(0.2)	–	–	**(0.2)**
Impairment (Note 41)	–	–	–	(3.7)	**(3.7)**
Translation difference	–	–	–	(0.1)	**(0.1)**
Closing balance at 31 December 2009	**5.0**	**3.4**	**0.7**	**7.9**	**17.0**
Accumulated amortization					
Opening balance at 1 January 2009	**2.9**	**1.1**	**–**	**–**	**4.0**
Amortization charge	1.0	0.5	–	–	**1.5**
Disposals	–	(0.2)	–	–	**(0.2)**
Translation difference	(0.1)	(0.1)	–	–	**(0.2)**
Closing balance at 31 December 2009	**3.8**	**1.3**	**–**	**–**	**5.1**
Net book amount at 31 December 2009	**1.2**	**2.1**	**0.7**	**7.9**	**11.9**

17. Intangible Assets and Goodwill (continued)

	Core deposit intangible	*Computer software*	*Goodwill*	*Total*
Net book amount at 31 December 2007	**3.2**	**0.7**	**7.8**	**11.7**
Cost less impairment				
Opening balance at 1 January 2008	**5.0**	**1.4**	**7.8**	**14.2**
Additions	–	0.9	–	**0.9**
Acquisition through business combinations	–	0.3	–	**0.3**
Impairment	–	–	(0.2)	**(0.2)**
Translation difference	–	0.1	–	**0.1**
Closing balance at 31 December 2008	**5.0**	**2.7**	**7.6**	**15.3**
Accumulated amortization				
Opening balance at 1 January 2008	**1.8**	**0.7**	–	**2.5**
Amortization charge	1.0	0.3	–	**1.3**
Translation difference	0.1	0.1	–	**0.2**
Closing balance at 31 December 2008	**2.9**	**1.1**	–	**4.0**
Net book amount at 31 December 2008	**2.1**	**1.6**	**7.6**	**11.3**

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

	31 December 2009			*31 December 2008*		
	Carrying amount of goodwill	*Carrying amount of core deposit intangible*	*Total*	*Carrying amount of goodwill*	*Carrying amount of core deposit intangible*	*Total*
"Bank VTB 24", CJSC	2.1	–	**2.1**	2.1	–	**2.1**
"VTB Bank North-West", OJSC	5.2	0.9	**6.1**	5.2	1.8	**7.0**
"VTB Bank (Armenia)" CJSC	0.1	–	**0.1**	0.1	–	**0.1**
"Obyedinennaya Depositarnaya companya", CJSC	–	0.3	**0.3**	0.1	0.3	**0.4**
"VTB Bank (Azerbaijan)", OJSC	0.4	–	**0.4**	–	–	**–**
"VTB Asset Management", CJSC	0.1	–	**0.1**	0.1	–	**0.1**
Net book amount	**7.9**	**1.2**	**9.1**	**7.6**	**2.1**	**9.7**

The recoverable amount of Bank VTB North-West at 31 December 2009 was based on the fair value, less costs to sell, of the cash-generating unit, which amounted to RUR 32.9 billion. The recoverable amount of Bank VTB North-West at 31 December 2008 was based on the market quotes of the latest market transactions of its shares, which amounted to RUR 56.7 billion.

As of 31 December 2009, the recoverable amount of "Bank VTB 24", CJSC has been determined based on a value in use calculation using pretax cash flow projections (adjusted for depreciation) based on financial budgets approved by management covering a four-year period. The discount rate applied to cash flow projections is 11%.

The following describes each key assumption on which management has based its cash flow projections for "Bank VTB 24", CJSC to undertake impairment testing of goodwill:

- Budgeted interest margin – the basis used to determine the value assigned to the budgeted interest margin is the average interest margin achieved in the year immediately before the budgeted year;
- Volume of the loan and customer deposits market – the basis used relates to the market research projections for the retail Russian market;
- Provision for loan impairment – the basis used relates to the types of retail credit products and the statistics of losses;
- Volume and cost of funding – the basis used relates to the requirements of growing operations based on business plan;
- Volume of other operating expenses and of capital expenditure – the basis used relates to the requirements of growing of present and future offices of the bank.

17. Intangible Assets and Goodwill (continued)

The recoverable amount of “Bank VTB 24”, CJSC at 31 December 2008 was based on the fair value, less costs to sell, of the cash-generating unit, which amounted to RUR 82.2 billion.

18. Other Assets

	Note	*31 December 2009*	*31 December 2008*
Property intended for sale in the ordinary course of business		14.2	–
Equipment purchased for subsequent leasing		13.0	13.0
Taxes recoverable		8.2	8.1
Trade debtors and prepayments		6.1	5.1
Advances issued to leasing equipment suppliers		4.1	8.7
Deferred expenses		2.9	2.4
Amounts in course of settlement		2.6	8.9
Precious metals		2.3	2.1
Leasehold for development and sale		1.5	1.4
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs		0.2	0.2
Positive fair value of derivatives (fair value hedges)	35	–	4.4
Positive fair value of derivatives (cash flow hedges)	35	–	2.6
Other assets related to non-banking activities		7.9	–
Other assets		6.0	3.1
Total other assets before allowance for impairment		**69.0**	**60.0**
Less: Allowance for impairment	31	(1.4)	–
Total other assets		**67.6**	**60.0**

At 31 December 2009 and 2008, equipment purchased for subsequent leasing and advances issued to leasing equipment suppliers represents operations of VTB Leasing.

As at 31 December 2009, included in Property intended for sale in the ordinary course of business is the amount of RUR 1.9 billion, which is pledged against Other borrowings within Other borrowed funds (Note 21).

19. Due to Other Banks

	31 December 2009	*31 December 2008*
Correspondent accounts and overnight deposits of other banks	174.1	116.4
Term loans and deposits	111.6	264.0
Sale and repurchase agreements with other banks	1.3	8.3
Total due to other banks	**287.0**	**388.7**

During the second quarter of 2009 the Group redeemed before maturity a term deposit under the request of the third party bank, and recognized a gain of RUR 7.4 billion, which was classified as gains less losses arising from extinguishment of liability.

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of RUR 1.7 billion (31 December 2008: RUR 9.0 billion of financial assets available-for-sale and those reclassified to loans and advances to customers with amortized cost of RUR 1.0 billion (Note 9)).

As at 31 December 2009, term loans and deposits in the amount of RUR 4.7 billion (31 December 2008: RUR 13.8 billion) is collateralized with loans to customers in the amount of RUR 4.6 billion (Note 11) (31 December 2008: RUR 14.2 billion).

20. Customer Deposits

	31 December 2009	*31 December 2008*
Government bodies		
Current/settlement deposits	7.7	15.0
Term deposits	101.1	30.2
Other legal entities		
Current/settlement deposits	464.5	256.2
Term deposits	515.7	446.4
Individuals		
Current/settlement deposits	84.5	84.8
Term deposits	392.0	269.3
Sale and repurchase agreements	3.3	–
Total customer deposits	**1,568.8**	**1,101.9**

Included in customer deposits at 31 December 2009 are:

- Restricted deposits amounting to RUR 0.1 billion (31 December 2008: 0.1 billion), where matching deposits were placed by the Group in other balances in non-freely convertible currencies (Note 7).
- Deposits of RUR 9.4 billion (31 December 2008: RUR 9.0 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 35).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2009		*31 December 2008*	
	Amount	*%*	*Amount*	*%*
Individuals	476.5	30	354.1	32
Oil and gas	322.1	21	66.8	6
Finance	133.7	9	184.9	17
Government bodies	108.8	7	45.2	4
Energy	83.6	5	110.6	10
Metals	71.5	5	25.1	2
Manufacturing	68.9	4	54.7	5
Building construction	65.3	4	49.6	5
Telecommunications and media	64.8	4	41.0	4
Trade and commerce	59.6	4	60.3	5
Aircraft	16.2	1	6.7	1
Transport	15.8	1	15.9	1
Chemical	15.1	1	25.9	2
Food and agriculture	15.1	1	8.3	1
Coal mining	3.5	–	5.6	1
Other	48.3	3	47.2	4
Total customer deposits	**1,568.8**	**100**	**1,101.9**	**100**

21. Other Borrowed Funds

	31 December 2009	*31 December 2008*
Syndicated loans	49.4	85.2
Other borrowings	421.5	763.5
Total other borrowed funds	**470.9**	**848.7**

Included in other borrowings are borrowings received by the Group from other banks, mainly OECD based, under non-revolving open credit lines, and funds attracted from central banks.

In June 2008, VTB received a dual tranche syndicated loan in the total amount of USD 1,400 million (RUR 32.9 billion) (Tranche A - USD 1,000 million (RUR 23.5 billion) and Tranche B - USD 400 million (RUR 9.4 billion)) maturing in June 2011 and in December 2009 with floating interest rates of LIBOR + 0.65% and LIBOR + 0.6%, respectively.

21. Other Borrowed Funds (continued)

In May 2009, VTB fully repaid a syndicated loan in the total contractual amount of USD 171 million (RUR 5.9 billion). In December 2009 VTB fully repaid Tranche B of a syndicated loan in the total contractual amount of USD 400 million (RUR 12.2 billion). In the fourth quarter 2009 the Group partially repaid part of the Tranche A of the syndicated loan in the total amount of USD 45 million (RUR 1.3 billion).

In 2009 VTB 24 fully repaid a syndicated loan in the total contractual amount of USD 141 million (RUR 4.6 billion).

In July 2009, VTB North-West fully repaid a syndicated loan in the total contractual amount of USD 113 million (RUR 3.8 billion).

In July 2009, VTB (Austria) fully repaid a syndicated loan in the total contractual amount of USD 150 million (RUR 4.7 billion). During 2009 VTB (Austria) partially repaid a syndicated loan in the amount of USD 140 million (RUR 4.6 billion).

In February 2008, VTB (Austria) received a second tranche of a syndicated loan in the amount of USD 100 million (RUR 2.4 billion), maturing in December 2010 at an interest rate of 6M LIBOR + 0.65%. In March 2008, VTB (Austria) received a syndicated loan in the amount of USD 120 million (RUR 2.8 billion), maturing in March 2011 at an interest rate of 6M LIBOR + 1.05%. In June 2008, VTB (Austria) received a syndicated loan in the amount of EUR 85 million (RUR 3.1 billion), maturing in June 2010 at an interest rate of 6M LIBOR + 0.65%.

In the third quarter 2008, VTB (Austria) fully repaid three syndicated loans in the total amount of USD 329 million (RUR 8.3 billion) and partially repaid a syndicated loan in the amount of USD 70 million (RUR 1.8 billion). In October 2008, VTB (France) fully repaid a syndicated loan in the total amount of USD 200 million (RUR 5.2 billion). In the fourth quarter 2008, RCB Ltd fully repaid a syndicated loan in the total amount of USD 85 million (RUR 2.5 billion). In the fourth quarter 2008, VTB partially repaid two syndicated loans in the amount of USD 348 million (RUR 8.7 billion).

Funds attracted from local central banks included in other borrowings comprise RUR 314.8 billion at 31 December 2009 (31 December 2008: RUR 611.6 billion).

Within other borrowings are funds attracted through sale and repurchase agreements in the amount of RUR 85.3 billion at 31 December 2009 (31 December 2008: RUR 29.9 billion). Financial assets pledged against sale and repurchase agreements included in Other borrowed funds are financial assets at fair value through profit or loss with a total fair value of RUR 59.1 billion (31 December 2008: RUR 3.7 billion); loans and advances to customers, investment securities held-to-maturity and due from other banks including those reclassified under amendment to IAS 39 with amortized cost of RUR 14.2 billion, RUR 21.2 billion and nil, respectively (31 December 2008: RUR 2.1 billion, RUR 18.4 billion and RUR 10.3 billion) (Note 9).

The funds attracted from local central banks in the amount of RUR 107.5 billion (31 December 2008: RUR 83.9 billion) are secured by pledged loans to customers of RUR 167.7 billion (31 December 2008: RUR 89.4 billion), including RUR 20.8 billion of pledged mortgage loans of (31 December 2008: nil) (Note 11).

Other borrowings contain the amount of RUR 4.4 billion securitized with a pledge of financial assets at fair value through profit or loss in the amount of RUR 1.1 billion (Note 8), investment property of RUR 3.2 billion (Note 16) and other assets of RUR 1.9 billion (Note 18).

22. Debt Securities Issued

	31 December 2009	*31 December 2008*
Bonds	346.0	408.9
Promissory notes	139.3	150.7
Deposit certificates	0.4	0.5
Total debt securities issued	**485.7**	**560.1**

In February 2009, Bank VTB 24 issued local bonds for RUR 8.0 billion with interest rate of 11.85% payable semi-annually and a 1.5-year embedded put option maturing in February 2014.

In March 2009, VTB Bank redeemed the 11th series of Eurobonds in the amount EUR 1,000 million (RUR 45.0 billion) and the 4th series of RUR bonds in the amount of RUR 3 billion at maturity date.

In April 2009, VTB redeemed upon maturity RUR-denominated Eurobonds in the amount of RUR 10.0 billion.

In April 2009, VTB Capital, Plc. redeemed Eurobonds in the amount of USD 500 million upon maturity.

22. Debt Securities Issued (continued)

In May 2009 VTB legally cancelled some Eurobonds purchased in 2009 and the fourth quarter of 2008 for the notional amount of RUR 38.3 billion.

In June 2009, the Group arranged a securitization transaction, under which, three tranches of Mortgage-backed amortizing notes were issued for RUR 10.0 billion, RUR 2.0 billion and RUR 2.5 billion respectively with maturity in February 2039 and coupon rate of 10.5% for the first tranche, 11% for the second tranche and the floating coupon for the third tranche. These securities were collateralized with a portfolio of RUR 14.5 billion mortgage loans to individuals secured by residential properties (the loans were not derecognized). These securities were issued through a special purpose entity. At 31 December 2009 VTB 24 is the sole holder of the notes, thus these notes are eliminated in these financial statements.

In June 2009, VTB-Leasing Finance issued series 3 and 4 of local bonds in Russia in the amount of RUR 5.0 billion each due in June 2016 with an interest rate of 14% payable quarterly and a one year put option for the bondholders.

In August 2009, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued CHF 750 million (RUR 22.2 billion) Eurobonds under a European Medium Term Note (EMTN) Programme 2 with a fixed rate of 7.5% maturing in August 2011.

In October 2009, "VTB Capital", Plc redeemed Eurobonds in the amount of USD 500 million (RUR 15.0 billion) upon maturity. In November 2009 VTB redeemed the Series 2 of Eurobonds in the outstanding amount of USD 714 million (RUR 20.7 billion), the securities were issued in August 2007 for USD 800 million under its European Medium Term Notes (EMTN) Programme 2 and were partially legally cancelled in May 2009.

In November 2009, "VTB-Leasing Ukraine", Ltd made a private placement of USD 789.4 million (RUR 22.7 billion) floating rate Notes due in May 2019. These securities were issued through a special purpose entity. At 31 December 2009 the Group is the sole holder of the notes, thus these notes are eliminated in these consolidated financial statements.

In December 2009, "VTB-Leasing Finance", Ltd issued RUR 5.0 billion local bonds maturing in November 2016 with a coupon rate of 9.7% p.a. payable quarterly with 1-year put option. In December 2009, VTB 24 redeemed Eurobonds in the amount of USD 500 million (RUR 14.6 billion) upon maturity.

In December 2009, VTB 24 issued RUR 15.0 billion local mortgage-backed bonds maturing in December 2014 with a fixed rate of 9.7% p.a. payable quarterly with 2-year put option. These bonds are secured by mortgage loan portfolio with carrying amount of RUR 14.4 billion (Note 11) and an amount of RUR 1.0 billion within Due from other banks (Note10).

In February 2008, VTB 24 issued RUR 10.0 billion domestic bonds maturing in February 2013 with a coupon rate of 7.7% p.a. paid semi-annually and 1-year put option embedded.

In May 2008, VTB issued USD 2,000 million (RUR 47.1billion) Eurobonds with a fixed rate of 6.875% maturing in 2018, which may be redeemed in May 2013 at the option of note-holders (5-year put option).

In June 2008, VTB issued EUR 1,000 million (RUR 36.9 billion) Eurobonds at a fixed rate of 8.25% maturing in June 2011.

In June 2008, VTB 24 issued RUR 6.0 billion domestic bonds maturing in May 2013 with coupon rate of 8.18% p.a. paid semi-annually and 1-year put option embedded.

In July 2008, VTB-Leasing Finance, LLC issued RUR 10.0 billion domestic bonds with a partial principal redemption from July 2009 finally maturing in July 2015 with a coupon rate of 8.9% p.a. paid quarterly and 1-year put option embedded.

In August 2008, VTB redeemed its USD-denominated Eurobonds Series 10 with notional amount of USD 1,750 million (RUR 41.0 billion) at maturity.

In November 2008, VTB prolonged RUR 30 billion Series 3 bonds until November 2012. The coupon rate increased to 12% p.a. Also the bondholders received an annual put option, executable in November.

In December 2008, VTB redeemed its USD-denominated Eurobonds Series 1 with a notional amount of USD 550 million (RUR 15.3 billion) at maturity.

22. Debt Securities Issued (continued)

In December 2008, VTB 24 issued two tranches of Mortgage-backed notes for USD 150 million (RUR 4.4 billion) each with maturity in March 2041 and coupon rate of 7.5% p.a. These securities were collateralized with a portfolio of RUR 14.0 billion mortgage loans to individuals secured by residential properties (the loans were not derecognized). These securities were issued through a special purpose entity. At 31 December 2008, VTB 24 was the sole holder of the notes, thus these notes were eliminated in these consolidated financial statements.

VTB Group members from time to time seek to retire all or part of any of their issued and outstanding debt through open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, depend on prevailing market conditions, VTB's liquidity requirements, contractual restrictions and other factors. The notional amount of Eurobonds bought-back (excluding subordinated debt) by VTB Group during the twelve months ended 31 December 2009 amounted to RUR 20.2 billion (2008: RUR 28.4 billion), which resulted in the recognition of a gain on the extinguishment of debt of RUR 3.3 billion for 2009 (2008: RUR 7.7 billion).

Promissory notes represent notes primarily issued by VTB in the local market, which primarily act as an alternative to customer/bank deposits. At 31 December 2009 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to June 2015 (31 December 2008: from demand to June 2015).

23. Subordinated Debt

On 4 February 2005, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued USD 750 million of Eurobonds (with a call option for early repayment on the fifth anniversary of such date) due February 2015, the proceeds of which financed a subordinated loan to VTB. The Eurobonds bear interest at 6.315% per annum payable semi-annually, with an interest rate step-up in 2010. The notional amount of Eurobonds bought-back by VTB Group during the year ended 31 December 2009 amounted to RUR 10.0 billion (2008: RUR 4.1 billion), which resulted in the recognition of a gain on the extinguishment of liability of RUR 3.8 billion for 2009 (2008: RUR 1.3 billion). As of 31 December 2009 the carrying amount of this subordinated debt was RUR 9.7 billion (31 December 2008: RUR 18.1 billion).

On 29 September 2005, OJSC “Industry & Construction Bank” (further renamed to OJSC “Bank VTB North-West”) issued USD 400 million subordinated Eurobonds due September 2015 with early redemption option (1 October 2010; price 100; type call). The Eurobonds bear interest at 6.2% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxembourg) for the purpose of financing a subordinated loan to the Bank. The notional amount of Eurobonds bought-back by VTB Group during the year ended 31 December 2009 amounted to RUR 0.4 billion (2008: RUR 1.8 billion), which resulted in the recognition of a gain on the extinguishment of liability of RUR 0.2 billion for 2009 (2008: RUR 0.7 billion). As of 31 December 2009 the carrying amount of this subordinated debt was RUR 9.2 billion (31 December 2008: RUR 9.5 billion).

In October and November 2008, VTB received two subordinated loans of RUR 100 billion each with a rate of 8% p.a. maturing in December 2019 from Vnesheconombank (VEB), which is a related party to the Group. As at 31 December 2008 in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” the Group discounted these loans using an appropriate market rate adjusted for loan premium. As of 31 December 2009 the carrying amount of this subordinated debt is RUR 176.4 billion with zero deferred income (31 December 2008: RUR 175.1 billion and RUR 23.6 billion, respectively). The deferred income was accounted for within subordinated debt and was eligible for setting-off against the losses on initial recognition of the loans extended by the Group at preferential interest rates to support operations of Russian companies. During the first quarter of 2009 the amount of the above deferred income was utilized in full.

24. Other Liabilities

	31 December 2009	31 December 2008
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives (Note 35))	38.1	120.1
Payable to employees	10.5	8.1
Amounts in course of settlement	5.4	3.6
Liabilities to pay taxes	4.4	3.2
Trade creditors and prepayments received	3.8	4.3
Non-controlling interests in consolidated mutual funds	3.7	3.5
Put options over non-controlling interests	3.4	–
Liabilities on pension plans	1.9	1.5
Obligation to deliver securities	1.7	1.9
Provisions for credit related commitments and legal claims (Note 31)	1.7	1.6
Deferred income	1.2	1.4
Advances received from lessees	0.8	0.8
Provisions on insurance payments	0.5	1.1
Initial recognition of credit related commitments	0.5	–
Dividends payable	0.2	0.2
Financial liabilities at fair value through profit or loss – fair value hedges (Note 35)	–	21.5
Other liabilities related to non-banking activities	10.0	–
Other liabilities	3.4	1.3
Total other liabilities	**91.2**	**174.1**

In accordance with the Russian legislation in December 2009, the Group made the binding offer to repurchase the non-controlling interests of Sistema-Hals in the amount of RUR 3.4 billion. The Group made the relevant accrual in Other liabilities with corresponding entry in equity, as this transaction is defined as an equity transaction.

25. Share Capital and Reserves

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

	31 December 2009		31 December 2008	
	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	10,460,541,337,338	113.1	6,724,138,509,019	75.7
Total share capital	**10,460,541,337,338**	**113.1**	**6,724,138,509,019**	**75.7**

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

In June 2009 at the Annual General Meeting the shareholders authorised the increase of the VTB share capital by 9,000,000,000,000 shares with nominal value of RUR 0.01.

On 25 September 2009, the Central Bank of the Russian Federation registered the results of additional issuance of 3,736,402,828,319 common shares of VTB Bank with a nominal value of RUR 0.01 each at the actual offering price of RUR 0.0482 per share. The proceeds from the additional share issuance amounted to RUR 180.1 billion. Upon finalization of this issuance VTB's majority shareholder's share increased to 85.50%.

During 2009 107,100,000 treasury shares were sold by the Group subsidiaries. At 31 December 2009 the number of Treasury shares decreased to 2,777,411,767 shares.

At 31 December 2009 authorized but not issued shares comprise 10,263,597,171,681 shares (2008: 5,000,000,000,000) with a par value of RUR 0.01 each.

At 31 December 2009 and 2008, the reserves included both distributable and non-distributable reserves.

Unrealized gain on financial assets available-for-sale and cash flow hedge includes reserves for accounting for changes in fair values of available-for-sale financial instruments as the balances related to cash flow hedges were fully recycled to the income statement during 2009.

26. Interest Income and Expense

	2009	*2008*
Interest income		
Financial assets at fair value through profit or loss	**16.1**	**11.6**
Loans and advances to customers	343.9	216.8
Due from other banks	11.1	14.2
Securities	2.6	2.6
Financial assets not at fair value through profit or loss	**357.6**	**233.6**
Total interest income	**373.7**	**245.2**
Interest expense		
Customer deposits	(89.9)	(65.2)
Debt securities issued	(38.1)	(32.6)
Due to other banks and other borrowed funds	(74.8)	(29.1)
Subordinated debt	(18.7)	(4.7)
Total interest expense	**(221.5)**	**(131.6)**
Net interest income	**152.2**	**113.6**

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

	2009	*2008*
(Losses net of gains) / gains less losses arising from trading financial instruments	(23.8)	6.2
Gains less losses / (losses net of gains) arising from financial instruments designated at fair value through profit or loss	2.5	(2.2)
Total (losses net of gains) / gains less losses arising from financial instruments at fair value through profit or loss	**(21.3)**	**4.0**

28. Fee and Commission Income and Expense

	2009	*2008*
Commission on settlement transactions	14.0	10.5
Commission on guarantees issued and trade finance	4.7	3.7
Commission on operations with securities	2.2	1.6
Commission on cash transactions	2.1	2.3
Other	2.5	1.3
Total fee and commission income	**25.5**	**19.4**
Commission on settlement transactions	(1.8)	(1.6)
Commission on cash transactions	(1.0)	(0.7)
Other	(1.7)	(0.8)
Total fee and commission expense	**(4.5)**	**(3.1)**
Net fee and commission income	**21.0**	**16.3**

29. Other Operating Income

	2009	*2008*
Fines and penalties received	1.6	0.4
Dividends received	0.1	1.5
Income arising from disposal of property	0.1	0.6
Income arising from operating lease other than investment property	–	0.4
Investment property revaluation	–	0.3
Other	1.2	1.2
Total other operating income	**3.0**	**4.4**

30. Staff Costs and Administrative Expenses

	2009	*2008*
Staff costs	37.1	33.7
Defined contribution pension expense	3.2	2.8
Depreciation and other expenses related to premises and equipment	8.4	7.7
Leasing and rent expenses	5.3	4.8
Taxes other than on income	3.3	3.2
Professional services	3.3	2.4
Advertising expenses	2.6	3.5
Post and telecommunication expenses	1.9	1.7
Impairment of premises and equipment	1.9	0.1
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit intangible	1.7	1.2
Payments to deposit insurance system	1.6	1.4
Security expenses	1.3	1.2
Charity	1.1	0.7
Amortization of core deposit intangible	1.0	1.0
Transport expenses	0.8	0.4
Insurance	0.3	0.3
Other	1.6	1.4
Total staff costs and administrative expenses	**76.4**	**67.5**

31. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks by classes for 2009 and 2008 were as follows:

	Russia	*OECD*	*Other*	*Total*
31 December 2007	**–**	**–**	**0.2**	**0.2**
Provision for loan impairment during the period	0.6	–	–	**0.6**
Write-offs	–	–	(0.1)	**(0.1)**
31 December 2008	**0.6**	**–**	**0.1**	**0.7**
Provision for loan impairment during the period	0.2	0.1	0.6	**0.9**
Disposal of subsidiaries (Note 41)	(0.3)	–	–	**(0.3)**
31 December 2009	**0.5**	**0.1**	**0.7**	**1.3**

31. Allowances for Impairment and Provisions (continued)

The movements in allowances for impairment of loans and advances to legal entities by class for 2009 and 2008 were as follows:

	Finance leases	*Current activity financing*	*Reverse sale and repurchase agreements with legal entities*	*Project finance and Other*	*Total*
31 December 2007	**0.7**	**25.3**	**–**	**5.2**	**31.2**
Provision for loan impairment during the period	0.9	36.3	0.1	14.2	**51.5**
Write-offs	–	(1.8)	–	(0.9)	**(2.7)**
Currency translation difference	–	0.7	–	(0.5)	**0.2**
31 December 2008	**1.6**	**60.5**	**0.1**	**18.0**	**80.2**
Provision for loan impairment during the period	11.2	74.8	–	51.0	**137.0**
Write-offs	(0.4)	(8.6)	–	(1.7)	**(10.7)**
Currency translation difference	(0.1)	(0.4)	–	(0.2)	**(0.7)**
Disposal of subsidiaries (Note 41)	–	–	–	(0.6)	**(0.6)**
31 December 2009	**12.3**	**126.3**	**0.1**	**66.5**	**205.2**

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

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

	Mortgages	*Car loans*	*Consumer loans and other*	*Total*
31 December 2007	**0.3**	**0.5**	**4.2**	**5.0**
Provision for loan impairment during the period	0.7	1.9	7.2	**9.8**
Write-offs	–	–	(0.4)	**(0.4)**
Currency translation difference	–	–	0.1	**0.1**
31 December 2008	**1.0**	**2.4**	**11.1**	**14.5**
Provision for loan impairment during the period	4.6	0.4	10.9	**15.9**
Write-offs	(0.3)	–	(0.6)	**(0.9)**
Recoveries of amounts written-off in previous period	0.2	–	0.1	**0.3**
Currency translation difference	(0.1)	–	–	**(0.1)**
31 December 2009	**5.4**	**2.8**	**21.5**	**29.7**

The movements in allowances for other assets and provisions were as follows:

	Other assets	*Investment securities held-to-maturity*	*Credit related commit-ments*	*Legal claims*	*Total*
31 December 2007	**–**	**–**	**0.1**	**–**	**0.1**
Reversal of provision for impairment during the period	–	1.3	1.4	0.1	**2.8**
31 December 2008	**–**	**1.3**	**1.5**	**0.1**	**2.9**
Provision / (recovery of) for impairment during the period	1.4	0.9	0.3	–	**2.6**
Currency translation difference	–	–	(0.1)	–	**(0.1)**
Disposal of subsidiary	–	–	(0.1)	–	**(0.1)**
31 December 2009	**1.4**	**2.2**	**1.6**	**0.1**	**5.3**

31. Allowances for Impairment and Provisions (continued)

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 Supervisory Council and, in certain cases, with the respective decision of the Court.

32. Income Tax

Income tax recovery and income tax expense comprise the following:

	2009	***2008***
Current tax expense	14.3	14.3
Deferred taxation movement due to the origination and reversal of temporary differences	(23.0)	(0.8)
Income tax (recovery) / expense for the year	**(8.7)**	**13.5**

The income tax rate applicable to the majority of the Group's income in 2009 is 20% (2008: 24%). The income tax rate applicable to subsidiaries' income ranges from 10% to 32% in 2009 (2008: 10% to 32%).

	2009	***2008***
IFRS (loss) / profit before taxation	**(68.3)**	**18.1**
Theoretical tax (recovery) / expense at the applicable statutory rate of each company within the Group	(14.7)	3.9
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Change in unrecognized deferred taxes	4.3	3.4
- Non-deductible expenses	2.2	3.4
- Unrecognized deferred tax effect related to investments in subsidiaries and associates	1.2	–
- Adjustments recognized in the period for current tax of prior periods	(0.9)	–
- Income, which is exempt from taxation	(0.3)	(0.2)
- Income taxed at different rates	0.1	0.3
- Income recorded in tax books only	–	1.0
- Effect of change in tax rates	–	0.8
- Translation effect	–	0.2
- Other	(0.6)	0.7
Income tax (recovery) / expense for the year	**(8.7)**	**13.5**

32. Income Tax (continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 32% (2008: from 10% to 32%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*				
	2007	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehensive income*	*Currency translation difference*	*2008*	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehensive income*	*Currency translation difference*	*Business combination*	*2009*
Tax effect of deductible temporary differences:										
Allowances for impairment and provisions for other losses	**3.8**	1.6	–	1.5	**6.9**	14.0	–	(0.1)	–	**20.8**
Tax losses carried forward	**3.0**	5.5	(0.5)	1.1	**9.1**	5.2	–	0.3	–	**14.6**
Fair value measurement of derivatives	**0.3**	4.2	0.3	0.4	**5.2**	(4.4)	–	–	–	**0.8**
Accrued expenses	**2.9**	0.3	–	0.6	**3.8**	2.4	–	–	–	**6.2**
Fair value of securities	**–**	–	–	–	**–**	1.6	(1.0)	0.1		**0.7**
Fair value of investment property	**–**	–	–	–	**–**	0.1	–	–	1.4	**1.5**
Other	**0.6**	0.5	(0.1)	0.1	**1.1**	0.1	0.4	–	–	**1.6**
Gross deferred tax assets	**10.6**	12.1	(0.3)	3.7	**26.1**	19.0	(0.6)	0.3	1.4	**46.2**
Unrecognized deferred tax assets	**–**	(3.4)	–	(0.3)	**(3.7)**	(4.3)	–	(0.2)	–	**(8.2)**
Gross deferred tax asset	**10.6**	**8.7**	**(0.3)**	**3.4**	**22.4**	**14.7**	**(0.6)**	**0.1**	**1.4**	**38.0**
Tax effect of taxable temporary differences:										
Fair value measurement of securities	**(0.3)**	(7.3)	(0.6)	(1.1)	**(9.3)**	9.3	–	–	–	**–**
Property and equipment	**(6.4)**	1.3	1.3	(0.8)	**(4.6)**	(0.4)	0.3	0.8	0.1	**(3.8)**
Intangible assets	**(0.7)**	0.5	–	(0.2)	**(0.4)**	0.1	–	–	–	**(0.3)**
Net investment in lease	**(0.7)**	(1.9)	–	(0.4)	**(3.0)**	0.9	–	–	–	**(2.1)**
Valuation of advances from customers	**(0.1)**	(0.2)	–	(0.1)	**(0.4)**	0.2	–	–	–	**(0.2)**
Fair value of investment property	**–**	–	–	–	**–**	–	–	–	(4.5)	**(4.5)**
Other	**(0.6)**	(0.3)	–	–	**(0.9)**	(1.8)	–	–	–	**(2.7)**
Gross deferred tax liability	**(8.8)**	**(7.9)**	**0.7**	**(2.6)**	**(18.6)**	**8.3**	**0.3**	**0.8**	**(4.4)**	**(13.6)**
Deferred tax asset, net	**5.3**	**2.1**	**0.2**	**1.7**	**9.3**	**20.0**	**0.5**	**0.1**	**1.5**	**31.4**
Deferred tax liability, net	**(3.5)**	**(1.3)**	**0.2**	**(0.9)**	**(5.5)**	**3.0**	**(0.8)**	**0.8**	**(4.5)**	**(7.0)**

32. Income Tax (continued)

In November 2008, the Russian government issued an amendment to the Tax Code relating to change of the corporate income tax rate from 24% to 20% effective from 1 January 2009. This change was accounted in the consolidated financial statements as at 31 December 2008. The effect of change of tax rate amounts to RUR 0.8 billion expense for deferred tax recognized in the income statement and RUR 0.6 billion of benefit from the decrease for deferred tax liability recognized through the statement of changes in shareholders' equity.

At 31 December 2009 VTB, VTB Bank (Austria), VTB Bank (Deutschland), VTB Capital, Plc and VTB-Leasing had unused tax losses of RUR 24.5 billion (2008: RUR 10.7 billion) for which no deferred tax asset was recognized due to uncertainty that these entities would anticipate to have sufficient future taxable profits against which unused tax losses could be utilized. Losses of VTB Bank (Austria), VTB Bank (Deutschland) and VTB Capital, Plc do not expire. Tax losses of VTB can be utilized during the next 10 years in accordance with the Russian Tax Code requirements.

At 31 December 2009, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability has not been recognized amounted to RUR 9.1 billion (31 December 2008: RUR 11.5 billion).

The difference between the theoretical and actual income tax recovery for 2009 and income tax expense for 2008 is mainly attributable to unrecognized deferred tax assets and non-deductible expenses. In 2008 the change in income tax rates in the Russian Federation and income recognized only in tax accounting also contributed to the difference between the theoretical and actual income tax expense.

The following table provides disclosure of income tax effects relating to each component of other comprehensive income for 2009 and 2008:

	2009			*2008*		
	Before tax	*Tax (expense) / recovery*	*Net of tax*	*Before tax*	*Tax (expense) / recovery*	*Net of tax*
Unrealized gain / (loss) on financial assets available-for-sale	4.8	(1.0)	3.8	(1.7)	0.4	(1.3)
Revaluation of premises	(1.3)	0.3	(1.0)	–	0.6	0.6
Actuarial gains less losses arising from difference between pension plan assets and obligations	–	–	–	(0.7)	0.2	(0.5)
Cash flow hedges	(0.5)	0.1	(0.4)	(1.1)	0.3	(0.8)
Effect of translation	0.7	–	0.7	2.2	(0.5)	1.7
Reclassification adjustment of currency translation difference due to disposal of subsidiary (Note 41)	(1.5)	0.3	(1.2)	–	–	–
Other comprehensive income	**2.2**	**(0.3)**	**1.9**	**(1.3)**	**1.0**	**(0.3)**

The tax effect in relation to revaluation of premises in 2008 represents the adjustment of deferred income tax due to changes in the the corporate income tax rate from 24% to 20% effective from 1 January 2009.

33. Basic and Diluted Earnings per Share

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

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

	2009	*2008*
Net profit attributable to shareholders of the parent	(63.4)	4.8
Weighted average number of ordinary shares in issue	7,724,555,850,335	6,720,906,862,392
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**(0.00821)**	**0.00072**

34. Dividends

In 2008, the VTB Supervisory Council approved the Regulation on VTB Bank Dividend Policy. This document was developed within the framework of improving VTB Group's corporate governance according to the Code of Corporate Conduct recommended by the Federal Commission for Securities Markets (FFMS), VTB Code of Corporate Conduct, and international and Russian best practice in corporate governance.

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

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

On 29 June 2009, VTB's annual shareholders' meeting declared dividends of RUR 3.0 billion for 2008 (RUR 0.000447 per share). Dividends were fully paid in July and August 2009.

On 24 September 2009, the Board of Directors of "Russian Commercial Bank (Cyprus) Limited" declared interim dividends for 2009 of USD 130 million (RUR 3.9 billion at the exchange rate of RUR 30.0004 per USD 1.00) (RUR 468 or USD 15.6 per share), from which RUR 1.6 billion related to non-controlling interests (related party to the Group).

On 26 June 2008, VTB's annual shareholders' meeting declared dividends of RUR 9.0 billion for 2007 (RUR 0.00134 per share). Dividends declared by VTB in June 2008, were paid in August 2008.

On 27 June 2008, the annual shareholders' meeting of OJSC "Bank VTB North-West" declared dividends of RUR 4.6 billion for 2007 (RUR 3.65 per share). The dividends were paid in June and July of 2008. Dividends paid to minorities amounted to RUR 0.6 billion.

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

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

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

The total outstanding contractual amount of 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.

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

Outstanding credit related commitments are as follows:

	31 December 2009	***31 December 2008***
Guarantees issued	190.6	219.2
Undrawn credit lines	197.0	169.6
Import letters of credit	29.9	49.5
Commitments to extend credit	97.4	112.1
Less: allowance for impairment on credit related commitments (Note 31)	(1.6)	(1.5)
Total credit related commitments	**513.3**	**548.9**

The Bank received export letters of credit for further advising to its customers. The total amount of received letters of credit as of 31 December 2009 was RUR 89.4 billion (31 December 2008: RUR 86.2 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 9.4 billion (31 December 2008: RUR 9.0 billion).

At 31 December 2009, included in guarantees issued are guarantees issued for a related company (Russian entity) of RUR 27.3 billion or 14% of the guarantees issued. At 31 December 2008, included in guarantees issued are guarantees issued for a related company (Russian entity) of RUR 27.1 billion or 12% of the guarantees issued.

Movements in the allowance for impairment on credit related commitments are disclosed in Note 31.

Commitments under operating leases. As of 31 December the Group's commitments under operating leases mainly of premises comprised the following:

Remaining contractual maturity	***31 December 2009***	***31 December 2008***
Not later than 1 year	1.8	2.2
Later than 1 year but not later than 5 years	4.9	7.1
Later than 5 years	5.8	7.3
Total operating lease commitments	**12.5**	**16.6**

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.

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

The table below includes derivative contracts outstanding at 31 December 2009:

	Negative fair value	_Positive fair value_
Foreign exchange and precious metals contracts		
Forwards	(4.3)	5.0
Futures	(0.4)	1.0
Swaps	(10.7)	2.6
Options		
written put	(1.1)	–
purchased put	–	0.7
written call	(1.2)	–
purchased call	–	0.8
Contracts with securities		
Forward sale of equity securities	–	2.8
Options		
purchased put	–	1.3
written call	(0.7)	–
purchased call	–	0.3
Interest rate contracts		
Single Currency interest rate swaps	(12.9)	3.9
Cross Currency interest rate swaps	(4.2)	3.8
Interest rate futures		
sell	(0.1)	–
buy	(0.2)	–
Contracts with other basic variables		
Sale of credit default swaps	(0.7)	0.1
Purchase of credit default swaps	(0.1)	0.1
Futures on indices		
buy	–	0.1
Options on indices		
written put on indices	(0.2)	–
purchased put on indices	–	0.3
written call on indices	(0.4)	–
purchased call on indices	–	0.2
Commodity swaps	(0.7)	0.8
Commodity swaptions	(0.1)	0.1
Embedded derivatives on structured instruments		
Embedded derivatives on forex instruments	–	3.9
Embedded derivatives on securities instruments	(0.1)	–
Total derivatives	**(38.1)**	**27.8**

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

The table below includes derivative contracts outstanding at 31 December 2008:

	Negative fair value	***Positive fair value***
Foreign exchange and precious metals contracts		
Forwards	(73.5)	43.8
Futures	–	0.1
Swaps	(9.2)	13.5
Options		
written put	(1.6)	–
purchased put	–	0.8
written call	(6.3)	–
purchased call	–	2.0
Contracts with securities		
Forward sale of equity securities	(2.3)	–
Options		
written call	(8.1)	–
Interest rate contracts		
Single Currency interest rate swaps	(2.6)	1.6
Cross Currency interest rate swaps	(11.1)	8.2
Interest rate futures		
sell	(0.1)	–
buy	–	0.1
Contracts with other basic variables		
Sale of credit default swaps	(2.7)	–
Purchase of credit default swaps	(0.7)	0.1
Options on indices		
purchased call on indices	–	0.2
Commodity swaps	(0.1)	0.1
Derivatives held as fair value hedges		
Interest rate swaps	(21.5)	4.4
Derivatives held as cash flow hedges		
Interest rate swaps	–	2.6
Embedded derivatives on structured instruments		
Embedded derivatives on securities instruments	(1.8)	–
Total derivatives	**(141.6)**	**77.5**

Cash flow hedges

As at 31 December 2009 the Group has discontinued prospectively the hedge accounting for cash flow hedges as some hedging instruments were terminated and the others were no longer meeting the criteria for application of hedge accounting.

Fair value hedges

As at 31 December 2009 the Group has discontinued prospectively hedge accounting for fair value hedges as some hedging instruments were terminated and others did no longer meet the criteria for application of hedge accounting.

During 2009 the Group derecognized the outstanding fair value hedge instruments, which led to recognition of loss of RUR 17.5 billion in the income statement in the line "(Losses net of gains) / gains less losses arising from financial assets at fair value through profit or loss". The effect of derecognition of hedges, where hedged items were derecognized, amounted to RUR 11.0 billion, and the effect of derecognition of hedges, where hedging instruments were terminated but hedged items continue to be recognized, or hedges, which became ineffective, amounted to RUR 6.5 billion as at 31 December 2009.

Purchase commitments. As of 31 December 2009 the Group had RUR 14.0 billion of outstanding commitments for the purchase of precious metals (31 December 2008: RUR 8.8 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.

36. Analysis by Segment

Before 1 January 2009 the Group's primary format for reporting segment information was geographical segments in accordance with IAS 14, "Segment Reporting". Geographical segment information was based on the geographical location of assets and liabilities and related revenues of entities within the Group. VTB had predominantly one business segment, commercial banking, therefore no business segment disclosure was presented.

In accordance with IFRS 8, "Operating Segments", the Group defined as the primary operating segments its key business lines. This segment disclosure is presented on the basis of IFRS compliant data of legal entities of the Group adjusted, where necessary, for intersegment reallocation and managerial adjustments, which primarily include replacement of valuation model prices on equity securities with the market quotes regardless of whether the markets are active or not. Qualitative and quantitative information about operating segments is reported to the appropriate operating decision makers for the purposes of making operating decisions on allocation of resources to the segment and assessment of its performance. On this basis, the Group aggregated these operating segments in accordance with IFRS 8 into the following reportable segments: Corporate business, Retail business, Investment business, Ukraine and Other.

Revenues disclosed in the note include the following: interest income, fee and commission income, other operating income, income arising from non-banking activities, gains less losses from financial assets available-for-sale, gains less losses arising from financial assets at fair value through profit or loss, gains less losses from dealing in foreign currencies together with foreign exchange translation gains less losses, gains less losses arising from extinguishment of liability and share in income of associates. Each element is included in calculation of revenues by each segment in case it is positive for this segment.

For the purpose of disclosure of the information on geographical areas of the Group non-current assets include the following: investments in associates, premises and equipment, investment property and intangible assets and goodwill.

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

36. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2009 and results for the year ended 31 December 2009 is set out below:

	Corporate business	*Retail business*	*Investment business*	*Ukraine*	*Other*	*Total before intersegment eliminations and adjustments*	*Intersegment eliminations and adjustments*	*Total*
For the year ended 31 December 2009:								
Revenues from:								
External customers	287.5	88.4	50.3	16.6	9.9	**452.7**		**452.7**
Other segments	30.7	8.9	0.8	–	1.5	**41.9**	(41.9)	**–**
Effect recognized on the Group level							5.9	**5.9**
Total revenues	**318.2**	**97.3**	**51.1**	**16.6**	**11.4**	**494.6**	(36.0)	**458.6**
Segment income and expense								
Interest income	286.8	85.9	19.1	15.1	5.7	**412.6**	(38.9)	**373.6**
Interest expense	(184.6)	(42.3)	(19.4)	(9.5)	(4.6)	**(260.4)**	38.9	**(221.5)**
Net interest income	**102.2**	**43.6**	**(0.3)**	**5.6**	**1.1**	**152.2**	**–**	**152.2**
Provision charge for impairment	(128.4)	(19.7)	(1.5)	(9.4)	(1.1)	**(160.1)**	5.4	**(154.7)**
Net interest expense after provision for impairment	**(26.2)**	**23.9**	**(1.8)**	**(3.8)**	**–**	**(7.9)**	**5.4**	**(2.5)**
Gains less losses arising from other financial instruments	(13.9)	0.5	20.0	–	0.1	**6.7**	(26.9)	**(20.2)**
Gains less losses arising from extinguishment of liability	7.4	–	–	–	–	**7.4**	7.3	**14.7**
Losses on initial recognition of financial instruments and on loans restructuring	(19.4)	(0.3)	–	–	–	**(19.7)**	–	**(19.7)**
Losses net of gains arising from dealing in foreign currencies	(16.2)	(1.0)	3.6	0.6	0.7	**(12.3)**	(0.1)	**(12.4)**
Foreign exchange translation gains less losses	25.4	1.4	0.3	0.2	(0.2)	**27.1**	(0.5)	**26.6**
Net fee and commission income	11.0	6.8	2.8	0.6	(0.5)	**20.7**	0.3	**21.0**
Share in income of associates	0.3	–	–	–	–	**0.3**	–	**0.3**
Provision charge for impairment of other assets and credit related commitments	(1.3)	(0.1)	(0.4)	–	0.1	**(1.7)**	–	**(1.7)**
Other operating income/ (expense)	(1.5)	0.5	4.3	0.1	4.1	**7.5**	(1.7)	**5.8**
Operating income	**(34.4)**	**31.7**	**28.8**	**(2.3)**	**4.3**	**28.1**	**(16.2)**	**11.9**
Staff costs and administrative expenses	(33.1)	(24.5)	(12.4)	(2.7)	(4.8)	**(77.5)**	1.1	**(76.4)**
- of which: depreciation / amortization charge	*(2.8)*	*(1.9)*	*(0.3)*	*(0.4)*	*(0.6)*	***(6.0)***	*0.1*	***(5.9)***
Impairment of goodwill	–	–	–	–	(3.7)	**(3.7)**	–	**(3.7)**
Profit from disposal of subsidiaries	1.0	–	–	–	–	**1.0**	–	**1.0**
Other non-operating expense	–	–	–	–	(1.1)	**(1.1)**	–	**(1.1)**
Segment results: (Loss) / Profit before taxation	**(66.5)**	**7.2**	**16.4**	**(5.0)**	**(5.3)**	**(53.2)**	**(15.1)**	**(68.3)**
Income tax recovery								**8.7**
Net loss								**(59.6)**
Capital expenditure	13.1	4.1	0.5	0.3	0.8	**18.8**	(1.4)	**17.4**
As at 31 December 2009:								
Cash and short-term funds	181.8	59.3	11.2	10.6	10.8	**273.7**	(13.5)	**260.2**
Mandatory cash balances with central banks	16.0	4.3	1.8	0.9	0.9	**23.9**	–	**23.9**
Due from other banks	399.3	158.1	49.0	0.8	2.9	**610.1**	(264.5)	**345.6**
Loans and advances to customers	1,905.8	459.7	52.3	85.7	23.2	**2,526.7**	(216.8)	**2,309.9**
Other financial instruments	138.8	16.8	255.3	0.4	2.9	**414.2**	(13.5)	**400.7**
Investments in associates	10.8	–	–	–	3.1	**13.9**	–	**13.9**
Other asset items	171.0	16.4	10.8	5.3	54.9	**258.4**	(1.8)	**256.6**
Segment assets	**2,823.5**	**714.6**	**380.4**	**103.7**	**98.7**	**4,120.9**	**(510.1)**	**3,610.8**
Due to other banks	356.7	17.1	239.2	68.7	11.6	**693.3**	(406.3)	**287.0**
Customer deposits	1,014.3	517.6	9.0	19.5	16.5	**1,576.9**	(8.1)	**1,568.8**
Other borrowed funds	398.0	24.2	41.4	0.1	39.7	**503.4**	(32.5)	**470.9**
Debt securities issued	443.1	47.3	0.2	0.3	6.3	**497.2**	(11.5)	**485.7**
Subordinated debt	210.7	21.1	18.1	6.4	1.5	**257.8**	(62.5)	**195.3**
Other liabilities items	45.6	4.6	30.1	0.3	19.1	**99.7**	(1.5)	**98.2**
Segment liabilities	**2,468.4**	**631.9**	**338.0**	**95.3**	**94.7**	**3,628.3**	**(522.4)**	**3,105.9**

36. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2008 and results for the year ended 31 December 2008 is set out below:

	Corporate business	*Retail business*	*Investment business*	*Ukraine*	*Other*	*Total before intersegment eliminations and adjustments*	*Intersegment eliminations and adjustments*	*Total*
For the year ended 31 December 2008:								
Revenues from:								
External customers	173.8	61.9	23.0	12.1	9.4	**280.2**		**280.2**
Other segments	22.2	2.1	0.2	–	0.9	**25.4**	(25.4)	**–**
Effect recognized on the Group level							9.5	**9.5**
Total revenues	**196.0**	**64.0**	**23.2**	**12.1**	**10.3**	**305.6**	**(15.9)**	**289.7**
Segment income and expense								
Interest income	178.4	55.5	20.1	9.8	5.1	**268.9**	(23.7)	**245.2**
Interest expense	(103.8)	(25.0)	(17.7)	(5.8)	(3.0)	**(155.3)**	23.7	**(131.6)**
Net interest income	**74.6**	**30.5**	**2.4**	**4.0**	**2.1**	**113.6**	**–**	**113.6**
Provision charge for impairment	(43.1)	(10.3)	(2.8)	(4.8)	(2.2)	**(63.2)**	–	**(63.2)**
Net interest income after provision for impairment	**31.5**	**20.2**	**(0.4)**	**(0.8)**	**(0.1)**	**50.4**	**–**	**50.4**
Gains less losses arising from other financial instruments	2.9	(0.7)	(23.9)	–	–	**(21.7)**	24.1	**2.4**
Gains less losses arising from extinguishment of liability	–	–	–	–	–	**–**	9.5	**9.5**
Losses net of gains arising from dealing in foreign currencies	(67.2)	2.8	(1.3)	0.6	0.4	**(64.7)**	–	**(64.7)**
Foreign exchange translation gains less losses	65.9	0.2	0.2	0.8	(0.1)	**67.0**	–	**67.0**
Net fee and commission income	10.1	3.7	0.9	0.8	0.4	**15.9**	0.4	**16.3**
Share in income of associates	0.2	–	–	–	–	**0.2**	–	**0.2**
Provision charge for impairment of other assets and credit related commitments	(1.3)	–	–	(0.1)	(0.1)	**(1.5)**	–	**(1.5)**
Other operating income/ (expense)	2.8	0.1	1.9	–	4.0	**8.8**	(1.2)	**7.6**
Operating income	**44.9**	**26.3**	**(22.6)**	**1.3**	**4.5**	**54.4**	**32.8**	**87.2**
Staff costs and administrative expenses	(32.4)	(20.6)	(7.9)	(3.3)	(4.1)	**(68.3)**	0.8	**(67.5)**
- of which: depreciation / amortization charge	*(2.8)*	*(1.2)*	*(0.2)*	*(0.3)*	*(0.4)*	***(4.9)***	*0.1*	***(4.8)***
Impairment of goodwill	–	–	–	(0.2)	–	**(0.2)**	–	**(0.2)**
Other non-operating expenses	–	(0.2)	(0.1)	–	(1.1)	**(1.4)**	–	**(1.4)**
Segment results: (Loss) / Profit before taxation	**12.5**	**5.5**	**(30.6)**	**(2.2)**	**(0.7)**	**(15.5)**	**33.6**	**18.1**
Income tax expense								**(13.5)**
Net profit								**4.6**
Capital expenditure	12.5	4.2	1.0	1.2	0.6	**19.5**	(0.6)	**18.9**
As at 31 December 2008:								
Cash and short-term funds	351.0	95.8	3.4	8.2	11.6	**470.0**	(53.9)	**416.1**
Mandatory cash balances with central banks	5.9	0.6	0.2	–	0.9	**7.6**	–	**7.6**
Due from other banks	344.9	36.2	97.5	–	12.6	**491.2**	(183.2)	**308.0**
Loans and advances to customers	1,964.3	433.2	111.0	91.0	72.9	**2,672.4**	(116.8)	**2,555.6**
Other financial instruments	107.3	17.6	111.5	0.4	3.8	**240.6**	19.3	**259.9**
Investments in associates	4.5	–	–	–	–	**4.5**	–	**4.5**
Other asset items	100.3	14.8	31.0	3.8	9.1	**159.0**	(13.3)	**145.7**
Segment assets	**2,878.2**	**598.2**	**354.6**	**103.4**	**110.9**	**4,045.3**	**(347.9)**	**3,697.4**
Due to other banks	399.8	29.4	127.9	73.5	54.2	**684.8**	(296.1)	**388.7**
Customer deposits	690.1	352.4	13.3	19.3	32.2	**1,107.3**	(5.4)	**1,101.9**
Other borrowed funds	655.9	99.0	90.0	0.1	3.7	**848.7**	–	**848.7**
Debt securities issued	523.3	37.5	27.0	–	0.3	**588.1**	(28.0)	**560.1**
Subordinated debt	233.2	17.9	17.6	2.4	1.3	**272.4**	(46.1)	**226.3**
Other liabilities items	135.6	5.0	34.0	0.4	3.8	**178.8**	0.8	**179.6**
Segment liabilities	**2,637.9**	**541.2**	**309.8**	**95.7**	**95.5**	**3,680.1**	**(374.8)**	**3,305.3**

For the purpose of the above segment disclosure, Corporate business incorporates operations of the Group's entities in Russia and in Europe, Retail business incorporates operations in Russia.

For the purpose of the above segment disclosure, Other financial instruments incorporate Financial assets at fair value through profit or loss, Financial assets pledged under repurchase agreements and loaned financial assets, Financial assets available-for-sale and Investment securities held-to-maturity.

The column “Intersegment Eliminations and Adjustments” of the above tables in the line ”Gains less losses arising from other financial instruments” includes adjustment in the amount of RUR (24.3) billion (2008: RUR 24.3 billion) before tax, which relates to replacement of valuation model prices on equity securities with the market quotes regardless of whether such markets are active or not. Other adjustments are not material.

36. Analysis by Segment (continued)

Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. Information for the geographical areas of the Group is set out below for the years ended 31 December 2009 and 2008:

		2009			2008	
	Russia	Other	Total	Russia	Other	Total
Revenues from external customers for the year ended	369.5	71.9	**441.4**	244.9	46.6	**291.5**
Non-current assets as at end of period	155.4	16.1	**171.5**	64.5	16.4	**80.9**

37. Financial Risk Management

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

The Management Board of VTB has overall responsibility for risk management at VTB. In each subsidiary bank of the Group, risks are managed by the appropriate authorities, predominantly management boards. The organizational structure of subsidiary banks includes a Chief Risk Officer and Risk division responsible for risk management. In non-banking subsidiary companies whose activity implies assumption of financial risks (such as OJSC VTB-Leasing and VTB Factoring Ltd) the general principles of risk management organization are the same as in the Group banks.

In addition to that, on the Group level and within Group companies (including OJSC VTB Bank, its subsidiary banks and above-mentioned non-banking companies) a number of specialized committees and departments are established to coordinate day-to-day risk management activities. On a Group-wide basis, risk management is overseen by the Risk Management Commission ("RMC") under the Group Management Committee ("GMC").

Being a collegial cross-entity coordination body, GMC takes decisions in the area of the Group's risk management policies and procedures based on powers delegated to it, in particular it approves Group-wide standards and approaches. Decisions and recommendations of the GMC taken in a coordinated and consolidated fashion serve as a basis for respective managerial decisions in the members of the Group.

The RMC is one of the specialized commissions under the GMC responsible for development of risk evaluation and management standards, their submission for consideration by the GMC and further implementation, as well as for providing efficient interaction between entities of the Group in this area. RMC is chaired by Chief Risk Officer ("CRO") of VTB and includes chief risk officers of all subsidiary banks and representatives of VTB units involved in risk control including the Risk Department ("RD"), Internal Control Department and others.

The main tasks set for the RMC include:

- Surveying the risk management systems in VTB's subsidiary companies;
- Working out and implementation of individual plans in the area of improvement of risk management systems in some subsidiary companies (in particular, banks in CIS), on the basis of methodological and consulting assistance provided by VTB;
- Development of formats and maintaining data flows from subsidiary companies in order to monitor risks on a Group-wide basis, supervision of regular risk management reporting in VTB Group;
- Preparation and discussion of draft basic documents formalizing consolidated risk control processes, including regulations for risk management and control in VTB Group and regulations for establishment and utilization of consolidated limits.

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

Within the process of step-by-step implementation of consolidated credit risk management system, the Group Credit Committee was established at the end of 2008 and began to function from the 1st quarter, 2009.

The RD consists of the following sub-divisions:

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

37. Financial Risk Management (continued)

The Consolidated risk analysis division is responsible for risk management on a Group-wide basis including unification of credit risk policies and procedures, risk management systems enhancement, concept of economic capital in VTB Bank and VTB Group, Group data consolidation, development of consolidated risk control system.

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

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

During 2009 the Concept and framework of consolidated risk management were prepared within VTB Group and approved by GMC and the procedure of Group economic capital (Capital-at-Risk) calculation was fully implemented.

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of principal accounting policies in Note 4 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized.

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

As at 31 December 2009:

	Held for trading	*Designated at fair value through profit or loss*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities measured at amortized cost*	*Total*
Financial assets							
Cash and short-term funds	–	–	–	260.2	–	–	**260.2**
Mandatory cash balances with central banks	–	–	–	23.9	–	–	**23.9**
Financial assets at fair value through profit or loss	244.6	23.3	–	–	–	–	**267.9**
Financial assets pledged under repurchase agreements and loaned financial assets	60.1	0.4	21.2	14.2	0.3	–	**96.2**
Due from other banks	–	–	–	345.6	–	–	**345.6**
Loans and advances to customers	–	–	–	2,309.9	–	–	**2,309.9**
Financial assets available-for-sale	–	–	–	–	24.9	–	**24.9**
Investment securities held-to-maturity	–	–	11.7	–	–	–	**11.7**
Other assets	2.0	–	–	7.1	–	–	**9.1**
Total financial assets	**306.7**	**23.7**	**32.9**	**2,960.9**	**25.2**	**–**	**3,349.4**
Financial liabilities							
Due to other banks	–	–	–	–	–	287.0	**287.0**
Customer deposits	–	–	–	–	–	1,568.8	**1,568.8**
Other borrowed funds	–	–	–	–	–	470.9	**470.9**
Debt securities issued	–	–	–	–	–	485.7	**485.7**
Subordinated debt	–	–	–	–	–	195.3	**195.3**
Other liabilities	41.4	–	–	–	–	27.6	**69.0**
Total financial liabilities	**41.4**	**–**	**–**	**–**	**–**	**3,035.3**	**3,076.7**

37. Financial Risk Management (continued)

As at 31 December 2008:

	Held for trading	*Designated at fair value through profit or loss*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities measured at amortized cost*	*Derivatives designated as cash flow hedging instruments*	*Total*
Financial assets								
Cash and short-term funds	–	–	–	416.1	–	–	–	**416.1**
Mandatory cash balances with central banks	–	–	–	7.6	–	–	–	**7.6**
Financial assets at fair value through profit or loss	142.6	28.2	–	–	–	–	–	**170.8**
Financial assets pledged under repurchase agreements and loaned financial assets	3.7	4.0	18.4	13.4	5.0	–	–	**44.5**
Due from other banks	–	–	–	308.0	–	–	–	**308.0**
Loans and advances to customers	–	–	–	2,555.6	–	–	–	**2,555.6**
Financial assets available-for-sale	–	–	–	–	23.9	–	–	**23.9**
Investment securities held-to-maturity	–	–	20.7	–	–	–	–	**20.7**
Other assets	–	–	–	14.1	–	–	7.0	**21.1**
Total financial assets	**146.3**	**32.2**	**39.1**	**3,314.8**	**28.9**	**–**	**7.0**	**3,568.3**
Financial liabilities								
Due to other banks	–	–	–	–	–	388.7	–	**388.7**
Customer deposits	–	–	–	–	–	1,101.9	–	**1,101.9**
Other borrowed funds	–	–	–	–	–	848.7	–	**848.7**
Debt securities issued	–	–	–	–	–	560.1	–	**560.1**
Subordinated debt	–	–	–	–	–	202.7	–	**202.7**
Other liabilities	120.1	–	–	–	–	26.8	21.5	**168.4**
Total financial liabilities	**120.1**	**–**	**–**	**–**	**–**	**3,128.9**	**21.5**	**3,270.5**

Credit risk

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

Management of lending activities and credit risk within the Group is based on a combination of the following approaches:

- local credit risk management at Group company level;
- consolidated credit risk management at VTB Group level.

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

37. Financial Risk Management (continued)

Credit risk (continued)

Consolidated credit risk management comprises the following functions:

- consideration and approval of Group-wide standards for lending and credit risk management;
- centralized regulation and control by VTB of strategic and other important issues concerning the organization and functioning of lending procedures and management of credit risks related to subsidiaries and the Group as a whole.

Consolidated credit risk management covers the most essential types of assets and off-balance sheet operations of Group companies, which bear credit risk and require control of their concentration within the Group as a whole. In the context of consolidated control and reporting the scope of such operations is defined by the coordinating bodies of the Group.

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

- maintenance of a homogeneous credit policy of the VTB Group; harmonizing and streamlining of credit policies of the subsidiaries with the Group's credit policy;
- establishment of consolidated limits (for common counterparties / groups of connected counterparties, countries, industry sectors) and limits of credit exposure on single counterparties (large Group operations);
- developing of unified principles for formalized borrower assessment (rating systems - for large corporate customers and credit institutions, scoring systems - for retail clients);
- assessment of the economic capital (Capital-at-Risk) necessary to cover credit risks;
- consolidated reporting on credit risks.

The document "The main principles and provisions of VTB Group's credit policy" (revised in 2009) outlines the basic approaches and standards of risk management and organization for the credit processes in the Group. These principles are to be followed by each bank of the Group as well as selected financial companies of the Group. The Group's credit policy covers the following issues:

- roles and responsibilities of different committees, departments of VTB and subsidiaries in the area of lending activities and credit risk management,
- issues concerning the approval and revision of credit policies in VTB companies;
- general approaches and principles of credit risk limit system;
- principles of pricing (interest rate and commission) policies.

Subsidiary banks are required to implement credit risk management infrastructure as well as credit policies and procedures in conformity with VTB Group's standards.

Credit policies are adopted by each bank of the Group and are subject to regular review, usually once in 1-2 years. The procedure for adopting a credit policy is as follows:

- a draft credit policy and amendments thereto that affect important issues are subject to review and approval by VTB and (for retail risks) VTB24;
- the credit policy and amendments thereto are approved by the Supervisory Council (Board of Directors) of the subsidiary bank;
- VTB may propose amendments to the credit policy of a subsidiary bank as part of centralized regulation and credit risk control for the Group, provided that such amendments do not contradict the regulations in the countries where the Group's banks are domiciled.

The powers of management and executive bodies of Group companies in terms of credit decision making and execution of lending transactions are determined by their constituent documents and the applicable local legislation.

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

- The GMC;
- VTB Group Credit Committee of the GMC ("GCC");
- The RMC.

37. Financial Risk Management (continued)

Credit risk (continued)

GCC is a permanently acting collegial working body of the GMC. GCC is chaired by Chief Risk Officer of VTB and includes representatives of VTB units (Risk, Legal, Corporate Banking, Investment Banking, etc.) and selected subsidiary companies. The key tasks of this committee are as follows:

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

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

With respect to retail credit risks, the Risk analysis department of VTB24 is responsible for direct functional co-ordination of retail credit risk management across the Group including the following tasks:

- development of systems of retail credit risk limits;
- development of standards for a system of reporting and monitoring of retail credit risks at Group level (methodology and formats);
- consolidation of reports provided by the Group entities regarding retail credit operations;
- monitoring of the performance and management of retail portfolios across the Group.

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

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

	31 December 2009	*31 December 2008*
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**206.5**	**362.4**
Debt securities	**337.7**	**125.1**
Financial assets held for trading	**205.8**	**27.2**
debt securities of Russian banks and companies	175.7	14.6
debt securities of foreign banks and companies	25.1	6.9
debt securities of Russian government and municipal authorities	4.0	5.1
debt securities of foreign government and municipal authorities	1.0	0.6
Financial assets designated at fair value through profit or loss	**18.4**	**20.7**
debt securities of Russian banks and companies	8.2	11.0
debt securities of foreign banks and companies	7.5	8.0
debt securities of Russian government and municipal authorities	–	0.1
debt securities of foreign government and municipal authorities	2.7	1.6
Financial assets pledged under repurchase agreements and loaned financial assets – held for trading	**60.1**	**3.7**
debt securities of Russian banks and companies	59.6	3.7
debt securities of Russian government and municipal authorities	0.5	–
Financial assets pledged under repurchase agreements and loaned financial assets – designated at fair value through profit or loss	**0.4**	**4.0**
debt securities of Russian banks and companies	0.4	2.1
debt securities of foreign government and municipal authorities	–	1.9
Financial assets pledged under repurchase agreements and loaned financial assets – available-for-sale	**0.3**	**5.0**
debt securities of foreign banks and companies	–	4.6
debt securities of foreign government and municipal authorities	0.3	0.4
Financial assets pledged under repurchase agreements and loaned financial assets – classified due from other banks	–	**10.3**
Financial assets pledged under repurchase agreements and loaned financial assets – classified as loans and advances to customers	**14.2**	**3.1**
Financial assets pledged under repurchase agreements and loaned financial assets – classified as investment securities held-to-maturity	**21.2**	**18.4**

37. Financial Risk Management (continued)

Credit risk (continued)

Financial assets available-for-sale	**5.6**	**12.0**
debt securities of Russian banks and companies	0.3	0.8
debt securities of foreign banks and companies	4.2	9.5
debt securities of Russian government and municipal authorities	–	0.6
debt securities of foreign government and municipal authorities	1.1	1.1
Investment securities held-to-maturity	**11.7**	**20.7**
debt securities of Russian banks and companies	11.0	17.7
debt securities of foreign banks and companies	0.4	2.8
debt securities of foreign government and municipal authorities	0.3	0.2
Due from other banks	**345.6**	**308.0**
Russia	69.4	97.1
OECD	269.2	204.4
Other	7.0	6.5
Loans and advances to customers	**2,309.9**	**2,555.6**
Loans to legal entities	**1,904.3**	**2,183.0**
Financial lease	93.6	112.5
Current activity financing	1,186.9	1,418.4
Reverse sale and repurchase agreements	23.7	57.9
Project finance and other	600.1	594.2
Loans to individuals	**405.6**	**372.6**
Mortgages	176.3	189.6
Car loans	42.7	38.2
Reverse sale and repurchase agreements	25.2	0.6
Consumer loans and other	161.4	144.2
Other assets	**7.7**	**21.1**
Total balance sheet exposure	**3,207.4**	**3,372.2**
Off-balance sheet exposure		
Guarantees issued	190.5	218.2
Undrawn credit lines	197.0	169.1
Import letters of credit	28.4	49.5
Commitments to extend credit	97.4	112.1
Exposure arising from credit default swaps		
- sale of credit default swaps	35.1	13.3
- purchase of credit default swaps	4.6	23.1
Total off-balance sheet exposure	**553.0**	**585.3**
Total maximum exposure to credit risk	**3,760.4**	**3,957.5**

Total credit risk exposure

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

37. Financial Risk Management (continued)

Credit quality by class of due from banks

Credit quality of due from banks (gross), which are neither past due nor impaired at 31 December 2009 is presented in the table below:

	Not impaired	
	Individually assessed	Collectively assessed
Russia	8.1	62.3
OECD	189.7	79.6
Other countries	2.8	2.9
Total due from other banks (gross) neither past due nor impaired	**200.6**	**144.8**

Credit quality of due from banks (gross), which are neither past due nor impaired at 31 December 2008 is presented in the table below:

	Not impaired	
	Individually assessed	Collectively assessed
Russia	92.2	5.5
OECD	117.0	87.5
Other countries	4.4	2.1
Total due from other banks (gross) neither past due nor impaired	**213.6**	**95.1**

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

Credit quality by class of loans and advances to customers

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

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

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

37. Financial Risk Management (continued)

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

The table below shows credit quality by class of loans and advances to customers at 31 December 2009, individually assessed. For individually assessed loans, which were not qualified as impaired, allowance was subsequently provided on a collective basis.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**987.6**	**278.2**	**273.5**	**60.5**	**193.7**	**1,793.5**
Financial lease	8.6	3.9	21.7	14.1	6.8	**55.1**
Current activity financing	561.7	165.6	199.8	36.0	115.3	**1,078.4**
Reverse sale and repurchase agreements	16.6	–	–	–	–	**16.6**
Project finance and other	400.7	108.7	52.0	10.4	71.6	**643.4**
Loans to individuals	**3.6**	**–**	**–**	**8.6**	**0.4**	**12.6**
Mortgages	1.3	–	–	8.5	–	**9.8**
Car loans	–	–	–	–	0.1	**0.1**
Consumer loans and other	2.3	–	–	0.1	0.3	**2.7**
Total loans and advances to customers individually assessed	**991.2**	**278.2**	**273.5**	**69.1**	**194.1**	**1,806.1**

The table below shows credit quality by class of loans and advances to customers at 31 December 2009, collectively assessed.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**233.8**	**53.3**	**16.7**	**1.3**	**10.9**	**316.0**
Financial lease	42.4	7.9	0.5	–	–	**50.8**
Current activity financing	174.8	34.8	13.0	1.3	10.9	**234.8**
Reverse sale and repurchase agreements	7.2	–	–	–	–	**7.2**
Project finance and other	9.4	10.6	3.2	–	–	**23.2**
Loans to individuals	**373.7**	**2.1**	**6.5**	**17.7**	**22.7**	**422.7**
Mortgages	160.0	0.6	0.3	9.6	1.4	**171.9**
Car loans	40.5	0.9	1.2	0.6	2.2	**45.4**
Reverse sale and repurchase agreements	25.2	–	–	–	–	**25.2**
Consumer loans and other	148.0	0.6	5.0	7.5	19.1	**180.2**
Total loans and advances to customers collectively assessed	**607.5**	**55.4**	**23.2**	**19.0**	**33.6**	**738.7**

37. Financial Risk Management (continued)

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

The table below shows credit quality by class of loans and advances to customers at 31 December 2008, individually assessed. For individually assessed loans, which were not qualified as impaired, allowance was subsequently provided on a collective basis.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,533.7**	**243.0**	**138.4**	**25.2**	**47.9**	**1,988.2**
Financial lease	70.0	2.6	2.0	0.5	0.9	**76.0**
Current activity financing	902.2	227.6	89.2	17.3	36.4	**1,272.7**
Reverse sale and repurchase agreements	50.3	–	–	–	–	**50.3**
Project finance and other	511.2	12.8	47.2	7.4	10.6	**589.2**
Loans to individuals	**4.3**	**0.7**	**0.5**	**1.1**	**0.8**	**7.4**
Mortgages	1.7	0.1	0.5	0.7	–	**3.0**
Car loans	–	–	–	–	0.1	**0.1**
Consumer loans and other	2.6	0.6	–	0.4	0.7	**4.3**
Total loans and advances to customers individually assessed	**1,538.0**	**243.7**	**138.9**	**26.3**	**48.7**	**1,995.6**

The table below shows credit quality by class of loans and advances to customers at 31 December 2008, collectively assessed.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**215.1**	**51.2**	**3.8**	**3.0**	**1.9**	**275.0**
Financial lease	35.3	1.8	1.0	–	–	**38.1**
Current activity financing	157.7	43.0	2.0	1.8	1.7	**206.2**
Reverse sale and repurchase agreements	7.7	–	–	–	–	**7.7**
Project finance and other	14.4	6.4	0.8	1.2	0.2	**23.0**
Loans to individuals	**192.8**	**51.5**	**130.5**	**0.8**	**4.1**	**379.7**
Mortgages	186.3	0.3	0.5	0.5	–	**187.6**
Car loans	3.3	36.6	0.1	–	0.5	**40.5**
Reverse sale and repurchase agreements	0.6	–	–	–	–	**0.6**
Consumer loans and other	2.6	14.6	129.9	0.3	3.6	**151.0**
Total loans and advances to customers collectively assessed	**407.9**	**102.7**	**134.3**	**3.8**	**6.0**	**654.7**

37. Financial Risk Management (continued)

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

Analysis of loans and advances to customers individually impaired by industry at 31 December 2009 and 2008 is presented in the table below.

	31 December 2009	31 December 2008
Building construction	56.0	12.7
Trade and commerce	46.5	19.4
Oil and gas	45.9	0.3
Food and agriculture	27.0	16.6
Manufacturing	21.6	7.5
Transport	16.0	1.9
Chemical	10.2	3.4
Finance	9.5	1.0
Individuals	9.0	1.9
Metals	8.3	1.9
Coal mining	1.6	0.9
Telecommunications and media	1.4	0.8
Energy	1.2	0.7
Other	9.0	6.0
Total loans and advances to customers individually impaired	**263.2**	**75.0**

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers by class at 31 December 2009 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**12.6**	**8.6**	**1.8**	**7.2**	**24.5**	**0.6**	**55.3**
Financial lease	–	4.2	0.9	3.8	20.8	–	**29.7**
Current activity financing	11.7	2.4	0.8	3.3	3.3	0.4	**21.9**
Project finance and other	0.9	2.0	0.1	0.1	0.4	0.2	**3.7**
Loans to individuals	**10.0**	**1.2**	**0.6**	**–**	**0.1**	**–**	**11.9**
Mortgages	4.3	1.1	0.6	–	0.1	–	**6.1**
Car loans	1.0	–	–	–	–	–	**1.0**
Consumer loans and other	4.7	0.1	–	–	–	–	**4.8**
Total loans and advances to customers past due but not impaired	**22.6**	**9.8**	**2.4**	**7.2**	**24.6**	**0.6**	**67.2**

Ageing analysis of past due, but not impaired loans and advances to customers by class at 31 December 2008 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**28.5**	**0.9**	**3.3**	**3.5**	**1.3**	**6.0**	**43.5**
Financial lease	26.2	0.2	2.5	0.9	1.0	0.4	**31.2**
Current activity financing	2.3	0.7	0.8	2.6	0.3	4.3	**11.0**
Project finance and other	–	–	–	–	–	1.3	**1.3**
Loans to individuals	**13.1**	**3.5**	**2.8**	**2.4**	**2.5**	**3.8**	**28.1**
Mortgages	6.2	1.4	1.3	0.6	0.4	1.1	**11.0**
Car loans	1.3	0.3	0.2	0.2	0.2	0.4	**2.6**
Consumer loans and other	5.6	1.8	1.3	1.6	1.9	2.3	**14.5**
Total loans and advances to customers past due but not impaired	**41.6**	**4.4**	**6.1**	**5.9**	**3.8**	**9.8**	**71.6**

37. Financial Risk Management (continued)

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

The table below shows the carrying amount of rescheduled loans and advances to customers by class.

	31 December 2009			*31 December 2008*		
	Gross	*Allowance*	*Net*	*Gross*	*Allowance*	*Net*
Loans to legal entities	**283.7**	**(19.2)**	**264.5**	**14.8**	**(5.4)**	**9.4**
Financial lease	0.4	(0.1)	**0.3**	–	–	**–**
Current activity financing	234.1	(16.0)	**218.1**	9.5	(3.3)	**6.2**
Project finance and other	49.2	(3.1)	**46.1**	5.3	(2.1)	**3.2**
Loans to individuals	**16.8**	**(4.9)**	**11.9**	**1.5**	**(0.3)**	**1.2**
Mortgages	8.0	(2.4)	**5.6**	1.5	(0.3)	**1.2**
Car loans	1.4	(0.2)	**1.2**	–	–	**–**
Consumer loans and other	7.4	(2.3)	**5.1**	–	–	**–**
Total renegotiated loans and advances to customers	**300.5**	**(24.1)**	**276.4**	**16.3**	**(5.7)**	**10.6**

Collateral and other credit enhancements

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

The main types of collateral obtained for commercial lending are charges over real estate properties, inventory and trade receivables, for retail lending – mortgages over residential properties.

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

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Collateral is taken to enhance an acceptable credit proposal, rather than being used as the sole rationale for any credit approval. Where facilities are approved against security, full details, including the type, value, and the frequency of review of the security must be detailed in the Application for Credit Facility Form. Where practical, the account officer must have seen evidence of the existence of the collateral offered and wherever possible seen the actual collateral for themselves.

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

Collateral repossessed

During 2009 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers represented as follows:

Nature of assets	***Carrying value at 31 December 2009***
Investment property	54.5
Investments in associates	5.9
Other assets	0.4
Total collateral repossessed	**60.8**

After finalization of transferring procedures these assets were accounted in accordance the Group accounting policies and included in the relevant items in the statement of financial position as at 31 December 2009.

The amount of collateral repossessed by the Group in 2008 was insignificant.

37. Financial Risk Management (continued)

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2009 the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	_OECD_	_Other countries_	_Total_
Assets				
Cash and short-term funds	178.8	67.4	14.0	**260.2**
Mandatory cash balances with central banks	14.7	1.0	8.2	**23.9**
Financial assets at fair value through profit or loss	218.4	38.3	11.2	**267.9**
Financial assets pledged under repurchase agreements and loaned financial assets	95.9	–	0.3	**96.2**
Due from other banks	69.4	269.2	7.0	**345.6**
Loans and advances to customers	1,780.4	39.7	489.8	**2,309.9**
Financial assets available-for-sale	15.0	5.9	4.0	**24.9**
Investments in associates	11.3	1.2	1.4	**13.9**
Investment securities held-to-maturity	11.0	0.4	0.3	**11.7**
Premises and equipment	55.3	3.4	7.2	**65.9**
Investment property	78.9	0.4	0.5	**79.8**
Intangible assets	10.8	0.5	0.6	**11.9**
Deferred tax asset	23.3	4.9	3.2	**31.4**
Other assets	61.2	2.1	4.3	**67.6**
Total assets	**2,624.4**	**434.4**	**552.0**	**3,610.8**
Liabilities				
Due to other banks	194.5	71.0	21.5	**287.0**
Customer deposits	1,445.6	20.6	102.6	**1,568.8**
Other borrowed funds	359.6	96.6	14.7	**470.9**
Debt securities issued	243.1	240.8	1.8	**485.7**
Deferred tax liability	–	–	7.0	**7.0**
Other liabilities	43.1	45.5	2.6	**91.2**
Subordinated debt	176.4	18.9	–	**195.3**
Total liabilities	**2,462.3**	**493.4**	**150.2**	**3,105.9**
Net balance sheet position	**162.1**	**(59.0)**	**401.8**	**504.9**
Net off-balance sheet position – Credit Related Commitments	**468.5**	**34.0**	**10.8**	**513.3**

37. Financial Risk Management (continued)

Geographical concentration (continued)

As at 31 December 2008 the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	_OECD_	_Other countries_	_Total_
Assets				
Cash and short-term funds	349.6	57.0	9.5	**416.1**
Mandatory cash balances with central banks	2.7	0.6	4.3	**7.6**
Financial assets at fair value through profit or loss	89.3	74.9	6.6	**170.8**
Financial assets pledged under repurchase agreements and loaned financial assets	37.5	6.6	0.4	**44.5**
Due from other banks	97.1	204.4	6.5	**308.0**
Loans and advances to customers	1,910.8	25.0	619.8	**2,555.6**
Financial assets available-for-sale	10.1	10.2	3.6	**23.9**
Investments in associates	3.8	–	0.7	**4.5**
Investment securities held-to-maturity	17.6	3.0	0.1	**20.7**
Premises and equipment	49.0	4.3	7.5	**60.8**
Investment property	4.3	–	–	**4.3**
Intangible assets	10.4	0.6	0.3	**11.3**
Deferred tax asset	4.9	3.7	0.7	**9.3**
Other assets	37.9	14.0	8.1	**60.0**
Total assets	**2,625.0**	**404.3**	**668.1**	**3,697.4**
Liabilities				
Due to other banks	194.0	166.4	28.3	**388.7**
Customer deposits	956.2	31.5	114.2	**1,101.9**
Other borrowed funds	702.3	131.5	14.9	**848.7**
Debt securities issued	217.0	341.6	1.5	**560.1**
Deferred tax liability	4.9	–	0.6	**5.5**
Other liabilities	29.1	139.0	6.0	**174.1**
Subordinated debt	198.8	27.5	–	**226.3**
Total liabilities	**2,302.3**	**837.5**	**165.5**	**3,305.3**
Net balance sheet position	**322.7**	**(433.2)**	**502.6**	**392.1**
Net off-balance sheet position – Credit Related Commitments	**481.6**	**16.8**	**50.5**	**548.9**

Market risk

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

Interest Rate Risk Exposure and Sensitivity analysis

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

The Risks Department reports on a monthly basis to the ALCO on interest rate risk exposures and sensitivity analysis. To mitigate interest rate risk, the Treasury manages and hedges VTB's exposures by entering into interest rate derivative transactions within the limits and parameters set by the ALCO.

37. Financial Risk Management (continued)

Interest Rate Risk Exposure and Sensitivity analysis (continued)

As at 31 December 2009 the Group has the following interest rate exposures. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Correspondent accounts with other banks	73.9	–	–	–	–	–	–	**73.9**
Corporate loans and advances to customers	233.6	229.0	154.2	395.8	356.0	254.8	293.0	**1,916.4**
Retail loans and advances to customers	19.0	15.7	14.7	47.8	103.0	61.9	139.1	**401.2**
Due from other banks	264.9	38.8	7.6	7.4	12.3	0.1	1.4	**332.5**
Reverse sale and repurchase agreements	18.5	1.5	–	13.7	–	–	–	**33.7**
Fixed income (quick assets)	4.4	7.4	16.1	55.4	96.1	53.6	95.7	**328.7**
Fixed income (non liquid or held-to-maturity financial assets)	1.9	4.3	2.7	5.4	10.5	1.7	8.3	**34.8**
Foreign exchange swaps	238.4	125.1	5.8	16.2	12.3	–	–	**397.8**
Interest rate derivative financial instruments	80.7	177.0	8.7	22.9	56.3	6.9	3.1	**355.6**
Other interest earning assets	1.0	–	–	–	–	–	–	**1.0**
Total assets	**936.3**	**598.8**	**209.8**	**564.6**	**646.5**	**379.0**	**540.6**	**3,875.6**
Liabilities								
Correspondent accounts and overnight deposits	163.7	–	–	–	–	–	–	**163.7**
Current/settlement deposits	370.4	–	–	–	–	–	–	**370.4**
Term deposits of legal entities and government bodies	361.6	205.1	82.6	86.5	45.9	3.0	0.6	**785.3**
Term deposits of individuals	41.3	40.9	38.2	102.2	160.8	2.2	0.1	**385.7**
Due to other banks	166.5	177.4	42.9	146.0	27.7	14.8	230.1	**805.4**
Reverse sale and repurchase agreements	14.5	5.5	–	–	–	–	–	**20.0**
Promissory notes issued	6.3	27.3	22.9	68.8	5.8	–	–	**131.1**
Bonds issued	1.1	29.0	45.7	46.5	174.2	49.1	20.1	**365.7**
Foreign exchange swaps	242.6	128.3	5.7	16.1	12.8	–	–	**405.5**
Interest rate derivative financial instruments	13.7	89.5	6.5	31.7	92.0	120.3	3.1	**356.8**
Other interest bearing liabilities	0.8	2.2	1.1	0.2	0.2	0.3	0.3	**5.1**
Total liabilities	**1,382.5**	**705.2**	**245.6**	**498.0**	**519.4**	**189.7**	**254.3**	**3,794.7**
Net repricing gap	**(446.2)**	**(106.4)**	**(35.8)**	**66.6**	**127.1**	**189.3**	**286.3**	**80.9**

37. Financial Risk Management (continued)

Interest Rate Risk Exposure and Sensitivity analysis (continued)

As at 31 December 2008 the Group has the following interest rate exposures. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 months to 6 months*	*From 6 months to 1 year*	*From 1 year to 3 years*	*From 3 years to 5 years*	*More than 5 years*	*Total*
Assets								
Correspondent accounts with other banks	179.9	–	–	–	–	–	–	**179.9**
Corporate loans and advances to customers	110.2	283.1	152.2	474.6	422.5	189.8	218.1	**1,850.5**
Retail loans and advances to customers	5.3	11.9	12.5	26.3	99.5	73.7	136.0	**365.2**
Due from other banks	248.5	54.0	12.9	1.8	1.6	0.7	0.7	**320.2**
Reverse sale and repurchase agreements	25.3	–	–	32.0	–	–	–	**57.3**
Fixed income (quick assets)	1.7	17.4	10.7	13.2	39.8	37.1	11.3	**131.2**
Fixed income (non liquid or held-to-maturity financial assets)	6.5	8.3	3.0	49.3	12.1	12.0	14.8	**106.0**
Foreign exchange swaps	734.4	106.6	94.5	42.5	13.7	2.9	–	**994.6**
Interest rate derivative financial instruments	84.4	182.9	35.8	46.5	102.0	12.0	4.6	**468.2**
Other interest earning assets	1.9	3.8	4.9	9.7	35.5	26.4	27.9	**110.1**
Total assets	**1,398.1**	**668.0**	**326.5**	**695.9**	**726.7**	**354.6**	**413.4**	**4,583.2**
Liabilities								
Correspondent accounts and overnight deposits	99.8	–	–	–	–	–	–	**99.8**
Current/settlement deposits	291.1	–	–	–	–	–	–	**291.1**
Term deposits of legal entities and government bodies	152.7	142.7	62.4	99.8	12.8	0.4	1.2	**472.0**
Term deposits of individuals	34.2	19.5	32.3	66.2	145.4	4.3	0.1	**302.0**
Due to other banks	145.0	323.2	388.1	67.4	27.8	4.7	201.0	**1,157.2**
Reverse sale and repurchase agreements	17.6	0.5	–	–	–	1.8	–	**19.9**
Promissory notes issued	8.2	31.4	15.2	40.8	48.0	0.3	0.0	**143.9**
Bonds issued	44.1	106.7	59.9	62.4	118.0	113.0	26.3	**530.4**
Foreign exchange swaps	765.6	95.4	104.9	46.0	13.2	7.4	–	**1,032.5**
Interest rate derivative financial instruments	43.0	122.3	2.6	35.4	92.7	54.0	106.8	**456.8**
Other interest bearing liabilities	0.7	1.0	1.9	3.2	9.3	5.8	2.9	**24.8**
Total liabilities	**1,602.0**	**842.7**	**667.3**	**421.2**	**467.2**	**191.7**	**338.3**	**4,530.4**
Net repricing gap	**(203.9)**	**(174.7)**	**(340.8)**	**274.7**	**259.5**	**162.9**	**75.1**	**52.8**

37. Financial Risk Management (continued)

Interest rate sensitivity analysis

The interest rate sensitivities set out in the tables below represent an effect on the historical net interest income for a 1 year period in case of parallel shift in all yield curves. The calculations are based upon the Group's actual interest rate risk exposures at the relevant reporting dates.

Interest rate sensitivity analysis as at 31 December 2009 as an effect on Net interest income is the following.

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	300	(11.0)	(200)	7.3
USD	100	1.0	(25)	(0.2)
EUR	100	0.9	(25)	(0.2)
GBP	100	0.1	(25)	–
Other	100	(0.1)	(25)	–
Total		**(9.1)**		**6.9**

Interest rate sensitivity analysis as at 31 December 2008 as an effect on Net interest income is the following.

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	300	(3.5)	(300)	3.5
USD	100	(0.3)	(100)	0.3
EUR	50	0.2	(50)	(0.2)
GBP	70	–	(70)	–
Other	50	(0.4)	(50)	0.4
Total		**(4.0)**		**4.0**

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

Currency risk and VaR analysis

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

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

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

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

37. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

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

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

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

As at 31 December 2009 and 2008, the Group had the following exposures to currency risk, which include balance sheet positions and off-balance sheet foreign currency derivatives positions against RUR (open positions).

	Open positions	
Currency	_31 December 2009_	_31 December 2008_
USD	(6.6)	(20.7)
EUR	(13.6)	17.1
GBP	(1.1)	(2.7)
CHF	(0.2)	(0.7)
JPY	(0.9)	0.1
UAH	16.0	8.1
AMD	1.6	1.9
GEL	1.8	1.4
BYR	0.9	1.1
AUD	0.8	0.2
AZN	0.8	–
KZT	0.3	–
AOA	0.2	0.2
SGD	0.2	–
XAU	0.2	–
Other	0.1	0.1
Total	**0.5**	**6.1**

As at 31 December 2009 and 2008, the Group had the following VaR for its foreign currency positions:

	31 December 2009	_31 December 2008_
Open currency position	0.5	6.1
Value at Risk	3.4	1.6

The VaR figures above take into account all currencies with exposures over RUR 30.2 million.

Price risk

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

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

37. Financial Risk Management (continued)

Price risk (continued)

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

Parameters for VaR calculation are following:

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

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

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

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

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

Approximately a half of the portfolio by volume interchanged by proxy instruments for VaR evaluation.

Since 2009 VTB estimates VaR using 10 days holding period.

10 days Value at Risk for 2008 is RUR 38.0 billion, what is two times more than VaR for 2008 with 1 day holding period.

Total 10 days Group's VaR for 2009 without diversification consists of RUR 28.6 billion (about 13% of fair value of the Group's portfolio).

For market risk management purposes financial assets held for trading and available for sale reclassified in the third and fourth quarters 2008 into loans and advances to customers in IFRS Group consolidated financial statements were included into the base for VAR calculation. Carrying amount of such financial assets as at 31 December 2009 was RUR 24.6 billion.

For market risk management purposes several overdue financial assets held for trading reclassified in the third quarter 2008 into loans and advances to customers in IFRS Group consolidated financial statements were not included into the base for VAR calculation. Carrying amount of such financial assets as at 31 December 2009 was RUR 1.5 billion.

Financial assets at fair value through profit or loss

	31 December 2009	*31 December 2008*	*31 December 2008*
	VaR, 10 days, 99%	*VaR, 10 days, 99%*	*VaR, 1 day, 99%*
Debt securities	16.1	9.3	7.1
Equity securities	11.4	21.8	9.6
Credit default swaps	0.4	5.7	1.8
Total	**27.9**	**36.8**	**18.5**

37. Financial Risk Management (continued)

Price risk (continued)

Financial assets available-for-sale

	31 December 2009	31 December 2008	31 December 2008
	VaR, 10 days, 99%	VaR, 10 days, 99%	VaR, 1 day, 99%
Equity securities	0.5	0.7	0.2
Debt securities	0.2	0.6	0.3
Total	**0.7**	**1.3**	**0.5**

In risk management purposes portfolio VaR is used calculated with diversification effect taken into account. Calculation method is base on the full revaluation of the portfolio using historical simulation with all parameters and proxy instruments which are utilized in calculation of VaR without diversification.

For market risk management purposes financial assets held for trading and available for sale reclassified in the third and fourth quarters 2008 into loans and advances to customers in IFRS Group consolidated financial statements were included into the base for VAR calculation. Carrying amount of such financial assets as at 31 December 2009 was RUR 24.6 billion. For market risk management purposes several overdue financial assets held for trading reclassified in the third quarter 2008 into loans and advances to customers in IFRS Group consolidated financial statements were not included into the base for VAR calculation. Carrying amount of such financial assets as at 31 December 2009 was RUR 1.5 billion.

Due to limited liquidity of the Russian market of corporate fixed income instruments drawbacks of the model with diversification mainly are linked with uncertainty of selecting of proxy instruments, short historical data series (1 year) and also with the back testing methodology for non liquid market is not completely developed, management estimates decreasing of VaR due to diversification effect in 5 times. The significant diversification effect is explained by short positions in equity and equity derivatives.

In 2010 RD plans to bring about VaR evaluation methodology, back testing methodology, and implementation of IT-risk management system using VaR as risk measure applying model of the portfolio full revaluation.

Sensitivity analysis

Sensitivity analysis for illiquid instruments, securities without market quoted prices, was performed to the following market indicators:

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

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

The Group's interest rate sensitivity analysis is applicable to all assets and liabilities sensitive to interest rate risk and includes loans and deposits (corporate clients and individuals), bonds, bill, commitments, etc., with the maturities up to 1 year. The illiquid interest rate instruments portfolio consists only of bonds and bills with maturity later than 1 year.

37. Financial Risk Management (continued)

Sensitivity analysis (continued)

Market value sensitivity figures on debt financial assets were as follows as at 31 December 2009:

Currency	*Interest rate increase, basis points*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	800	–	–
BYR	800	–	–
EUR	390	(1.1)	–
GEL	1,306	–	–
JPY	422	–	–
RUR	871	(38.5)	–
SGD	57	–	–
UAH	1,306	–	–
USD	455	–	(0.3)
Total		**(39.6)**	**(0.3)**

Currency	*Interest rate decrease, basis points*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	800	–	–
BYR	800	–	–
EUR	390	(0.6)	–
GEL	1,306	–	–
JPY	422	–	–
RUR	871	(12.5)	–
SGD	57	–	–
UAH	1,306	–	–
USD	455	–	(0.1)
Total		**(13.1)**	**(0.1)**

As at 31 December 2009 market value sensitivity figures on equity financial assets were as follows:

Country	*Currency*	*Index*	*Index change*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*	*Sensitivity of structured investments to market risk*
EU	EUR	FTSE	19.4%	–	–	–
Russia	RUR	RTS	44.6%	0.4	–	5.2
USA	USD	DJ	24.0%	–	–	1.1
				0.4	**–**	**6.3**

Country	*Currency*	*Index*	*Index change*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*	*Sensitivity of structured investments to market risk*
EU	EUR	FTSE	(19.4%)	–	–	–
Russia	RUR	RTS	(44.6%)	(0.4)	–	(5.2)
USA	USD	DJ	(24.0%)	–	–	(1.1)
				(0.4)	**–**	**(6.3)**

37. Financial Risk Management (continued)

Sensitivity analysis (continued)

At 31 December 2008, market value sensitivity of debt financial assets was as follows:

Currency	*Interest rate increase, basis points*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	2,500	–	–
BYR	1,000	–	–
CHF	500	–	–
EU	500	–	–
RUR	1,094	(1.7)	(1.4)
SGD	143	–	–
UAH	3,238	–	–
USD	736	(0.5)	(0.5)
Total		**(2.2)**	**(1.9)**

Currency	*Interest rate decrease, basis points*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
AMD	2,500	–	–
BYR	1,000	–	–
CHF	500	–	–
EU	500	–	–
RURF	1,094	0.6	0.6
SGD	143	–	–
UAH	3,238	–	–
USD	736	0.3	0.5
Total		**0.9**	**1.1**

At 31 December 2008, market value sensitivity of equity financial assets was as follows:

Country	*Currency*	*Index*	*Index Change*	*Sensitivity of Profit before taxation*	*Sensitivity of equity (AFS instruments) before taxation*
Switzerland	CHF	SMI	(35%)	–	–
EU	EUR	FTSE	(39%)	–	(0.7)
Russia	RUR	RTS	(65%)	(2.0)	(3.8)
USA	USD	DJ	(43%)	–	(1.4)
Total				**(2.0)**	**(5.9)**

Liquidity risk and contractual maturity analysis

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

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

- Each bank of the Group manages its liquidity on an individual basis to meet its commitments and to comply with the requirements of its national regulator. The banks manage their liquidity in line with the recommendations of VTB;
- VTB manages the liquidity of the Group by coordinating the redistribution of funds within the Group through borrowing from and lending to the banks of the Group.

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

- Contractual maturity analysis and cash flow projection (gap analysis) and analysis of deposit base concentration;
- Setting internal limits including minimal amount of highly liquid assets to cover short-term obligations resources on demand/1 day), maturity mismatch limits (gap limits), setting and regular overview of limits on overall funding volume subject to current and projected liquidity levels;
- Allocation and utilization of treasury portfolio of securities to manage short-term liquidity;
- Development of emergency plans (funding contingency plans).

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

The RD analyses the liquidity position of the Group and prepares liquidity forecasts and recommendations for ALCO on a monthly basis or more frequently in connection with substantial capital inflows or outflows. A number of internal liquidity indicators is monitored on a daily basis. VTB's Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities within the limits approved by the ALCO.

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

As at 31 December 2009, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	*Inflow*	*Outflow*	*Gap*	*Gap Cumulative*	*FX Swap Cumulative*	*Dynamic Gap (total) Cumulative*
Rouble positions						
Opening balance	–	–	152.5	152.5	–	152.5
Up to 1 month	119.8	(440.6)	(320.8)	(168.3)	(13.9)	(182.2)
From 1 to 3 months	110.7	(305.0)	(194.3)	(362.6)	(4.0)	(366.6)
From 3 months to 1 year	517.1	(435.0)	82.1	(280.5)	(0.7)	(281.2)
From 1 to 3 years	665.0	(241.4)	423.6	143.1	4.8	147.9
More than 3 years	1,254.3	*(324.3)*	930.0	1,073.1	4.8	1,077.9
Other currency positions						
Opening balance	–	–	59.6	59.6	–	59.6
Up to 1 month	284.0	(213.8)	70.2	129.8	9.7	139.5
From 1 to 3 months	92.9	(140.3)	(47.4)	82.4	(3.7)	78.7
From 3 months to 1 year	380.9	(316.4)	64.5	146.9	(6.8)	140.1
From 1 to 3 years	367.8	(431.8)	(64.0)	82.9	(10.5)	72.4
More than 3 years	361.0	(196.8)	164.2	247.1	(10.5)	236.6
Total						
Opening balance	–	–	212.1	212.1	–	212.1
Up to 1 month	403.8	(654.4)	(250.6)	(38.5)	(4.2)	(42.7)
From 1 to 3 months	203.6	(445.3)	(241.7)	(280.2)	(7.7)	(287.9)
From 3 months to 1 year	898.0	(751.4)	146.6	(133.6)	(7.5)	(141.1)
From 1 to 3 years	1,032.8	(673.2)	359.6	226.0	(5.7)	220.3
More than 3 years	1,615.3	(521.1)	1,094.2	1,320.2	(5.7)	1,314.5

In the table above, negative liquidity gaps in RUR in time buckets up to 1 month and from 1 to 3 months at 31 December 2009 are due to maturities of customer deposits and funds borrowed from CBR. The gaps are bridged by new borrowings (including renewal of existing deposits and attraction of new deposits).

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

VTB Group medium-term liquidity needs are managed through customer deposits and the instruments offered by CBR in the form of repo agreements, collateral-free loans borrowed at auctions and in the form of collateralized loans (against corporate loans or securities) within the limits set up by CBR which allow the Bank to fill the negative medium-term liquidity gaps.

In the third quarter 2009 the Bank VTB issued additional common shares. The proceeds from share issuance had a favourable effect on long term liquidity of the Bank and the Group and helped to early repay high cost borrowings from CBR and Federal Treasury.

During 2009 the Group has been an active participant of anti-crisis program of the Government of the Russian Federation on supporting real sector of the economy. While the newly issued corporate loans during this period typically exceed 1 year, funding instruments offered by CBR are no longer than 1 year. The Bank has access to facilities offered by CBR which allows to borrow necessary resources and thus to bridge the negative gaps up to 1 year.

VTB Group has a number of additional funding facilities available and sufficient to bridge negative liquidity gaps.

The collateral-free borrowing limit set by the CBR for the Russian banks of the Group, VTB, VTB24 and VTB North-West, is based on their RAS regulatory capital multiplied by 1.5 and its unutilized limit exceeded RUR 1,050 billion as of 31 December 2009. Repo and collateralized borrowing capacity is limited by eligible collateral in the form of debt and securities and the discount rates applied by the CBR (from zero for Russian sovereign debt to 50%) and its unutilized limit amounted to approximately RUR 150 billion as of 31 December 2009.

VTB Group also has a range of facilities for borrowing in the interbank market, under which the aggregated amount of available funding was estimated at approximately RUR 90 billion as of 31 December 2009.

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

As at 31 December 2008, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	_Inflow_	_Outflow_	_Gap_	_Gap Cumulative_	_FX Swap Cumulative_	_Dynamic Gap (total) Cumulative_
Rouble positions						
Opening balance	–	–	159.9	159.9	–	159.9
Up to 1 month	100.7	(186.4)	(85.7)	74.2	160.8	235.0
From 1 to 3 months	141.7	(300.7)	(159.0)	(84.8)	196.6	111.8
From 3 months to 1 year	633.8	(725.5)	(91.7)	(176.5)	270.3	93.8
From 1 to 3 years	437.2	(159.2)	278.0	101.5	278.4	379.9
More than 3 years	413.1	(364.5)	48.6	150.1	282.5	432.6
Other currency positions						
Opening balance	–	–	220.4	220.4	–	220.4
Up to 1 month	185.2	(186.2)	(1.0)	219.4	(174.6)	44.8
From 1 to 3 months	75.4	(207.2)	(131.8)	87.6	(215.1)	(127.5)
From 3 months to 1 year	403.6	(292.1)	111.5	199.1	(304.3)	(105.2)
From 1 to 3 years	386.5	(293.1)	93.4	292.5	(313.8)	(21.3)
More than 3 years	575.3	(337.1)	238.2	530.7	(319.4)	211.3
Total						
Opening balance	–	–	380.3	380.3	–	380.3
Up to 1 month	285.9	(372.6)	(86.7)	293.6	(13.8)	279.8
From 1 to 3 months	217.1	(507.9)	(290.8)	2.8	(18.5)	(15.7)
From 3 months to 1 year	1,037.4	(1,017.6)	19.8	22.6	(34.0)	(11.4)
From 1 to 3 years	823.7	(452.3)	371.4	394.0	(35.4)	358.6
More than 3 years	988.4	(701.6)	286.8	680.8	(36.9)	643.9

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As of 31 December, 2008 negative cumulative liquidity gaps in the 1 to 3 months time bucket (RUR 15.7 billion) and in the 3 months to 1 year pool (RUR 11.4 billion) are due to the active role of the Group in anti-crisis measures taken by authorities of the Russian Federation to ensure financial support to the economy through the main national banks. Collateral-free loans from the CBR remain the main source of the Bank's funding under current circumstances. The maximum term of such borrowing is limited by 6 months whereas corporate loans usually exceed 1 year.

The table below shows cash flows payable under financial liabilities at 31 December 2009 by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Non-derivative liabilities							
Due to other banks	211.6	20.4	7.0	14.3	65.5	–	**318.8**
Customer deposits	839.7	232.9	113.6	207.3	256.2	–	**1,649.7**
Other borrowed funds	95.2	95.6	38.2	164.4	89.4	–	**482.8**
Debt securities issued	9.6	51.3	68.5	161.1	280.5	–	**571.0**
Subordinated debt	–	14.1	4.0	17.5	343.6	–	**379.2**
Other liabilities	21.1	12.7	1.9	5.1	22.5	5.7	**69.0**
Derivative liabilities							
Negative fair value	5.7	7.4	1.5	5.9	17.6	–	**38.1**
Derivative financial instruments – gross settled							
Positive fair value of derivatives							
(Inflow)	(65.5)	(39.2)	(12.6)	(40.3)	(17.8)	–	**(175.4)**
Outflow	64.7	38.0	12.3	36.6	17.2	–	**168.8**
Negative fair value of derivatives							
(Inflow)	(147.1)	(152.7)	(17.8)	(28.0)	(26.2)	–	**(371.8)**
Outflow	152.0	157.9	18.5	29.4	28.0	–	**385.8**
Derivative financial instruments – net settled							
(Inflow)	(1.3)	(4.2)	(0.9)	(3.6)	(11.2)	–	**(21.2)**
Outflow	0.8	2.2	0.8	4.5	15.8	–	**24.1**
Credit related commitments	32.2	73.9	26.3	129.4	253.1	–	**514.9**
Total	**1,426.9**	**699.0**	**291.1**	**769.6**	**1,371.8**	**5.7**	**4,564.1**

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows cash flows payable under financial liabilities at 31 December 2008 by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Non-derivative liabilities							
Due to other banks	173.2	58.3	25.1	82.8	86.6	–	**426.0**
Customer deposits	516.6	164.3	102.1	186.4	170.1	–	**1,139.5**
Other borrowed funds	127.0	235.2	388.4	31.9	107.8	–	**890.3**
Debt securities issued	9.6	38.8	108.4	165.8	319.7	–	**642.3**
Subordinated debt	–	4.6	4.0	8.8	395.9	–	**413.3**
Other liabilities	8.1	4.7	2.0	0.4	3.4	8.1	**26.7**
Derivative liabilities							
Negative fair value	17.0	14.1	29.3	30.7	50.5	–	**141.6**
Derivative financial instruments – gross settled							
Positive fair value of derivatives							
(Inflow)	(98.7)	(21.6)	(27.8)	(41.5)	(63.9)	–	**(253.5)**
Outflow	96.3	19.6	27.0	38.6	58.3	–	**239.8**
Negative fair value of derivatives							
(Inflow)	(161.6)	(19.1)	(43.6)	(38.1)	(58.7)	–	**(321.1)**
Outflow	165.6	20.9	47.1	41.7	74.3	–	**349.6**
Derivative financial instruments – net settled							
(Inflow)	(8.3)	(8.6)	(12.7)	(21.8)	(12.5)	–	**(63.9)**
Outflow	13.0	12.3	25.8	27.1	34.9	–	**113.1**
Credit related commitments	52.8	48.9	132.5	85.8	230.4	–	**550.4**
Total	**1,162.2**	**607.6**	**862.4**	**669.3**	**1,481.4**	**8.1**	**4,791.0**

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

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

Also, Management believes that in spite of the fact that part of the Group's trading securities mature after one year in accordance with the terms of issue, the securities are freely traded on the market and as such securities represent a hedge against potential liquidity risks. Therefore, the Group has included the trading securities in the "on demand and less than one month" category.

Money market instruments (interbank loans and deposits, repurchase agreements) are used for regulation of short-term liquidity and not considered as a source for funding of long-term assets.

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

VTB manages its liquidity so that for each time band the gap in liquidity in view of planned operations does not exceed a certain internal limit.

The table below shows assets and liabilities at 31 December 2009 by their remaining contractual maturity.

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	260.2	–	–	**260.2**
Mandatory cash balances with central banks	20.8	3.1	–	**23.9**
Financial assets at fair value through profit or loss	240.9	24.7	2.3	**267.9**
Financial assets pledged under repurchase agreements and loaned financial assets	60.6	35.6	–	**96.2**
Due from other banks	300.6	44.1	0.9	**345.6**
Loans and advances to customers	762.5	1,471.7	75.7	**2,309.9**
Financial assets available-for-sale	1.9	3.7	19.3	**24.9**
Investments in associates	–	–	13.9	**13.9**
Investment securities held-to-maturity	1.6	10.1	–	**11.7**
Premises and equipment	–	–	65.9	**65.9**
Investment property	–	–	79.8	**79.8**
Intangible assets	–	–	11.9	**11.9**
Deferred tax asset	–	–	31.4	**31.4**
Other assets	23.5	26.1	18.0	**67.6**
Total assets	**1,672.6**	**1,619.1**	**319.1**	**3,610.8**
Liabilities				
Due to other banks	243.6	43.4	–	**287.0**
Customer deposits	1,351.3	217.5	–	**1,568.8**
Other borrowed funds	398.2	72.7	–	**470.9**
Debt securities issued	230.3	255.4	–	**485.7**
Deferred tax liability	–	–	7.0	**7.0**
Other liabilities	52.5	31.4	7.3	**91.2**
Subordinated debt	9.9	185.4	–	**195.3**
Total liabilities	**2,285.8**	**805.8**	**14.3**	**3,105.9**
Net total gap	**(613.2)**	**813.3**	**304.8**	**504.9**
Cumulative total gap	**(613.2)**	**200.1**	**504.9**	

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows assets and liabilities at 31 December 2008 by their remaining contractual maturity.

	Less than 1 year	_More than 1 year_	_Overdue, maturity undefined_	_Total_
Assets				
Cash and short-term funds	416.1	–	–	**416.1**
Mandatory cash balances with central banks	5.2	2.4	–	**7.6**
Financial assets at fair value through profit or loss	147.0	16.3	7.5	**170.8**
Financial assets pledged under repurchase agreements and loaned financial assets	21.6	22.9	–	**44.5**
Due from other banks	244.3	63.1	0.6	**308.0**
Loans and advances to customers	1,082.0	1,458.1	15.5	**2,555.6**
Financial assets available-for-sale	6.9	5.1	11.9	**23.9**
Investments in associates	–	–	4.5	**4.5**
Investment securities held-to-maturity	3.5	17.2	–	**20.7**
Premises and equipment	–	–	60.8	**60.8**
Investment property	–	–	4.3	**4.3**
Intangible assets	–	–	11.3	**11.3**
Deferred tax asset	–	–	9.3	**9.3**
Other assets	19.7	30.0	10.3	**60.0**
Total assets	**1,946.3**	**1,615.1**	**136.0**	**3,697.4**
Liabilities				
Due to other banks	314.5	74.2	–	**388.7**
Customer deposits	942.8	159.1	–	**1,101.9**
Other borrowed funds	746.4	102.3	–	**848.7**
Debt securities issued	264.9	295.2	–	**560.1**
Deferred tax liability	–	–	5.5	**5.5**
Other liabilities	109.4	54.8	9.9	**174.1**
Subordinated debt	0.9	225.4	–	**226.3**
Total liabilities	**2,378.9**	**911.0**	**15.4**	**3,305.3**
Net total gap	**(432.6)**	**704.1**	**120.6**	**392.1**
Cumulative total gap	**(432.6)**	**271.5**	**392.1**	

38. Fair Values of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While Management has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Financial instruments carried at fair value. Financial assets at fair value through profit or loss and financial assets available-for-sale are carried in the statement of financial position at their fair value. The Group assesses whether the market is active using the model of market activity tests which is based on the statistics of the existing trading. The model is consistently applied by the Group. For investments that are actively traded in organized financial markets quoted market bid prices at the close of business on the reporting date are used for estimation of fair value. For investments where there is no active market, fair value is determined using valuation techniques.

38. Fair Values of Financial Instruments (continued)

Due from other bank and cash and cash equivalents. Management has estimated that at 31 December 2009 and 2008 the fair value of due from other banks and cash and cash equivalents was not materially different from their respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans and advances to customers. Management has estimated that at 31 December 2009 and 2008 the fair value of loans and advances to customers was not materially different from respective carrying value. Fair value of loans and advances to customers was calculated basing on respective market interest rates as at 31 December 2009.

Borrowings. Management has estimated that at 31 December 2009 and 2008 the fair values of borrowings were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Debt securities issued. The fair values of debt securities were determined by Management on the basis of market quotations.

	31 December 2009		*31 December 2008*	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Financial assets				
Cash and short-term funds	260.2	260.2	416.1	415.9
Financial assets at fair value through profit or loss	267.9	267.9	170.8	170.8
Financial assets pledged under repurchase agreements and loaned financial assets	96.2	96.2	44.5	43.7
Due from other banks	345.6	345.5	308.0	308.1
Russia	69.4	70.0	97.1	97.2
OECD	269.2	268.5	204.4	204.4
Other	7.0	7.0	6.5	6.5
Loans and advances to customers	2,309.9	2,293.6	2,555.6	2,544.8
Loans to legal entities	1,904.2	1,894.6	2,183.0	2,175.1
Loans to individuals	405.7	399.0	372.6	369.7
Financial assets available-for-sale	24.9	24.9	23.9	23.9
Investment securities held-to-maturity	11.7	11.8	20.7	17.8
Financial liabilities				
Due to other banks	287.0	287.2	388.7	391.4
Customer deposits	1,568.8	1,548.7	1,101.9	1,094.7
Deposits of legal entities	1,092.3	1,092.3	747.8	754.7
Deposits of individuals	476.5	456.4	354.1	340.0
Other borrowed funds	470.9	465.4	848.7	861.3
Debt securities issued	485.7	525.8	560.1	486.9
Subordinated debt	195.3	195.5	226.3	197.1

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

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

38. Fair Values of Financial Instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as of 31 December 2009:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial instruments	*4.0*	*22.8*	*1.0*	***27.8***
Financial assets at fair value through profit or loss				
Financial assets held for trading	155.3	64.3	–	**219.6**
Financial assets designated as at fair value through profit or loss	13.4	5.5	1.6	**20.5**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	20.8	39.3	–	**60.1**
Financial assets designated as at fair value through profit or loss	–	0.4	–	**0.4**
Financial assets available-for-sale	–	0.3	–	**0.3**
Financial assets available-for-sale	*3.1*	*3.7*	*18.1*	***24.9***
Financial liabilities				
Derivative financial instruments	*(1.5)*	*(36.6)*	–	***(38.1)***

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised as follows as at 31 December 2008:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial instruments	–	*77.5*	–	***77.5***
Financial assets at fair value through profit or loss				
Financial assets held for trading	19.7	10.5	41.9	**72.1**
Financial assets designated as at fair value through profit or loss	5.2	15.5	7.5	**28.2**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	3.7	–	–	**3.7**
Financial assets designated as at fair value through profit or loss	–	4.0	–	**4.0**
Financial assets available-for-sale	–	5.0	–	**5.0**
Financial assets available-for-sale	*4.0*	*10.8*	*9.1*	***23.9***
Financial liabilities				
Derivative financial instruments	*(1.7)*	*(129.5)*	*(10.4)*	***(141.6)***

38. Fair Values of Financial Instruments (continued)

Movement in Level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2009 is as follows:

	Financial assets at fair value through profit or loss			
	Financial assets held for trading	***Financial assets designated as at fair value through profit or loss***	***Financial assets available-for-sale***	***Financial derivative assets and liabilities (net)***
Fair value at 1 January 2009	***41.9***	***7.5***	***9.1***	***(10.4)***
Gains or losses recognized in profit or loss for the year	(8.2)	(5.7)	(1.6)	3.2
Gains or losses recognized in other comprehensive income	–	–	4.9	–
Purchases	13.0	0.2	6.3	–
Reclassifications	–	–	51.8	–
Issues or origination	–	–	–	1.0
Sales	(16.8)	(0.9)	(52.5)	–
Settlements	–	–	–	8.1
Currency translation difference	–	–	0.1	–
Transfers out of level 3	(29.9)	(2.1)	–	(0.9)
Transfers into level 3	–	2.6	–	–
Fair value at 31 December 2009	***–***	***1.6***	***18.1***	***1.0***
Unrealized gains less losses recognised in profit or loss or other comprehensive income for the current period for assets held at 31 December 2009	***–***	***(1.2)***	***3.3***	***–***

Methods and assumptions for financial assets valued using Level 2 and Level 3 financial assets

The fair value of financial assets at fair value through profit or loss, available for sale and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment and VTB internal interest rate curve. 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.

The fair value of financial assets at fair value through profit or loss, available for sale and derivative financial instruments valued according to Level 3 models was estimated based on DCF (discounted cash flows) method and peer based method. Peer based method is based on comparing certain financial ratios or multiples, such as the price to book value, price to earnings, EV/EBITDA, etc., of the equity in question to those of its peers. This type of approach, which is popular as a strategic tool in the financial industry, is mainly statistical and based on historical data.

Main assumptions used in Level 3 models were short-term revenue projections (one year), cost of equity, liquidity discount, cost of debt and net margin fall forecast. The sensitivity to valuation assumptions disclosed below represents by how much the fair value could increase or decrease had management used reasonably possible alternative valuation assumptions that are not based on observable market data.

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

At 31 December 2009, financial assets available-for-sale for the amount of RUR 18.1 billion were valued based on valuation models by using the peer based valuations model, discounted cash flow method. The assumptions related to projections of discounted cash flows in the model up to 2013 are the following:

- WACC is 16.9%;
- Cost of debt is 12%;
- Net margin is 0.0001% less every next year;
- Liquidity discount applied to the valuation is 30%;

If the Group had used other reasonably possible alternative assumptions, the fair value of the above equity securities valued based on valuation models, would have been in the range from RUR 17.5 billion to RUR 18.5 billion.

38. Fair Values of Financial Instruments (continued)

Transfers between levels

During 2009 the financial assets held for trading for the total amount of RUR 26.4 billion and financial assets designated at fair value through profit or loss for the total amount of RUR 2.1 billion were transferred out of Level 3 to Level 1 as they became actively traded during the year based on the model of market activity test used by the Group and their fair values were consequently determined using market quotes.

During the year, the Group transferred financial assets designated as at fair value through profit or loss from level 2 to level 3 of the fair value hierarchy. The carrying amount of the total assets transferred was RUR 1.3 billion. The cumulative unrealised loss at the time of transfer was RUR 1.3 billion. The reason for the transfers from level 2 to level 3 is that inputs to the valuation models ceased to be observable. Prior to transfer, the fair value of the instruments was determined using observable market transactions or binding broker quotes for the same or similar instruments. Since the transfer, these instruments have been valued using valuation models incorporating significant non market-observable inputs.

The financial assets designated at fair value through profit or loss for the total amount of RUR 3.7 billion were transferred from Level 2 to Level 1 as they became actively traded during the year and fair values were consequently determined using market quotes.

There have been no transfers from Level 1 to Level 2 in 2009.

39. 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 directly and indirectly state-owned entities and associates and are stated in the tables below:

Statements of financial position

	31 December 2009		*31 December 2008*	
	State-owned entities	*Associates*	*State-owned entities*	*Associates*
Assets				
Cash and short-term funds	123.5	–	297.2	–
Mandatory cash balances with central banks	14.7	–	2.7	–
Financial assets at fair value through profit or loss	139.9	–	40.0	–
Financial assets pledged under repurchase agreements and loaned financial assets	64.3	–	14.4	–
Due from other banks	29.1	2.5	46.2	2.1
Loans and advances to customers	401.9	7.8	548.2	2.5
Allowance for loan impairment	(14.1)	(5.0)	(4.5)	(1.6)
Financial assets available-for-sale	4.8	0.3	3.7	0.3
Investment securities held-to-maturity	0.6	–	2.3	–
Liabilities				
Due to other banks	40.9	0.4	52.8	1.2
Customer deposits	567.2	1.6	230.2	1.6
Other borrowed funds	354.5	–	732.5	–
Subordinated debt	176.4	–	175.1	–
Credit Related Commitments				
Guarantees issued	116.5	–	68.1	–
Undrawn credit lines	16.3	–	10.4	–
Import letters of credit	1.6	–	2.0	–
Commitments to extend credit	13.3	0.7	10.1	0.2

39. Related Party Transactions (continued)

Income statements

	_2009_	**_2008_**
Interest income		
Loans and advances to customers	58.2	33.3
Securities	9.4	5.3
Due from other banks	5.3	4.3
Interest expense		
Customer deposits	(39.3)	(26.0)
Due to other banks and other borrowed funds	(60.2)	(9.6)
Subordinated debt	(17.3)	(2.8)
Provision for impairment	(13.0)	(2.4)

For the period ended 31 December 2009, the total remuneration of the directors and key management personnel of the Group including pension contributions amounted to RUR 3.2 billion (31 December 2008: RUR 2.6 billion). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the directors and key management personnel as at 31 December 2009 amounted to RUR 0.3 billion (31 December 2008: RUR 0.5 billion).

40. Consolidated Subsidiaries and Associates

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

Name	Activity	Country of registration	Percentage of ownership 31 December 2009	Percentage of ownership 31 December 2008
Subsidiaries:				
“VTB Bank (Austria)” AG	Banking	Austria	100.00%	100.00%
“Russian Commercial Bank (Cyprus) Limited”	Banking	Cyprus	60.00%	100.00%
“Russian Commercial Bank Ltd”	Banking	Switzerland	–	100.00%
“VTB Bank”, OJSC (Ukraine)	Banking	Ukraine	99.95%	99.95%
“VTB Bank (Armenia)”, CJSC	Banking	Armenia	100.00%	100.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	87.38%	77.57%
“VTB Bank (Belarus)”, CJSC	Banking	Belarus	69.70%	69.65%
“Bank VTB 24”, CJSC	Banking	Russia	100.00%	100.00%
“VTB Bank (Deutschland)”, AG	Banking	Germany	100.00%	100.00%
“Bank VTB (Kazakhstan)”, JSC	Banking	Kazakhstan	100.00%	100.00%
“VTB Bank (Azerbaijan)”, OJSC	Banking	Azerbaijan	51.00%	–
“Bank VTB North-West”, OJSC	Banking	Russia	100.00%	100.00%
“VTB Bank (France)”	Banking	France	87.04%	87.04%
“VTB Capital”, Plc	Banking	Great Britain	95.52%	95.61%
“Banco VTB Africa S.A.”	Banking	Angola	66.00%	66.00%
“VTB Capital (Namibia) (Proprietary) Limited”	Investment	Namibia	50.33%	50.03%
“Multicarta”, Ltd	Plastic cards (processing)	Russia	100.00%	100.00%
“ITC Consultants (Cyprus)”, Ltd	Finance	Cyprus	100.00%	100.00%
“VB-Service”, Ltd	Commerce	Russia	100.00%	100.00%
“Almaz-Press”, CJSC	Publishing	Russia	100.00%	100.00%
“VTB-Leasing”, OJSC	Leasing	Russia	100.00%	100.00%
“Embassy Development Limited”	Finance	Jersey	100.00%	100.00%
“VTB-Development”, CJSC	Development	Russia	100.00%	100.00%
“VTB Europe Strategic Investments Limited”	Investment	Great Britain	95.52%	95.61%
“VTB Europe Finance”, B.V.	Finance	Netherlands	95.52%	95.61%
“Nevsky Property”, Ltd	Property	Cyprus	95.52%	95.61%
“Business-Finance”, Ltd	Finance	Russia	100.00%	100.00%
“VTB Dolgovoi centre”, CJSC	Finance	Russia	100.00%	100.00%
“Sistema Leasing 24”, CJSC	Finance	Russia	100.00%	100.00%
“VTB-Capital”, CJSC	Finance	Russia	100.00%	100.00%
“Insurance Company VTB-Insurance”, Ltd	Insurance	Russia	100.00%	100.00%
“VTB-Leasing Ukraine”, Ltd	Leasing	Ukraine	100.00%	100.00%
“Capablue”, Ltd	Leasing	Ireland	100.00%	100.00%
“VTB Leasing (Europe)”, Ltd	Leasing	Cyprus	100.00%	100.00%
"VTB-Leasing Finance”, Ltd	Finance	Russia	99.99%	99.99%
“VTB-Leasing”, Ltd	Leasing	Belarus	100.00%	100.00%
“VTB-Leasing Capital”, Ltd	Finance	Ireland	100.00%	100.00%
“Obyedinennaya Depositarnaya companya”, CJSC	Finance	Russia	100.00%	100.00%
“VTB Asset Management”, CJSC	Finance	Russia	19.00%	19.00%
“Holding VTB Capital”, CJSC	Finance	Russia	100.00%	–
“VTB Factoring”, Ltd	Factoring	Russia	100.00%	100.00%
“Sistema-Hals”, OJSC	Real Estate	Russia	51.24%	–
Associates:				
“Eurofinance Mosnarbank”, OJSC	Banking	Russia	34.83%	34.83%
“Vietnam-Russia Joint Venture Bank”	Banking	Vietnam	49.00%	49.00%
“Interbank Trading House”, Ltd	Commerce	Russia	50.00%	50.00%
“KS Holding”, CJSC	Russia	Insurance	49.00%	–
“Polief”, OJSC	Russia	Chemical	32.50%	–
"Sistemapsys S.A.R.L.", JSC	Luxembourg	Construction	50.00%	–
"Telecom-Development", CJSC	Russia	Construction	50.00%	–

40. Consolidated Subsidiaries and Associates (continued)

In the first quarter of 2009, Russian Commercial Bank (Cyprus) Limited issued 3,333,333 new shares with a nominal value of EUR 1.71 each totalling RUR 0.2 billion (EUR 5,700,000) of nominal value. The new shares were issued to a private company (related party to the Group) for a total consideration equalling RUR 1.4 billion (USD 39 million, USD 11.71 per share). Upon finalization of the appropriate procedures, the share of this company in the share capital of Russian Commercial Bank (Cyprus) Limited amounted to 40% and the beneficiary owners of this company were the key management personnel and the substantial majority of the employees of Russian Commercial Bank (Cyprus) Limited. The valuation of Russian Commercial Bank (Cyprus) Limited for the purpose of this transaction was performed by an independent appraiser.

In January 2009, the Group acquired a 51% share in AF-Bank, located in Azerbaijan, from an unrelated party for RUR 0.5 billion (USD 16 million). In February 2009, the bank was renamed into VTB Azerbaijan.

In January 2009, VTB Bank (Europe), Plc was renamed to "VTB Capital", Plc as a part of restructuring the investment business of the Group.

On 30 March 2009, Bank VTB 24 issued 635,703 additional ordinary shares with nominal amount of RUR 1,000 each for RUR 1,717. The total issue amounted to RUR 1,092 million and was fully purchased by the Group.

In March 2009, VTB-Leasing, OJSC issued 51,612 additional ordinary shares with nominal amount of RUR 31,000 each for the total amount of RUR 1,600 million, which was fully purchased by the Group.

In March 2009, VTB acquired shares of "VTB Bank (Georgia)", JSC from minorities, increasing its share to 84.72%.

In May 2009, VTB increased its ownership in "VTB Bank (Georgia)", JSC from 84.72% to 86.76% by purchasing 13,341,718 ordinary shares of 15,748,425 ordinary shares for the nominal value of 13,341,718 Georgian lari (RUR 271.7 million).

In August 2009, the Federal Financial Markets Service registered the results of issuance of common shares of a newly established entity "Holding VTB Capital", CJSC. VTB Group has a 100% ownership of this entity.

On 1 September 2009, the Central Bank of the Russian Federation registered the results of additional issue of common shares of VTB 24 that were fully purchased by VTB Bank. The total number of the additionally issued shares was 16,433,159 with a nominal value of RUR 1,000 each. The actual offering price per share was RUR 1,465 per share.

In September 2009, VTB Bank increased its ownership in "VTB Bank (Georgia)", JSC from 86.76% to 87.05% by purchasing 2,406,707 newly issued ordinary shares for the nominal value of 2,406,707 Georgian lari (RUR 43.5 million).

On 27 November 2009, the Central Bank of the Russian Federation registered the results of additional issue of common shares of "Bank VTB North-West", OJSC. The total number of the additionally issued shares is 293,255,132 with a nominal value of RUR 1.00 each at the actual offering price of RUR 20.46 per share. VTB Bank purchased 100% of the new shares issued.

In December 2009, VTB increased its ownership in "VTB Bank (Georgia)", JSC from 87.05% to 87.38% by purchasing 100% of 2,438,575 ordinary shares issued for the nominal value of 2,438,575 Georgian lari (RUR 44 million).

In December 2009, "Holding VTB Capital", CJSC issued 3.172 million additional ordinary shares with notional amount of RUR 1,000 each for RUR 3,172 million, which are fully purchased by the Group.

41. Business Combination and Disposal of Subsidiaries

In June 2009, VTB sold its 100% stake in Russian Commercial Bank Ltd to a third party which was not related to the Group, for a debt financial instrument with fair value of RUR 3.5 billion. Currency translation difference transferred from equity to income statement amounted to RUR 1.2 billion. The assets and liabilities disposed were as follows:

	4 June 2009
Assets	
Cash and short-term funds	0.4
Financial assets at fair value through profit or loss	1.2
Due from other banks	4.2
Loans and advances to customers	62.0
Investment securities held-to-maturity	0.5
Premises and equipment	0.3
Other assets	0.1
Total assets	**68.7**
Liabilities	
Due to other banks	(53.5)
Customer deposits	(8.9)
Other borrowed funds	(2.5)
Other liabilities	(0.1)
Total liabilities	**(65.0)**
Net assets	3.7
Total carrying amount of net assets disposed	**3.7**

The gain from disposal of subsidiary amounted to RUR 1.0 billion.

In October 2009, VTB Bank received approval from the Federal Antimonopoly Service for the purchase of controlling share in OJSC "Sistema-Hals", thus obtaining control over Sistema-Hals group of entities (real estate construction and development business) based on the potential voting rights existence. The Group considered the potential voting rights giving current access to economic benefits, thus consolidating 51.24% interest in OJSC "Sistema-Hals". In December 2009, VTB exercised the call option (abovementioned potential voting right) for RUR 30, which resulted in the increase of the percentage of ownership held by the Group from 19.7% to 51.24%.

41. Business Combination and Disposal of Subsidiaries (continued)

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the acquisition date was:

	Fair value
Assets	
Cash and short-term funds	0.1
Due from other banks	0.2
Loans and advances to customers	0.5
Financial assets available-for-sale	0.1
Investments in associates	3.1
Premises and equipment	0.1
Investment property	20.0
Property intended for sale in the ordinary course of business	14.1
Intangible assets	0.7
Deferred tax asset	1.4
Other assets related to from non-banking activities	7.3
Total assets	**47.6**
Liabilities	
Other borrowed funds	35.6
Debt securities issued	5.0
Deferred tax liability	4.3
Other liabilities related to non-banking activities	9.7
Total liabilities	**54.6**
Fair value of identifiable net assets of subsidiary	**(7.0)**
Goodwill arising from the acquisition:	
Consideration paid	–
Fair value of the acquirer's previously held equity interest in the acquiree	–
Non-controlling interest (proportionate share of the acquiree's identifiable net assets)	(3.3)
Less: fair value of identifiable net assets of subsidiary	(7.0)
Goodwill arising from the acquisition	**3.7**

Fair values of identifiable assets and liabilities at the acquisition date were determined by the independent appraiser engaged by the Group.

The Group recognized impairment losses in the full amount of goodwill recognized in OJSC "Sistema-Hals" acquisition due to uncertainty about future cash inflows and economic benefits from this business in the observable future.

The Group considers impracticable to disclose the revenue and profit or loss for 2009 as if the Group had acquired OJSC "Sistema-Hals" on 1 January 2009. This impracticability is due to significant changes in the organizational structure and composition of assets and liabilities of OJSC "Sistema-Hals", which took place throughout 2009. These changes resulted in the significant difference of the revenue and profit or loss for the first half of 2009 as compared to the second half of 2009. Consequently, the financial results of the acquired subsidiary were significantly impacted by the change of the controlling shareholder, which is difficult to quantify and measure without using a number of significant assumptions some of which could not be supported by measurable evidence. The Group believes that cost of producing the required information based on such assumptions far outweighs its economic benefits, which makes such disclosure impracticable.

42. Capital Management and Capital Adequacy

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

Capital adequacy ratio in accordance with CBR requirements

The Central Bank of Russia requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting legislation. The central banks of other countries where the Group members are registered set and monitor their own capital requirements.

As of 31 December 2009 and 2008, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum and was as follows:

	31 December 2009	_31 December 2008_
Capital	565.2	397.1
Risk-weighted assets	2,371.6	2,464.4
Capital adequacy ratio	23.8%	16.1%

In line with the guidelines set out by the Basel Capital Accord, CBR regulations envisage sub-allocation of Tier 2 instruments, which meet the definition of subordinated debt, to either upper Tier 2 capital or lower Tier 2 capital. Subordinated debt classified as lower Tier 2 capital should not exceed 50% of Tier 1 capital, and total Tier 2 capital (including upper Tier 2 and lower Tier 2 capital) should not exceed 100% of Tier 1 capital.

In November 2008, the Bank issued two instruments, in the amount of RUR 100 billion each, to a related third party (state owned institution), which was classified as Tier 2 capital upon the regulator's approval and included in upper Tier 2 capital for the purposes of calculation of capital adequacy in accordance with CBR regulations.

Capital adequacy ratio under the Basel Capital Accord 1988

The Group is also subject to minimum capital requirements established by covenants under liabilities incurred by the Bank. The Group's international risk based capital adequacy ratio, computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, and modified as stated below, as of 31 December 2009 and 2008 was 20.7% and 17.3%, respectively. For the purposes of this calculation, the two subordinated debts issued by the Bank in November 2008, in the amount of RUR 100 billion each (see previous paragraph), were included in the full amount as disclosed in Note 23 in upper Tier 2 capital on the basis of the regulator's approval and the appropriate regulations set out by the CBR. These ratios exceeded the minimum ratio of 8% recommended by the Basel Accord.

The Group's capital adequacy ratio, computed on this basis in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2009 and 2008 was as follows:

	31 December 2009	_31 December 2008_
Tier 1 capital	485.2	367.9
Tier 2 capital	207.1	243.0
Less: deductions from total capital	(12.2)	(4.5)
Total capital	**680.1**	**606.4**
Risk weighted assets	3,284.0	3,511.9
Tier 1 capital ratio	14.8%	10.5%
Capital adequacy ratio	20.7%	17.3%

43. Subsequent Events

In February 2010, VTB executed a call option under its USD 750 million subordinated Eurobonds issued in February 2005 (Note 23).

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

In February 2010, VTB Capital Plc. issued USD 30 million convertible notes with maturity in July 2010 and a rate of 5.46% payable at maturity.

In February 2010, Bank VTB North-West established a 99.99% subsidiary "Estate Management" Ltd. to manage its non-core real estate assets.

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

Within the program of integration of business of VTB North-West into the Group, the Management Board of Bank VTB North-West has approved legal merger with VTB Bank. Further steps in relation to this legal merger are subject to approval of the Supervisory Council and the shareholders of VTB.

In accordance with the Russian legislation in December 2009, the Group made the binding offer to repurchase the non-controlling interests of Sistema-Hals (Note 24 and Note 41), which has expired on 9 March 2010. No shares were offered by Sistema-Hals's minorities (non-controlling interests' owners) for repurchase by VTB in accordance with the terms of the shares repurchase offer.