VTB BANK

Consolidated Financial Statements and Auditors' Report

For the years ended 31 December 2014 and 2013

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Совершенствуя бизнес,
улучшаем мир

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

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

Independent auditor's report

To the Supervisory Council and Shareholders of VTB Bank

We have audited the accompanying consolidated financial statements of VTB Bank and its subsidiaries (together "the Group"), which comprise the consolidated statements of financial position as at 31 December 2014 and 2013, and the consolidated income statements, consolidated statements of comprehensive income, of cash flows and of changes in shareholders' equity for the years then ended, and a summary of principal accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

Ernst & Young LLC

12 March 2015

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

	Note	*2014*	*2013 (restated)*
Assets			
Cash and short-term funds	9	695.2	354.3
Mandatory cash balances with central banks		85.5	58.7
Financial assets at fair value through profit or loss	10	681.7	406.4
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	11	184.0	173.2
Due from other banks, including pledged under repurchase agreements	12	814.5	446.2
- Due from other banks		*740.3*	*443.4*
- Due from other banks, pledged under repurchase agreements		*74.2*	*2.8*
Loans and advances to customers, including pledged under repurchase agreements	13	8,537.3	6,259.6
- Loans and advances to customers		*8,074.7*	*5,969.0*
- Loans and advances to customers, pledged under repurchase agreements		*462.6*	*290.6*
Investment financial assets	14	132.2	140.8
Investments in associates and joint ventures	15	96.3	87.6
Assets of disposal groups held for sale	20	11.1	36.7
Land, premises and equipment	16	246.9	170.3
Investment property	17	192.3	160.7
Goodwill and other intangible assets	18	161.8	162.5
Deferred income tax asset	42	66.9	45.5
Other assets	19	285.1	266.0
Total assets		**12,190.8**	**8,768.5**
Liabilities			
Due to other banks	21	733.2	624.6
Customer deposits	22	5,669.4	4,383.4
Other borrowed funds	23	2,729.2	1,485.9
Debt securities issued	24	921.4	738.2
Liabilities of disposal groups held for sale	20	4.7	20.7
Deferred income tax liability	42	26.6	15.0
Other liabilities	26	710.1	262.6
Total liabilities before subordinated debt		**10,794.6**	**7,530.4**
Subordinated debt	25	265.2	291.0
Total liabilities		**11,059.8**	**7,821.4**
Equity			
Share capital	27	352.1	138.1
Share premium		433.8	433.8
Perpetual loan participation notes	28	126.6	73.6
Treasury shares and bought back perpetual loan participation notes		(6.7)	(3.6)
Other reserves	29	42.8	35.6
Retained earnings		169.3	262.0
Equity attributable to shareholders of the parent		**1,117.9**	**939.5**
Non-controlling interests		**13.1**	**7.6**
Total equity		**1,131.0**	**947.1**
Total liabilities and equity		**12,190.8**	**8,768.5**

Approved for issue and signed on 12 March 2015.

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

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

(in billions of Russian roubles)

	Note	*2014*	*2013*
Interest income	30	844.1	686.3
Interest expense	30	(489.8)	(363.3)
Net interest income		**354.3**	**323.0**
Provision charge for impairment of debt financial assets	12, 13, 14	(255.4)	(96.9)
Net interest income after provision for impairment		**98.9**	**226.1**
Net fee and commission income	31	**63.1**	**55.4**
(Losses net of gains) / gains less losses arising from financial instruments at fair value through profit or loss	32	(3.0)	13.2
Gains less losses from investment financial assets available-for-sale	14	–	7.3
Losses net of gains arising from foreign currencies	33	(3.2)	(8.7)
Government grant from Deposit Insurance Agency	23	99.2	–
Gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers	34	3.5	9.1
Share in profit of associates and joint ventures		0.3	2.2
Gain from disposal of subsidiaries and associates	15, 20, 54	15.1	2.8
Gains net of losses / (losses net of gains) arising from extinguishment of liabilities	35	0.8	(3.7)
Provision charge for impairment of other assets, credit related commitments and legal claims	19, 47	(20.0)	(2.3)
Excess of fair value of acquired net asset over cost	54	0.3	8.0
Other operating income	36	18.5	9.6
Non-interest gains		**111.5**	**37.5**
Net insurance premiums earned	37	43.9	29.4
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	38	(31.8)	(16.4)
Revenue from other non-banking activities	39	38.1	34.2
Cost of sales and other expenses from other non-banking activities	40	(45.9)	(36.1)
Revenues less expenses from non-banking operations		**4.3**	**11.1**
Impairment of goodwill	18	(5.7)	–
Staff costs and administrative expenses	41	(239.3)	(210.9)
Non-interest expenses		**(245.0)**	**(210.9)**
Profit before tax		**32.8**	**119.2**
Income tax expense	42	(31.5)	(24.1)
Net profit after tax		**1.3**	**95.1**
(Loss) / profit after tax from subsidiaries acquired exclusively with a view to resale		(0.5)	5.4
Net profit		**0.8**	**100.5**
Net profit attributable to:			
Shareholders of the parent		**4.1**	**101.5**
Non-controlling interests		**(3.3)**	**(1.0)**
Basic and diluted earnings per share (expressed in Russian roubles per share)	44	**(0.00023)**	**0.00805**
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	44	**(0.00019)**	**0.00760**

(in billions of Russian roubles)

	2014	*2013*
Net profit	**0.8**	**100.5**
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Net result on financial assets available-for-sale, net of tax	(20.7)	(1.8)
Cash flow hedges, net of tax	(0.4)	0.8
Share of other comprehensive income of associates and joint ventures	2.0	–
Effect of translation, net of tax	37.2	3.9
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	*18.1*	*2.9*
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(1.2)	(0.2)
Land and premises revaluation, net of tax	(0.4)	–
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	*(1.6)*	*(0.2)*
Other comprehensive income, net of tax	**16.5**	**2.7**
Total comprehensive income	**17.3**	**103.2**
Total comprehensive income attributable to:		
Shareholders of the parent	**17.6**	**103.7**
Non-controlling interests	**(0.3)**	**(0.5)**

(in billions of Russian roubles)

	Note	2014	2013 (restated)
Cash flows from operating activities			
Interest received		813.7	678.0
Interest paid		(442.4)	(329.3)
Gains received on operations with financial assets at fair value through profit or loss		68.3	14.0
Gains received from extinguishment of liability		1.0	–
Gains received on dealing in foreign currency		80.7	3.7
Fees and commissions received		83.4	71.5
Fees and commissions paid		(18.6)	(15.0)
Other operating income received		12.3	6.8
Staff costs, administrative expenses paid		(195.7)	(184.2)
Income received from non-banking activities		50.7	37.9
Expenses paid in non-banking activities		(38.7)	(41.7)
Net insurance premiums received		43.9	32.0
Net insurance claims paid		(35.1)	(16.4)
Income tax paid		(20.6)	(18.1)
Cash flows from operating activities before changes in operating assets and liabilities		**402.9**	**239.2**
Net decrease/(increase) in operating assets			
Net (increase)/decrease in mandatory cash balances with central banks		(27.0)	5.1
Net increase in restricted cash		(0.3)	(0.1)
Net (increase)/decrease in correspondent accounts in precious metals		(1.6)	2.5
Net (increase)/decrease in financial assets at fair value through profit or loss		(40.0)	23.5
Net increase in due from other banks		(239.2)	(31.8)
Net increase in loans and advances to customers		(2,159.5)	(1,321.5)
Net increase in other assets		(25.0)	(16.8)
Net (decrease)/increase in operating liabilities			
Net increase/(decrease) in due to other banks		116.0	(88.5)
Net increase in customer deposits		1,120.0	434.7
Net decrease in debt securities issued other than bonds issued		(3.5)	(19.4)
Net increase/(decrease) in other liabilities		19.6	(5.9)
Net cash used in operating activities		**(837.6)**	**(779.0)**
Cash flows used in investing activities			
Dividends and other distributions received		1.8	1.3
Proceeds from sales or maturities of investment financial assets available-for-sale		190.7	131.2
Purchase of investment financial assets available-for-sale		(324.9)	(196.9)
Purchase of subsidiaries, net of cash	54	2.5	(80.6)
Disposal of subsidiaries, net of cash	54	17.2	41.5
Purchase of and contributions to associates and joint ventures		(0.7)	(1.8)
Proceeds from sale of share in associates		4.0	2.8
Proceeds from distribution to shareholders of associates		1.6	–
Purchase of investment financial assets held-to-maturity		(1.6)	–
Proceeds from redemption of investment financial assets held-to-maturity		1.9	0.3
Purchase of land, premises and equipment		(49.6)	(31.7)
Proceeds from sale of land, premises and equipment		6.4	4.6
Purchase or construction of investment property		(20.8)	(14.6)
Proceeds from sale of investment property		3.5	7.5
Purchase of intangible assets		(6.1)	(5.1)
Proceeds from sale of intangible assets		0.4	0.1
Net cash used in investing activities		**(173.7)**	**(141.4)**

(in billions of Russian roubles)

	Note	2014	2013 (restated)
Cash flows from financing activities			
Dividends paid	45	(16.3)	(16.8)
Proceeds from issuance of local bonds		101.5	96.3
Repayment of local bonds		(48.0)	(76.6)
Buy-back of local bonds		(84.3)	(54.6)
Proceeds from sale of previously bought-back local bonds		15.3	28.4
Proceeds from issuance of Eurobonds		7.5	48.2
Repayment of Eurobonds		(41.2)	(71.8)
Buy-back of Eurobonds		(30.6)	(8.3)
Proceeds from sale of previously bought-back Eurobonds		17.3	17.0
Proceeds from syndicated loans		2.5	66.9
Repayment of syndicated loans		(108.0)	(0.1)
Proceeds from other borrowings and funds from local central banks		9,353.7	3,361.5
Repayment of other borrowings and funds from local central banks		(8,045.5)	(2,798.3)
Proceeds from subordinated debt		113.5	4.1
Repayment of subordinated debt		(218.8)	(7.2)
Buy-back of subordinated debt		(2.0)	(0.8)
Proceeds from sale of previously bought-back subordinated debt		1.2	0.8
Proceeds from share issue, less transaction costs	27	214.0	100.3
Cash received from sale of treasury shares		15.1	36.8
Cash paid for treasury shares		(18.1)	(34.4)
Share issue to non-controlling interests		–	0.5
Cash paid for purchase of non-controlling interests in subsidiaries and non-parent interests in consolidated funds	54	(21.6)	(1.3)
Buy-back of perpetual loan participation notes		(2.5)	(5.1)
Proceeds from sale of previously bought-back perpetual loan participation notes		2.4	5.0
Amounts paid on perpetual loan participation notes	45	(9.4)	(7.0)
Net cash from financing activities		**1,197.7**	**683.5**
Effect of exchange rate changes on cash and cash equivalents		153.2	25.5
Effect of hyperinflation		(0.5)	(0.9)
Net increase/(decrease) in cash and cash equivalents		**339.1**	**(212.3)**
At the beginning of period	9	**348.6**	**560.9**
At the end of period	9	**687.7**	**348.6**

(in billions of Russian roubles)

	Attributable to shareholders of the parent								
	Share capital	Share premium	Perpetual loan participation notes (Note 28)	Treasury shares and bought back perpetual loan participation loan notes	Other reserves (Note 29)	Retained earnings	Total	Non-controlling interests (Note 55)	Total equity
Balance at 1 January 2013	**113.1**	**358.5**	**68.3**	**(13.7)**	**33.9**	**193.7**	**753.8**	**12.3**	**766.1**
Ordinary share issue (Note 27)	25.0	75.3	–	–	–	–	**100.3**	–	**100.3**
Net result from treasury shares transactions	–	–	–	10.2	–	(7.5)	**2.7**	–	**2.7**
Net result from bought back perpetual loan participation notes transactions	–	–	–	(0.1)	–	–	**(0.1)**	–	**(0.1)**
Profit for the period	–	–	–	–	–	101.5	**101.5**	(1.0)	**100.5**
Other comprehensive income	–	–	–	–	2.3	(0.1)	**2.2**	0.5	**2.7**
Total comprehensive income for the period	–	–	–	–	**2.3**	**101.4**	**103.7**	**(0.5)**	**103.2**
Share-based payments (Note 43)	–	–	–	–	–	0.8	**0.8**	–	**0.8**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.7)	0.7	–	–	–
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	0.4	**0.4**
Acquisition of subsidiaries	–	–	–	–	–	–	–	(1.2)	**(1.2)**
Disposal of subsidiaries	–	–	–	–	–	0.5	**0.5**	(1.6)	**(1.1)**
Acquisition of non-controlling interests	–	–	–	–	0.1	(2.9)	**(2.8)**	0.1	**(2.7)**
Amounts due on perpetual loan participation notes (Note 45)	–	–	–	–	–	(7.0)	**(7.0)**	–	**(7.0)**
Foreign exchange translation of perpetual loan participation notes	–	–	5.3	–	–	(5.3)	–	–	–
Tax effect recognised on perpetual loan participation notes				–	–	2.5	**2.5**	–	**2.5**
Dividends declared (Note 45)	–	–	–	–	–	(14.9)	**(14.9)**	(1.9)	**(16.8)**
Balance at 31 December 2013	**138.1**	**433.8**	**73.6**	**(3.6)**	**35.6**	**262.0**	**939.5**	**7.6**	**947.1**
Preference share issue (Note 27)	214.0	–	–	–	–	(12.3)	**201.7**	–	**201.7**
Net result from treasury shares transactions	–	–	–	(3.1)	–	(0.1)	**(3.2)**	–	**(3.2)**
Profit for the period	–	–	–	–	–	4.1	**4.1**	(3.3)	**0.8**
Other comprehensive income	–	–	–	–	14.2	(0.7)	**13.5**	3.0	**16.5**
Total comprehensive income for the period	–	–	–	–	**14.2**	**3.4**	**17.6**	**(0.3)**	**17.3**
Share-based payments (Note 43)	–	–	–	–	–	0.4	**0.4**	–	**0.4**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(2.3)	2.3	–	–	–
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	0.1	**0.1**
Acquisition of subsidiaries	–	–	–	–	–	–	–	0.5	**0.5**
Disposal of subsidiaries	–	–	–	–	(4.9)	0.9	**(4.0)**	(7.2)	**(11.2)**
Acquisition of non-controlling interests	–	–	–	–	0.2	(23.4)	**(23.2)**	13.7	**(9.5)**
Amounts due on perpetual loan participation notes (Note 45)	–	–	–	–	–	(7.5)	**(7.5)**	–	**(7.5)**
Foreign exchange translation of perpetual loan participation notes	–	–	53.0	–	–	(53.0)	–	–	–
Tax effect recognized on perpetual loan participation notes	–	–	–	–	–	11.6	**11.6**	–	**11.6**
Dividends declared (Note 45)	–	–	–	–	–	(15.0)	**(15.0)**	(1.3)	**(16.3)**
Balance at 31 December 2014	**352.1**	**433.8**	**126.6**	**(6.7)**	**42.8**	**169.3**	**1,117.9**	**13.1**	**1,131.0**

1. Principal Activities

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

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

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

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Deposit Insurance Agency" ("DIA"). The Group subsidiary banks in Russia: "Bank VTB 24", PJSC, "Bank of Moscow", OJSC and "Leto Bank", OJSC are also members of the obligatory deposit insurance system provided by DIA. The State deposit insurance scheme implies that DIA guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 1.4 million with a 100% compensation of deposited amount from 29 December 2014.

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

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks with its network of 48 full service branches, including 23 branches of VTB, 15 branches of "Bank VTB 24", PJSC, 10 branches of "Bank of Moscow", OJSC located in major Russian regions.

The Group operates outside Russia through 13 bank subsidiaries, located in Austria, Germany, France, Great Britain, Serbia, Armenia, Belarus, Kazakhstan, Azerbaijan, Ukraine (2 banks), Georgia and Angola; through 2 representative offices located in Italy and China; through 2 VTB branches in China and India and 2 branches of "VTB Capital", Plc in Singapore and Dubai. The Group investment banking division also performs broker/dealer operations in the United States of America, securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

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

The number of employees of the Group at 31 December 2014 was 101,072 (31 December 2013: 103,808).

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

2. Operating Environment of the Group

The Russian Federation. The majority of the Group's operations are conducted in the Russian Federation (Russia). The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the CBR exchange rate fluctuated between RUR 32.7292 and RUR 56.2584 per USD;
- the CBR key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 10.5% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 1,445 and 791;
- access to international financial markets to raise funding was limited for certain Russian entities; and capital outflows increased compared to prior years.

2. Operating Environment of the Group (continued)

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- the CBR exchange rate fluctuated between RUR 56.2584 per USD and RUR 69.6640 per USD;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. In February 2015 Moody's downgraded Russia's rating to Ba1 from Baa3. Fitch Ratings still have Russia as investment grade. All these rating agencies indicated a negative outlook, meaning further downgrades are possible;
- the RTS stock exchange index ranged between 733 and 908;
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates; and
- the CBR key refinancing interest rate decreased from 17.0% p.a. to 15.0% p.a.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

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

Ukraine. In 2014, the economic and political situation in Ukraine deteriorated significantly. As a result, Ukraine has experienced a fall in gross domestic product, a significant negative balance of payments and a sharp reduction in foreign currency reserves. Furthermore, between 1 January 2014 and 12 March 2015, the Ukrainian Hryvnia devalued to major foreign currencies by approximately 254%, and the National Bank of Ukraine imposed certain restrictions on foreign currency operations. Restrictions have also been introduced for certain cross-border settlements, including payments of dividends. International rating agencies have downgraded sovereign debt ratings for Ukraine. Currently, a loan programme extension, which may necessitate certain austerity measures, is being negotiated by Ukraine with the International Monetary Fund. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available.

At 31 December 2014, the Group's investments in Ukrainian sovereign and municipal securities as well as loans to Ukrainian government fully or majority owned enterprises amounted to less than 0.1% of the Group's total assets. The Group continues to monitor the situation in Ukraine and take appropriate actions in order to minimize the effects of these risks. The risk assessment is reviewed constantly to reflect the current situation.

In March 2015, National Bank of Ukraine raised its key interest rate from 19.5% to 30%. Further significant negative developments in Ukraine could adversely impact the results and financial position of the Group and of the Group's Ukrainian subsidiaries in a manner not currently determinable.

Other jurisdictions. In addition to Russia, the Group conducts operations in Belarus, Kazakhstan, Azerbaijan, Armenia and Georgia, certain European countries (Austria, Germany, France, Great Britain and Serbia) and several other countries. Difficult economic and financial market situation in certain of these jurisdictions led to a decrease or negative growth of GDP, currency devaluation, reduced consumption, as well as a decline in investment activities.

In July-September 2014, several countries imposed limited sectorial sanctions on the Group. The Group considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Group's financial position and its financial performance.

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

3. Basis of Preparation

These 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, and by the revaluation of land, premises and investment properties, available-for-sale financial assets, and financial instruments categorized as at fair value through profit or loss. The summary of principal accounting policies applied in the preparation of these financial statements is set out below in Note 7. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

4. Adoption of New or Revised Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for certain new standards and interpretations, which became effective for the Group from 1 January 2014, as described below:

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

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The amended standard did not have a material impact on the Group.

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

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

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

5. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the Group's annual accounting periods beginning on or after 1 January 2015 or later and which the Group has not early adopted:

IFRS 9 – Financial Instruments: Classification and Measurement (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is considering the implications of the standard, the impact on the Group.

Amendments to IAS 19 – Defined Benefit Plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment clarifies how contributions from employees that are linked to service should be attributed to periods of service. It also permits entities to recognize employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, if the amount of the contributions is independent of the number of years of service. The Group is considering the implications of the amendment and its impact on the Group.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'. The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

5 New Accounting Pronouncements (Continued)

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 14, Regulatory Deferral Accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture for Bearer Plants (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants. In accordance with these amendments bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16 *Property, Plant and Equipment.* These amendments had no impact on the Group's financial position since the Group does not own or control bearer plants.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). The amendments have clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments have clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. The Group is currently assessing the impact of the amendments on its financial statements.

(in billions of Russian roubles)

5 New Accounting Pronouncements (Continued)

Amendments to IFRS 11 Joint Arrangements (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The Group is currently assessing the impact of the amendments on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not applicable for consolidated financial statements of the Group.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from “held for sale” to “held for distribution” or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of “information disclosed elsewhere in the interim financial report”. The Group is currently assessing the impact of the amendments on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

6. Correction of Prior Period Balances and Reclassifications

Financial assets held for trading reclassification

As at 31 December 2014, the Group determined that certain securities, previously included in financial assets held for trading category, should have been classified as financial assets available-for-sale category. These securities were purchased in 2013 for the subsequent pledge against funds on sale and repurchase agreements (substantially from local central banks) and represented by Russian Federal loan bonds (OFZ), Russian municipal bonds and by bonds of Russian companies and banks.

The reclassification and its impact for the financial statements as at 31 December 2013 in the consolidated statement of financial position and corresponding notes are as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Financial assets at fair value through profit or loss	411.1	(4.7)	406.4
Investment financial assets	136.1	4.7	140.8

(in billions of Russian roubles)

6. Correction of Prior Period Balances and Reclassifications (continued)

Financial assets held for trading reclassification (continued)

The effect of reclassification of the comparative information in the financial assets at fair value through profit or loss note (Note 10) as at 31 December 2013 is as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Financial assets held for trading			
Debt securities			
- Bonds and eurobonds of Russian companies and banks	159.1	(2.4)	156.7
- Russian municipal bonds	5.0	(2.3)	2.7
Total debt securities	*233.1*	*(4.7)*	*228.4*
Total financial assets held for trading	**377.1**	**(4.7)**	**372.4**

The effect of reclassification of the comparative information in the financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements note (Note 11) as at 31 December 2013 is as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Financial assets at fair value through profit or loss			
Financial assets held for trading			
Debt securities			
- Bonds and eurobonds of Russian companies and banks	133.7	(6.9)	126.8
- Russian Federal loan bonds (OFZ)	0.8	(0.8)	–
Total financial assets held for trading	*145.0*	*(7.7)*	*137.3*
Total financial assets at fair value through profit or loss	**145.0**	**(7.7)**	**137.3**
Financial assets available-for-sale			
- Russian Federal loan bonds (OFZ)	12.8	0.8	13.6
- Bonds and eurobonds of Russian companies and banks	11.2	6.9	18.1
Total financial assets available-for-sale	**28.1**	**7.7**	**35.8**

The effect of reclassification of the comparative information in the investment financial assets note (Note 14) as at 31 December 2013 is as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Investment financial assets available-for-sale			
Debt securities			
- Bonds and eurobonds of Russian companies and banks	36.2	2.4	38.6
- Russian municipal bonds	–	2.3	2.3
Total debt securities	*110.7*	*4.7*	*115.4*
Total investment financial assets available-for-sale	**135.4**	**4.7**	**140.1**
Total investment financial assets	**136.1**	**4.7**	**140.8**

(in billions of Russian roubles)

6. Correction of Prior Period Balances and Reclassifications (continued)

The effect of corresponding reclassifications on disclosure of the consolidated statement of cash flows for the year ended 31 December 2013 is as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Cash flows from operating activities			
Net decrease in financial assets at fair value through profit or loss	11.2	12.3	23.5
Net cash used in operating activities	**(791.3)**	**12.3**	**(779.0)**
Cash flows from investing activities			
Purchase of investments financial assets available-for-sale	(184.6)	(12.3)	(196.9)
Net cash used in investing activities	**(129.1)**	**(12.3)**	**(141.4)**

The effect of reclassification of the comparative information in Interest Income and Expenses note (Note 30) for the year ended as at 31 December 2013 is as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Interest income			
Financial assets at fair value through profit or loss	37.0	(0.6)	36.4
Other financial assets, including securities	4.7	0.6	5.3

The effect of reclassification on the related party transactions disclosures (Note 52) to the consolidated financial statements at 31 December 2013 was as follows:

	As previously reported	*Correction of Prior Period Balances*	*Restated*
Government-related entities			
Financial assets at fair value through profit or loss	128.5	(3.5)	125.0
Investment financial assets	48.8	3.5	52.3

(in billions of Russian roubles)

6. Correction of Prior Period Balances and Reclassifications (continued)

Deposits of the State Pension Fund of the Russian Federation

As at 31 December 2014, the Group determined that certain deposits placed with VTB by the State Corporation "Bank for Development and Foreign Affairs (Vnesheconombank)" (VEB), previously classified as Due to other banks, should have been classified as Customer deposits. VEB acts as an asset manager of the State Pension Fund of the Russian Federation and, in its asset manager capacity, placed the deposits of the State Pension Fund of the Russian Federation with VTB.

The reclassification and its impact for the financial statements as at 31 December 2013 in the consolidated statement of financial position and corresponding notes are as follows:

	As previously reported	*Reclassification*	*As reclassified*
Due to other banks	666.6	(42.0)	624.6
Customer deposits	4,341.4	42.0	4,383.4

The effect of corresponding reclassifications on disclosure of the consolidated statement of cash flows for the year ended 31 December 2013 is as follows:

	As previously reported	*Reclassification*	*As reclassified*
Cash flows from operating activities			
Net (decrease) increase in operating liabilities			
Net decrease in due to other banks	(117.9)	29.4	(88.5)
Net increase in customer deposits	464.1	(29.4)	434.7

The effect of reclassification of the comparative information in Due to Other Banks note (Note 21) and Customer deposits (Note 22) as at 31 December 2013 is as follows:

	As previously reported	*Reclassification*	*As reclassified*
Due to other banks / Term loans and deposits	345.5	(42.0)	303.5
Customer deposits / Government bodies / Term deposits	258.9	42.0	300.9
Customer deposits / Government bodies	385.8	42.0	427.8

The effect of reclassification of the comparative information in Interest Income and Expenses note (Note 30) for the year ended as at 31 December 2013 is as follows:

	As previously reported	*Reclassification*	*As reclassified*
Interest expense			
Customer deposits	(208.3)	(6.8)	(215.1)
Due to other banks and other borrowed funds	(83.2)	6.8	(76.4)

The effect of reclassification on the related party transactions disclosures (Note 52) to the consolidated financial statements at 31 December 2013 was as follows:

	As previously reported	*Reclassification*	*As reclassified*
Government-related entities			
Due to other banks	253.8	(42.0)	211.8
Customer deposits	1,178.4	42.0	1,220.4

The effect of reclassification of interest expense on the related party transactions disclosures (Note 52) for the year ended 31 December 2013 was as follows:

	As previously reported	*Reclassification*	*As reclassified*
Interest expense			
Due to other banks and other borrowed funds	(62.0)	6.8	(55.2)
Customer deposits	(71.8)	(6.8)	(78.6)

7. Summary of Principal Accounting Policies

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date) and are no longer consolidated from the date when control ceases. All intragroup balances and transactions, including income, expenses, dividends and unrealized gains on transactions between the Group members are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

Acquisition of subsidiaries

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

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

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

In a business combination is achieved in stages, the acquirer should remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs should be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer should recognize at the acquisition date a liability for any contingent purchase consideration.

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 arrangements

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting, and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

7. Summary of Principal Accounting Policies (continued)

Investments in associates and joint arrangements (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised 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 joint arrangement with one or more parties to have rights to the net assets of the arrangement. The Group recognizes interests in a joint venture using the equity method and applies the same accounting policies as those for investments in associates.

Venture Capital Investments

Investments in companies that are managed by a dedicated team within VTB Group, primarily involved in venture capital activities, as part of the Group's investment portfolio of securities at fair value through profit and loss and over which the Group may have significant influence are carried at fair value as permitted by IAS 28 which allows investments in associates and joint ventures that are held by venture capital organizations to be excluded from the scope of IAS 28 if these investments are upon initial recognition designated as at fair value through profit or loss or are classified as held for trading and accounted in accordance with IAS 39. These venture capital investments of the Group are classified as investments in associates and joint ventures designated as at fair value through profit or loss and the changes in the fair value of such investments are accounted for similar to the changes in the fair value of financial assets designated as at fair value through profit or loss as described below, and is included in the gains less losses arising from financial instruments at fair value through profit or loss.

Structured entities

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgement is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. Refer to Note 54 for further information about the Group's exposure to structured entities.

Disposals of subsidiaries, associates or joint ventures

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial assets

Valuation of financial instruments

All financial instruments are recognised initially at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs are directly attributable to the acquisition or issue of the financial asset. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group's valuation methodologies, which are described in Notes 50.

7. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique with all material inputs observable, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. Any other 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 or recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Classification of financial assets

Financial assets in the scope of 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.

Reclassification of financial assets

Non-derivative financial assets (other than those designated at fair value through profit or loss upon initial recognition) may be reclassified out of the fair value through profit or loss category in the following circumstances:

- financial assets that would have met the definition of loans and receivables at the date of reclassification (if the financial asset had not been required to be classified as held for trading) may be reclassified out of the fair value through profit or loss category if there is the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- financial assets (except financial assets that would have met the definition of loans and receivables at initial recognition) may be reclassified out of the fair value through profit or loss category and into another category in rare circumstances.

When a financial asset is reclassified as described in the above circumstances, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in the income statement is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Where financial assets have been reclassified out of the fair value through profit or loss category to the loans and receivables category, the effective interest rate determined at the date of reclassification is used to calculate any impairment losses.

Where financial assets have been reclassified out of the available-for-sale investment financial assets category to the loans and receivables category, the previous gain or loss that has been recognised in other comprehensive income shall be amortised through income statement within gains less losses from available-for-sale financial assets over the remaining life of the financial asset using the effective interest method.

Financial assets at fair value through profit or loss:

(a) Financial assets held for trading

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

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio, in which a pattern of short-term trading exists. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term.

Non-derivative trading financial assets are carried at fair value. Interest earned on non-derivative debt trading financial assets is calculated using the coupon (contractual) interest rate, which approximates the effective interest rate, and is presented in the income statement as interest income. 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.

7. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

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

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

Loans and receivables

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

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

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

Held-to-maturity investments

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

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

Available-for-sale financial assets

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

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.

7. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

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.

Restructuring of financial assets

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

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

Securitization of financial assets

As part of its operational activities, the Group securitizes financial assets, generally through the transfer of these assets to special purpose entities that issue debt securities to investors or through the arrangement of funded participation agreements. 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.

7. Summary of Principal Accounting Policies (continued)

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

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

Mandatory reserve deposits with central banks

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

Due from other banks

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

7. Summary of Principal Accounting Policies (continued)

Repurchase and reverse repurchase agreements and lending of financial instruments

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

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

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

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

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

Derivative financial instruments

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivatives may be embedded in other financial instruments. Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract; the terms of the embedded derivative would meet the definition of a stand-alone derivative if they were contained in a separate contract; and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with changes therein recognised in the income statement.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement.

Hedge accounting

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

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.

7. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

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”.

Regular way transactions

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

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

Promissory notes purchased

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

Finance and operating leases

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included ‘Loans and advances to customers’. The finance income receivable is recognised in ‘Interest income’ over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

7. Summary of Principal Accounting Policies (continued)

Finance and operating leases (continued)

When the Group is a lessee under finance leases, the leased assets are capitalised and included in 'Land, property and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Interest expense' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases. When acting as lessor, The Group includes the assets subject to operating leases in 'Land, property and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When Group is the lessee, leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other operating income', respectively.

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 income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement, but are rather retained in other comprehensive income in a separate component of equity. 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 were recognized in profit or loss. A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale below its cost is also objective evidence of impairment of this instrument.

7. Summary of Principal Accounting Policies (continued)

Insurance

Insurance operations. Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance risk exists when the Group has uncertainty in respect of the following matters at inception of the contract: the occurrence of insurance event, the date of occurrence of insurance event and claim value in respect of it. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Gross insurance premiums written. Upon inception of a contract, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage. Decreasing insurance premiums in subsequent periods (for example, when signing additional agreements to the original signed contracts) are recognized as a reduction in insurance premiums in the reporting period. In the consolidated income statement of the Group gross insurance premiums written are included in Net insurance premiums earned.

Provision for unearned premiums. Provision for unearned premiums represents the proportion of premiums written that relate to unexpired term of policies in force as at the reporting date, calculated on a time apportionment basis. Provision for unearned premiums is calculated by «pro rata temporis» method for each policy and defined as insurance premium multiplied by ratio of unexpired portion of policy to the entire term of the policy. Movement in provision for unearned premiums is recognized within Net insurance premiums earned in the consolidated income statement of the Group.

Claims paid. Claims are charged to the consolidated income statement as incurred based on evaluated liability for compensation payable to policyholders or third parties suffered from occurrence of the insured event. Claims also include claims handling expenses related to cost of experts, appraisers, surveyors and emergency commissioners. Claims paid are recognized within Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs in the consolidated income statement of the Group.

Loss provisions. Loss provisions represent an estimate of liabilities to pay claims in future and include outstanding claims provision (“OCP”) and provision for claims incurred but not reported (“IBNR”). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases as at and after the reporting date. IBNR is determined by the Group by line of business using actuarial methods, and includes assumptions based on prior years’ claims and claims handling experience. Movement in loss provisions is recognized within Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs in the consolidated income statement of the Group.

Liability adequacy test. At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, the current best estimates of the future contractual cash flows and claims handling expenses are used. Any deficiency is immediately charged to the consolidated income statement, initially by writing off deferred acquisition costs and by subsequently establishing a provision for losses arising from the liability adequacy test.

Pension liabilities. Pension liabilities are accounted under IFRS 4. IFRS 4 permits an insurer to apply existing national GAAP for insurance contracts and financial instruments with discretionary participation feature (“DPF”). Thus, pension liabilities under insurance contracts and financial instruments with DPF are determined by the Group in accordance with Russian legislation and pension and insurance rules also.

Pension liabilities are recognised at the earlier of the following dates:

(a) the beginning of insurance coverage;

(b) the date when the Group shall receive the first payment according to non-state pension contract or obligatory pension insurance contract with third parties.

The Group uses retrospective method to evaluate non-state pension liabilities if benefits under these contracts has not been granted yet, and prospective method if benefits has been already granted. The estimation is made on the basis of mortality rates and investment return. Assumptions also include adjustments for unfavorable events in order to provide the best estimate of possible future claims. Investment return assumptions are determined and fixed when non-state pension contract is signed, and may differ depending on the year of contract commencement.

7. Summary of Principal Accounting Policies (continued)

Pension liabilities (continued)

Obligatory pension insurance liabilities are determined as cumulative contributions reduced by benefits and adjusted by investment return.

At each reporting date, liability adequacy test is performed to ensure the adequacy of the contract liabilities. The carrying amount of pension liabilities may be increased if the test shows that the carrying amount of pension liabilities is inadequate in the light of the estimated future cash flows.

The adequacy test considers current estimates of all contractual cash flows (including future cash flows such as contributions, benefits paid, lump sum payments and payments to successors), and of related cash flows such as contracts handling costs, cash flows resulting from embedded options and guarantees, as well as investment return on related assets. The Group uses current best estimates of future cash flows, taking into account expected improvements in life interval of participants in the future. Certain estimation techniques are applied by the Group, including discounting of cash flows and stochastic simulation.

For financial instruments with DPF the Group applies the same accounting policy as for insurance contracts liabilities.

Pension liabilities are derecognised when the term of the contract expires, the contract is repaid or cancelled.

Movement in pension liabilities is recognised within Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs in the consolidated income statement of the Group.

Pension contributions and benefits paid. Contributions are recognised in full amount as income when paid by a sponsor. In the consolidated income statement of the Group pension contributions are included in Net insurance premiums earned. Benefits paid are charged to the consolidated income statement as incurred. Pension benefits paid are recognised within Net insurance claims incurred and movement in liabilities to policyholders in the consolidated income statement of the Group.

Non-current assets and disposal group held for sale

Non-current assets (or disposal groups, which may include both non-current and current assets and liabilities), are classified in the statement of financial position as ‘non-current assets held for sale’ (or as ‘assets of disposal group held for sale’ and ‘liabilities of disposal group held for sale’) if their carrying amount will be recovered principally through a sale transaction, including deconsolidation of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets (or disposal groups) are eligible to be classified or reclassified when all of the following conditions are met:

(a) the assets are available for immediate sale in their present condition;

(b) the Group’s management approved and initiated an active programme to locate a buyer;

(c) the assets are actively marketed for a sale at a reasonable price;

(d) the sale is expected to occur within one year from the date of classification and

(e) it is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period’s statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

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

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

7. Summary of Principal Accounting Policies (continued)

Non-current assets and disposal group held for sale (continued)

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

Gains or losses of the subsidiary classified as disposal group held for sale are included in the relevant caption of the consolidated income statement and other comprehensive income.

Investment property

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

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

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

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

Land, premises and equipment

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

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

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

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

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

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.

7. Summary of Principal Accounting Policies (continued)

Land, premises and equipment (continued)

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.

Depreciation

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

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

Estimated useful lives and residual values are reassessed annually.

Goodwill

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

(a) the aggregate of:

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

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

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

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

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

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

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

7. Summary of Principal Accounting Policies (continued)

Goodwill (continued)

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

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

Intangible assets other than goodwill

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

Intangible assets acquired or recognized 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 using straight-line method over the useful economic lives, which normally do not exceed 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and amortization methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Core deposit and loan to customer intangibles

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

Due to other banks

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

Customer deposits

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

Debt securities issued

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

7. Summary of Principal Accounting Policies (continued)

Other borrowed funds

Other borrowed funds include some specific borrowings, which differ from the above items of liabilities and include funds from local central banks, 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.

Operations with precious metals

The Group enters into different types of transactions with precious metals including sale and purchase agreements, metal-currency swap transactions, lending and borrowing in precious metals. Correspondent accounts in precious metals (assets) are recorded within Cash and short-term funds; however, they are excluded from Cash and cash equivalents as the precious metals are considered to be a commodity rather than a financial instrument. Precious metals inventory in vault is included in Other assets.

When the Group borrows precious metals or accepts deposits in precious metals with a subsequent metal-currency swap or economically similar transaction, the Group accounts for such transactions as borrowings within the appropriate liability caption in the statement of financial position and recognizes interest expense at the effective interest rate over the term of the borrowing. Related derivatives, including bifurcated precious metals derivatives, are accounted for in the statement of financial position as assets or liabilities at fair value through profit or loss with any changes in fair value recorded in the income statement.

Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists. 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 tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realized or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Group has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognised in other comprehensive income. Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

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.

7. Summary of Principal Accounting Policies (continued)

Credit related commitments

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

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of the unamortised balance of the amount at initial recognition and the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value. Where the Group has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts, such amounts will be recognised as loans and receivables upon transfer of the loss compensation to the guarantee's beneficiary.

Perpetual Loan Participation Notes

Due to the undefined maturity and an option for non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual Loan Participation Notes as an equity instrument and as a Tier I eligible instrument for the purpose of Capital Adequacy Ratio calculation. The CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of the Bank.

The Group accounts for the Perpetual Loan Participation Notes (PLPN) denominated in the foreign currency in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings. Issuance costs were also recorded in Retained earnings.

While coupon payments are optional at the discretion of VTB, certain terms in the PLPN may cause such payments to become mandatory. At the moment the coupon under PLPN becomes mandatory, it is recorded as a dividend declaration described below.

Treasury perpetual loan participation notes are included in Treasury shares and PLPN in the consolidated statement of changes in shareholder's equity.

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.

Interest income and expense

Interest income and expense for all financial instruments are recognised an accrual basis in 'Interest income' and 'Interest expense' in the income statement using the effective interest method and the coupon (contractual) interest rate for non-derivative debt trading financial assets, which approximates the effective interest rate. The effective interest method is a way of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

7. Summary of Principal Accounting Policies (continued)

Interest income and expense (continued)

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fee income is earned from a diverse range of services provided by the Group to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in ‘Interest income’.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities. Dividends from equity securities classified as financial instruments at fair value through profit or loss recognised within “Gains less losses arising from financial instruments at fair value through profit or loss” line of consolidated income statement. Dividends from equity securities classified as available-for-sale financial assets recognised within “Other operating income” line of consolidated income statement.

Staff costs and related contributions

The Group’s contributions to the State and Group’s social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group’s contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Unused 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 the defined benefit plan directly in other comprehensive income.

Share-based payment

Equity-settled share-based payment transactions are transactions, in which the entity receives goods or services as consideration for equity instruments of the entity.

For equity-settled share-based payment transactions, the goods or services received, and the corresponding increase in equity, are measured directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received is cannot be estimated reliably, their value, and the corresponding increase in equity, should be measured indirectly, by reference to the fair value of the equity instruments granted.

For share-based payment transactions among Group’s entities, in its separate or individual financial statements, the entity receiving the goods or services shall measure the goods or services received as either an equity-settles or a cash-settled share-based payment transaction be assessing:

(a) the nature of the awards granted, and
(b) its own rights and obligations.

The entity receiving the goods or services shall measure the goods or services received as an equity-settles share-based payment transaction when:

(a) the awards granted are its own equity instruments, or
(b) the entity has no obligation to settle the share-based payment transaction.

7. Summary of Principal Accounting Policies (continued)

Share-based payments (continued)

In all other circumstances, the entity receiving the goods or services received as a cash-settled share-based payment transaction.

The entity settling share-based payment transaction when another entity in the Group receives goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based transaction.

Inflation accounting

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

Foreign currency translation

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange 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 at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group and is not a currency of hyperinflationary economy, are translated into RUR at the closing rate of exchange at the reporting date and their income statements are translated into RUR at the average exchange rates for the reporting period.

The exchange differences arising on the translation are recognized in other comprehensive income in a separate component of equity ("Currency translation difference").

If the entity's functional currency is a currency of hyperinflationary economy, all amounts (assets, liabilities, equity items, income and expenses) of these entities are translated into RUR at the closing rate of exchange at the reporting date; and, before applying this translation method, the entity restates its financial statements in accordance with IAS 29 (see above "Inflation accounting"), except for comparative amounts that are translated into RUR. Differences which arise each period between the closing equity items of the previous year and the opening equity items of the current year presented in RUR are recognized as an "Effect of translation, net of tax" in other comprehensive income, as to the related equity items. The remaining exchange differences arising on the consolidation are recognized in other comprehensive income in a separate component of equity ("Currency translation difference").

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

As at 31 December 2014, the principal closing rate of exchange used for translating balances in USD to Russian roubles was USD 1 to RUR 56.2584 (at 31 December 2013: USD 1 to RUR 32.7292), and the principal closing rate of exchange used for translating balances in euro was EUR 1 to RUR 68.3427 (at 31 December 2013: EUR 1 to RUR 44.9699).

Fiduciary assets

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

7. 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 Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit (loss) or combined assets are ten percent or more of all the segments are reported separately (reportable segments). The segments, that are below the above materiality thresholds, but can be aggregated on the basis of their activities, production processes, products or services, should be tested for the meeting the criteria of reportable segments on these aggregated amounts.

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

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity in accordance with common banking practice.

8. Significant Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These estimates are based on information available as of the date of the financial statements. Actual results can differ significantly from such estimates. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

The Group reviews its loans and receivables and loan commitments for impairment on a regular basis. The Group uses its experienced judgment 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 judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

For the purposes of calculation of allowances and provisions for impairment of loans and commitments to provide loans at 31 December 2014 and 2013, the Group applied the internally approved formalized provisioning methodology for loans and commitments to provide loans with signs of individual impairment and collectively assessed loans on portfolio basis with no signs of individual impairment and similar credit risk characteristics.

During the year ended 31 December 2014, the Group modified certain aspects of the loan loss provision estimation process, primarily in respect of allowances for loans granted to individuals which resulted in the cumulative positive effect of RUR 6.4 billion on the provision for loan losses in the statement of income (Note 13). The changes in methodology relates to the more detailed clients and product segmentation and to improvments in migration models.

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 2014 was RUR 116.3 billion (31 December 2013: RUR 120.4 billion) (Note 18).

(in billions of Russian roubles)

8. Significant Accounting Estimates and Judgments (continued)

Existence of significant influence in other entities

The Group may have voting rights in other entities approaching to, but lower than 20%. In assessing whether the Group has significant influence over such entities, judgment is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavorable to the Group but without control or joint control in those entities. The Group's investments in those entities where the Group has significant influence are detailed in Note 15.

The Group may have voting rights in other entities exceedign than 20%. In assessing whether the Group has significant influence over such entities, judgment is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavorable to the Group but without control or joint control in those entities. The Group's investments in those entities where the Group does not have significant influence are detailed in Note 14.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are forecasted probable in the future are based on a medium term business plan prepared by management. The Group considers consolidating tax profitable entities with tax loss making entities for tax purposes. Refer to Note 42.

Structured Entities

Structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Judgment is also required to determine whether the substance of the relationship between the Group and a structured entity indicates that the structured entity is controlled by the Group.

The Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Group does control a structured entity, management makes judgments about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated. Refer to Note 56 for further information about the Group's exposure to structured entities.

Fair value estimation of financial instruments where significant unobservable inputs have been used

Details of the fair value estimation of RUR 67.8 billion of the new deposits received from DIA are provided in Note 23.

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 51. Assessment of significance of particular fair value measurement input requires management judgment and is disclosed in Note 51.

9. Cash and Short-Term Funds

	31 December 2014	*31 December 2013*
Cash on hand	254.8	116.9
Cash balances (other than mandatory) with central banks	189.2	120.4
Correspondent accounts with other banks		
- Russia	75.6	44.3
- OECD	133.6	70.0
- Other countries	42.0	2.7
Total cash and short-term funds	**695.2**	**354.3**
Less: correspondent accounts in precious metals	(5.4)	(3.8)
Less: restricted cash	(2.1)	(1.9)
Total cash and cash equivalents	**687.7**	**348.6**

(in billions of Russian roubles)

10. Financial Assets at Fair Value through Profit or Loss

	31 December 2014	31 December 2013 (restated)
Financial assets held for trading	642.6	372.4
Financial assets designated as at fair value through profit or loss	39.1	34.0
Total financial assets at fair value through profit or loss	**681.7**	**406.4**

Financial assets held for trading

	31 December 2014	31 December 2013 (restated)
Debt securities		
- Bonds and eurobonds of Russian companies and banks	111.9	156.7
- Bonds and eurobonds of foreign companies and banks	43.9	47.5
- Bonds and eurobonds of foreign governments	32.8	14.4
- Russian municipal bonds	14.4	2.7
- Russian Federal loan bonds (OFZ)	2.3	4.4
- Eurobonds of the Russian Federation	–	1.6
- Promissory notes of Russian companies and banks	1.3	1.1
Total debt securities	_206.6_	_228.4_
Derivative financial assets (Note 47)	_406.7_	_80.2_
Trading credit products	_22.2_	_49.0_
Equity securities	_7.1_	_14.8_
Total financial assets held for trading	**642.6**	**372.4**

At 31 December 2014, bonds and eurobonds of Russian companies and banks are represented mostly by debt securities issued by banks, finance, oil and energy companies; equity securities are represented mostly by securities issued by Russian gas companies and foreign insurance companies.

Reclassifications

During the year ended 31 December 2014, the Group reclassified certain financial assets that met the definition of loans and receivables from the financial assets at fair value through profit or loss to loans and advances to customers and due from other banks. The Group considered holding these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers’ credit risk. The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 3.35% to 11.79%. The present value of the estimated cash flows the Group expects to recover equals to the fair value of the reclassified financial assets at the date of reclassification.

In December 2013, the Group reclassified certain financial assets that met the definition of loans and receivables out of financial assets at fair value through profit or loss category to loans and receivables. The Group considered holding these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers’ credit risk. The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 8.13% to 8.14%. The present value of the estimated cash flows the Group expects to recover equals to the fair value of the reclassified financial assets at the date of reclassification.

(in billions of Russian roubles)

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

Information about the reclassified financial assets into the relevant categories is presented in the table below:

	2014			*2013*		
	Loans and receivables	***Due from other banks***	***Total***	***Loans and receivables***	***Due from other banks***	***Total***
Fair value as at the date of reclassification	119.6	3.5	**123.1**	30.3	–	**30.3**
Carrying amount as at 31 December	117.5	3.5	**121.0**	30.3	–	**30.3**
Fair value as at 31 December	107.5	2.7	**110.2**	30.3	–	**30.3**
Fair value gain/(loss) recognized up to the date of reclassification	(3.4)	–	**(3.4)**	(0.4)	–	**(0.4)**
Fair value loss that would have been recognized on the assets reclassified in 2014 for the period if the reclassification had not been made	(13.4)	(0.6)	**(14.0)**	0.8	–	0.8
Interest income recognized in profit or loss for the year	8.7	0.2	**8.9**	6.8	0.2	7.0
Provision charge recognized after reclassification	(0.3)	–	**(0.3)**	–	–	–

Financial assets designated as at fair value through profit or loss

	31 December 2014	***31 December 2013***
Equity securities	*17.3*	*16.9*
Reverse sale and repurchase agreements to maturity	*19.2*	*11.4*
Debt securities		
- Bonds and eurobonds of foreign companies and banks	2.6	5.5
- Bonds and eurobonds of Russian companies and banks	–	0.2
Total debt securities	*2.6*	*5.7*
Total financial assets designated as at fair value through profit or loss	**39.1**	**34.0**

At 31 December 2014 equity securities are represented mostly by securities issued by Russian and foreign retail companies.

(in billions of Russian roubles)

11. Financial Assets, Other than Loans and Advances to Customers and Due from Other Banks, Pledged under Repurchase Agreements

	31 December 2014	*31 December 2013 (restated)*
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt securities		
- Bonds and eurobonds of Russian companies and banks	81.2	126.8
- Russian Federal loan bonds (OFZ)	5.7	–
- Bonds and eurobonds of foreign companies and banks	0.8	0.8
- Russian municipal bonds	0.2	–
- Bonds and eurobonds of foreign governments	0.2	0.8
- Eurobonds of the Russian Federation	–	0.2
Equity securities	12.3	8.7
Total financial assets at fair value through profit or loss	**100.4**	***137.3***
Investment financial assets available-for-sale		
- Bonds and eurobonds of Russian companies and banks	35.7	18.1
- Russian Federal loan bonds (OFZ)	21.3	13.6
- Bonds and eurobonds of foreign governments	17.5	–
- Eurobonds of the Russian Federation	3.7	4.1
- Bonds and eurobonds of foreign companies and banks	0.2	–
- Russian municipal bonds	1.9	–
Total investments financial assets available-for-sale	***80.3***	***35.8***
Investment financial assets held-to-maturity		
- Bonds and eurobonds of Russian companies and banks	3.3	–
- Russian municipal bonds	–	0.1
Total investment financial assets held-to-maturity	***3.3***	***0.1***
Total financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	**184.0**	**173.2**

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

(in billions of Russian roubles)

12. Due from Other Banks, Including Pledged under Repurchase Agreements

	31 December 2014	*31 December 2013*
Due from other banks		
Russia	173.6	99.8
OECD	198.0	303.9
Other countries	372.9	42.5
Total gross due from other banks	**744.5**	**446.2**
Less: Allowance for impairment	(4.2)	(2.8)
Total net due from other banks	**740.3**	**443.4**
Due from other banks pledged under repurchase agreements		
Russia	71.7	2.8
OECD	2.5	–
Total gross due from other banks, pledged under repurchase agreements	**74.2**	**2.8**
Total due from other banks, including pledged under repurchase agreements	**814.5**	**446.2**

As at 31 December 2014, reverse sale and repurchase agreements with other banks amounted to RUR 26.0 billion (31 December 2013: RUR 42.2 billion). These reverse sale and repurchase agreements with other banks were collateralized by securities with fair value of RUR 49.0 billion (31 December 2013: RUR 47.0 billion).

As at 31 December 2014, amount included in due from other banks of RUR 1.4 billion is pledged against issued local mortgage-backed bonds (31 December 2013: RUR 3.2 billion).

The movements in allowances for impairment of due from other banks, including pledged under repurchase agreements, by classes were as follows:

	Russia	*OECD*	*Other*	*Total*
31 December 2012	**1.7**	**–**	**0.5**	**2.2**
Provision for impairment / (reversal of provision) during the period	(0.1)	0.1	0.7	**0.7**
Write-offs	(0.2)	–	–	**(0.2)**
Effect of translation	–	–	0.1	**0.1**
31 December 2013	**1.4**	**0.1**	**1.3**	**2.8**
Provision for impairment / (reversal of provision) during the period	–	(0.2)	0.4	**0.2**
Effect of translation	0.1	0.2	0.9	**1.2**
31 December 2014	**1.5**	**0.1**	**2.6**	**4.2**

(in billions of Russian roubles)

13. Loans and Advances to Customers, Including Pledged under Repurchase Agreements

	31 December 2014	31 December 2013
Loans to legal entities		
Current activity financing	4,449.0	3,196.8
Project finance and other	1,704.7	1,125.5
Finance leases	304.0	277.6
Reverse sale and repurchase agreements	284.5	209.4
Total gross loans to legal entities	**6,742.2**	**4,809.3**
Less: Allowance for loans to legal entities impairment	(456.5)	(278.2)
Net loans to legal entities	**6,285.7**	**4,531.1**
Loans to individuals		
Consumer loans and other	903.5	758.6
Mortgages	795.3	539.9
Car loans	129.7	133.2
Credit cards	113.8	86.2
Reverse sale and repurchase agreements	2.8	2.9
Total gross loans to individuals	**1,945.1**	**1,520.8**
Less: Allowance for loans to individuals impairment	(156.1)	(82.9)
Net loans to individuals	**1,789.0**	**1,437.9**
Loans and advances to customers pledged under repurchase agreements		
Current activity financing	439.3	290.6
Project finance and other	23.8	–
Total gross loans and advances to customers pledged under repurchase agreements	**463.1**	**290.6**
Less: Allowance for loans pledged under REPO impairment	(0.5)	–
Net loans and advances pledged under repurchase agreements	**462.6**	**290.6**
Total loans and advances to customers, including pledged under repurchase agreements	**8,537.3**	**6,259.6**

(in billions of Russian roubles)

13. Loans and Advances to Customers, Including Pledged under Repurchase Agreements (continued)

As at 31 December 2014 and 31 December 2013, loans and advances to customers with the carrying amount of RUR 265.6 billion (31 December 2013: RUR 265.5 billion) represented by federal loan bonds with debt amortization (OFZ-AD) purchased in September 2011 by “Bank of Moscow”, OJSC are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure.

As at 31 December 2014, loans and advances to customers pledged under repurchase agreements are represented mostly by federal loan bonds with debt amortization (OFZ-AD) with the carrying amount of RUR 265.6 billion (31 December 2013: RUR 259.2 billion) which were purchased by “Bank of Moscow”, OJSC in September 2011 from proceeds of loan from DIA.

As at 31 December 2014, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 1,775.2 billion, or 19.4% of the gross loan portfolio, including loans pledged under repurchase agreements (31 December 2013: RUR 1,189.2 billion or 18.0%).

As at 31 December 2014, the Group received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of RUR 280.1 billion (31 December 2013: RUR 277.0 billion).

As at 31 December 2014, the total amount of pledged loans to corporate customers is RUR 1,086.3 billion (31 December 2013: RUR 874.8 billion). The loans are pledged against the funds accounted within other borrowed funds (Note 23) and due to other banks (Note 21). Included in the above amount of pledged loans are car loans of RUR 10.4 billion (31 December 2013: RUR 17.3 billion) (Note 46).

As at 31 December 2014, the carrying value of mortgage loans pledged against debt securities issued amounted to RUR 38.1 billion (31 December 2013: RUR 38.9 billion).

As at 31 December 2014, the gross amount of non-performing loans which the Group defines as impaired loans with repayments overdue by over 90 days was RUR 533.9 billion or 5.8% of the aggregate of the gross loan portfolio, including loans pledged under repurchase agreements (31 December 2013: RUR 312.7 billion, or 4.7%).

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

	31 December 2014		*31 December 2013*	
	Amount	***%***	***Amount***	***%***
Individuals	1,945.1	21.3	1,520.8	23.0
Building construction	1,041.6	11.4	725.6	11.0
Manufacturing	922.3	10.1	670.3	10.1
Metals	782.1	8.5	519.4	7.8
Oil and gas	781.4	8.5	297.0	4.5
Government bodies	620.1	6.8	409.7	6.2
Trade and commerce	603.6	6.6	557.3	8.4
Chemical	520.4	5.7	305.3	4.6
Finance	486.2	5.3	536.7	8.1
Transport	415.1	4.5	269.6	4.1
Energy	414.2	4.5	321.2	4.9
Telecommunications and media	157.0	1.7	107.2	1.6
Coal mining	149.2	1.6	130.3	2.0
Food and agriculture	141.8	1.5	109.1	1.6
Aircraft	24.8	0.3	21.0	0.3
Other	145.5	1.7	120.2	1.8
Total gross loans and advances to customers, including pledged under repurchase agreements	**9,150.4**	**100.0**	**6,620.7**	**100.0**

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

(in billions of Russian roubles)

13. Loans and Advances to Customers, Including Pledged under Repurchase Agreements (continued)

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

Finance lease receivables

	31 December 2014	*31 December 2013*
Gross investment in leases	263.4	268.0
Less: unearned finance lease income	(62.2)	(76.0)
Net investment in leases before allowance	**201.2**	**192.0**
Less: allowance for impairment	(19.3)	(10.3)
Net investment in leases	**181.9**	**181.7**

Future minimum lease payments receivable

	31 December 2014	*31 December 2013*
Within 1 year	59.1	57.6
From 1 to 5 years	183.7	180.0
More than 5 years	20.6	30.4
Minimum lease payments receivable	**263.4**	**268.0**

Net investments in leases

	31 December 2014	*31 December 2013*
Within 1 year	52.4	50.2
From 1 to 5 years	134.6	125.2
More than 5 years	14.2	16.6
Net investment in leases	**201.2**	**192.0**

(in billions of Russian roubles)

13. Loans and Advances to Customers, Including Pledged under Repurchase Agreements (continued)

The movements in allowances for impairment of loans and advances to legal entities, including pledged under repurchase agreements, by class were as follows:

	Finance leases	_Current activity financing_	_Reverse sale and repurchase agreements with legal entities_	_Project finance and other_	_Loans and advaces under repurchese agreements_	_Total_
31 December 2012	**16.4**	**156.5**	**0.1**	**88.2**	**–**	**261.2**
Provision for impairment during the period	2.8	37.3	–	15.1	–	**55.2**
Write-offs	(5.1)	(35.5)	–	(4.8)	–	**(45.4)**
Recoveries of amounts written-off in previous period	–	0.2	–	–	–	**0.2**
Effect of translation	0.5	6.9	–	1.5	–	**8.9**
Business combinations	–	(1.4)	–	–	–	**(1.4)**
Reclassification to assets of disposal group held for sale	–	(0.5)	–	–	–	**(0.5)**
31 December 2013	**14.6**	**163.5**	**0.1**	**100.0**	**–**	**278.2**
Provision / (reversal of provision) for impairment during the period	3.6	133.0	(0.1)	43.3	**0.5**	**180.3**
Write-offs	(2.0)	(54.4)	–	(6.9)	–	**(63.3)**
Recoveries of amounts written-off in previous period	–	0.1	–	0.1	–	0.2
Effect of translation	5.7	42.1	–	14.1	–	**61.9**
Business Combinations	(0.6)	(0.8)	–	(1.0)	–	**(2.4)**
Reclassification from assets of disposal groups held for sale	–	3.1	–	(1.0)	–	**2.1**
31 December 2014	**21.3**	**286.6**	**–**	**148.6**	**0.5**	**457.0**

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	_Credit cards_	_Car loans_	_Consumer loans and other_	_Total_
31 December 2012	**8.4**	**7.7**	**4.3**	**41.7**	**62.1**
Provision for impairment / (reversal of provision) during the period	(1.4)	4.0	2.0	36.4	**41.0**
Write-offs	(0.3)	(3.4)	(0.7)	(16.5)	**(20.9)**
Recoveries of amounts written-off in previous period	–	–	–	0.1	**0.1**
Effect of translation	0.4	–	–	0.2	**0.6**
31 December 2013	**7.1**	**8.3**	**5.6**	**61.9**	**82.9**
Provision for impairment during the period	4.9	7.2	2.6	60.3	**75.0**
Write-offs	(1.1)	(0.5)	(0.2)	(8.0)	**(9.8)**
Recoveries of amounts written-off in previous period	0.1	0.4	–	0.1	**0.6**
Effect of translation	4.6	0.1	0.7	1.4	**6.8**
Business Combinations	–		–	(0.1)	**(0.1)**
Reclassification from assets of disposal groups held for sale	–		–	0.7	**0.7**
31 December 2014	**15.6**	**15.5**	**8.7**	**116.3**	**156.1**

(in billions of Russian roubles)

13. Loans and Advances to Customers, Including Pledged under Repurchase Agreements (continued)

In accordance with the Group policies and procedures based on Russian legislation, loans may only be written off with the approval of the authorized management body and, in certain cases, with the respective decision of the court.

14. Investment Financial Assets

	31 December 2014	*31 December 2013 (restated)*
Investment financial assets available-for-sale		
Debt securities		
- Bonds and eurobonds of foreign governments	61.4	32.3
- Bonds and eurobonds of foreign companies and banks	10.3	9.3
- Russian Federal loan bonds (OFZ)	7.1	26.3
- Eurobonds of the Russian Federation	6.5	5.3
- Bonds and eurobonds of Russian companies and banks	5.6	38.6
- Promissory notes of Russian Companies and banks	1.1	1.3
- Russian municipal bonds	0.5	2.3
Total debt securities	*92.5*	*115.4*
Equity securities	*38.5*	*24.7*
Total investment financial assets available-for-sale	**131.0**	**140.1**
Investment financial assets held-to-maturity		
Debt securities		
- Bonds and eurobonds of Russian companies and banks	1.0	0.3
- Bonds and eurobonds of foreign companies and banks	0.2	0.1
- Bonds and eurobonds of foreign governments	–	0.2
- Russian municipal bonds	–	0.1
Total gross investment financial assets held-to-maturity	**1.2**	**0.7**
Total investment financial assets held-to-maturity	**1.2**	**0.7**
Total investment financial assets	**132.2**	**140.8**

Included in equity securities in investment financial assets available-for-sale in the amount of RUR 7.9 billion is a 27.89% ownership interest in a real estate development company held by the Group at 31 December 2014 (31 December 2013: 19.9%). The Group acquired additional ownership interest in this company in July 2014 in connection with a disposition of its subsidiary “Gorki-8”, Ltd. (Note 20). The Group determined it does not have significant influence over the investee company, as defined in IAS 28 *Investments in Associates and Joint Ventures*, because the Group does not have currently and cannot unilaterally secure representation on the board of directors of the investee company, and does not have significant influence over the earnings distribution and other key decisions of the investee company. Accordingly, the Group classified its ownership interest as an investment financial asset available-for-sale.

As at 31 December 2014, bonds and eurobonds of Russian companies and banks are represented mostly by bonds of metal companies and banks; equity securities are represented mostly by shares of Russian metal, building construction and finance companies. As at 31 December 2014, bonds and eurobonds of foreign governments are represented mostly by bonds issued by German government and municipal bodies.

During 2014, the Group recognized an impairment loss of RUR 0.8 billion before tax, and realised portion of positive revaluation of financial assets available-for-sale transferred to income statement due to the sale of financial assets available-for-sale of RUR 0.8 billion before tax (2013: RUR 1.6 billion and RUR 8.9 billion respectively).

(in billions of Russian roubles)

14. Investment Financial Assets (continued)

The movements in allowances for impairment of investment securities held-to-maturity were as follows:

	Investment securities held-to-maturity
31 December 2012	**2.0**
Write-offs	(2.0)
31 December 2013	**–**
Provision for impairment during the period	(0.1)
Recoveries of amounts written-off in previous period	0.1
31 December 2014	**–**

Reclassifications

During the year ended 31 December 2014, the Group reclassified certain financial assets that met the definition of loans and receivables from the investment financial assets available-for-sale to loans and advances to customers and due from other banks. The Group considered holding these investments for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers' credit risk. The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 0.17 % to 11.79%. The present value of the estimated cash flows the Group expects to recover equals to the fair value of the reclassified financial assets at the date of reclassification.

In December 2013 the Group reclassified certain financial assets purchased during 2013 that met the definition of loans and receivables out of financial assets available-for-sale to loans and receivables. The Group considered holding these investments in foreseeable future or till maturity, due to low market liquidity and price transparency as well as positive outlook for issuer's credit risk. The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 7.80 % to 8.64%. The present value of the estimated cash flows the Group expects to recover equals to the fair value of the reclassified financial assets at the date of reclassification.

Information about the reclassified financial assets is presented in the table below:

	2014			*2013*	
	Loans and receivables	*Due from other banks*	*Total*	*Loans and receivables*	*Total*
Fair value as at the date of reclassification	146.3	61.3	**207.6**	22.0	**22.0**
Carrying amount as at 31 December	148.4	72.2	**220.6**	21.9	**21.9**
Fair value as at 31 December	126.3	72.0	**198.3**	22.0	**22.0**
Fair value gain/(loss) recognized up to the date of reclassification	(1.0)	(4.6)	**(5.6)**	0.1	**0.1**
Fair value loss that would have been recognized on the assets reclassified in 2014 for the period if the reclassification had not been made	(21.2)	0.9	**(20.3)**	–	**–**
Interest income recognized in profit or loss for the year	8.8	2.6	**11.4**	1.1	**1.1**
Provision charge recognized after reclassification	(0.2)	–	**(0.2)**	(0.1)	**(0.1)**

(in billions of Russian roubles)

15. Investments in Associates and Joint Ventures

	31 December 2014	31 December 2013
Investments in associates and joint ventures designated as at fair value through profit or loss	60.7	55.2
Investments in associates and joint ventures accounted under equity method	35.6	32.4
Total investments in associates and joint ventures	**96.3**	**87.6**

The Group's interests in its principal associates and joint ventures designated as at fair value through profit or loss were as follows:

			31 December 2014		31 December 2013	
	Principal place of business / Country of registration	Activity	Carrying amount	Ownership percentage	Carrying amount	Ownership percentage
Investments in associates and joint ventures designated as at fair value through profit or loss						
T2 (Netherlands) B.V.	Russia /Netherlands	Telecom	53.5	50.00%	53.1	50.00%
"Thalita Trading", Ltd	Russia/Cyprus	Finance	6.5	50.00%	1.7	50.00%
"Ysmer", LTD	Russia/Cyprus	Construction	–	50.00%	0.4	50.00%
Lagartino Partners Inc.	Virgin Islands	Holding	0.7	22.50%	n/a	n/a
Total investments in associates and joint venture designated as at fair value through profit or loss			**60.7**		**55.2**	

(in billions of Russian roubles)

15. Investments in Associates and Joint Ventures (continued)

Summarized financial information of material investments in associates and joint ventures designated as at fair value through profit or loss based on its consolidated IFRS financial statements is as follows:

T2 (Netherlands) B.V	*31 December 2014*	*31 December 2013*
Current assets	15.7	11.8
including cash and cash equivalents	*5.9*	*9.3*
Non-current assets	192.8	42.6
Current liabilities	43.5	17.3
including current financial liabilities	*18.1*	*7.0*
Non-current liabilities	67.1	33.1
including non-current financial liabilities	*54.0*	*31.5*
Net assets	97.9	4.0
Revenue	62.5	65.3
Cost of sales	(30.6)	(33.8)
Selling, general and administrative expenses	(24.2)	(12.6)
including depreciation charge	*(11.4)*	*(5.3)*
Interest income	–	0.2
Interest expense	(4.4)	(2.6)
Income tax expense	1.1	(5.7)
Net profit from continuing operations	1.6	9.4

	31 December 2014		*31 December 2013*	
	"Thalita Trading", Ltd	*"Ysmer", LTD*	*"Thalita Trading", Ltd*	*"Ysmer", LTD*
Current assets	17.6	2.6	5.5	17.7
Non-current assets	55.7	63.9	51.3	25.8
Current liabilities	14.4	2.6	1.6	2.7
Non-current liabilities	83.3	63.6	55.8	40.8
Net assets	(24.4)	0.3	(0.6)	-
Revenue	18.9	30.7	24.8	6.8
Net profit from continuing operations	(22.3)	0.1	(2.4)	(0.1)
Share of the Group in net assets	(12.2)	0.2	(0.3)	-
Goodwill included in carrying amount and other adjustments	n/a	(0.2)	n/a	0.4
Carrying value of investment in associate and joint venture	n/a	-	n/a	0.4

(in billions of Russian roubles)

15. Investments in Associates and Joint Ventures (continued)

The Group's interests in its principal associates and joint ventures accounted under equity method were as follows:

			31 December 2014		31 December 2013	
	Principal place of business / Country of registration	Activity	Carrying amount	Ownership percentage	Carrying amount	Ownership percentage
Investments in associates and joint ventures accounted under equity method						
RCB Bank Ltd.	Cyprus	Banking	14.2	46.29%	n/a	n/a
"KS Holding", CJSC	Russia	Insurance	5.8	49.00%	6.5	49.00%
"Vietnam-Russia Joint Venture Bank"	Vietnam	Banking	3.5	50.00%	1.8	50.00%
"Russ Out of Home", BV	Russia / Netherlands	Mass media	3.0	26.43%	3.2	26.43%
"Burger King Russia (Cyprus)", Ltd	Russia / Cyprus	Fast food	2.5	36.60%	2.5	48.80%
"Eurofinance Mosnarbank", OJSC	Russia	Banking	2.4	25.00%	3.3	25.00%
"Zapadnaya Gold Mining" Ltd	Russia / Virgin Islands	Gold mining	1.2	23.08%	1.7	23.08%
"Estonian Credit Bank", JSC	Estonia	Banking	1.1	59.73%	0.7	59.73%
Irrico Ltd	Russia / Virgin Islands	Finance	0.9	34.15%	0.9	34.15%
Perovskoe, OJSC	Russia	Trade	0.4	29.75%	n/a	n/a
"United Electronic Market Place", OJSC	Russia	IT	0.3	48.18%	0.3	48.18%
"The Academy of Football Dynamo of Lev Yashin", Ltd	Russia	Other	0.1	11.22%	–	10.00%
Two Capitals Highway, LLC	Russia	Holding	0.1	49.50%	n/a	n/a
"VTB Capital I2BF JVC (Cayman)", Ltd	Russia and Kazakhstan / Cayman Islands	Finance	0.1	50.00%	–	50.00%
"Gelosa Holdings", Ltd	Russia/Cyprus	Real estate	–-	21.16%	0.1	21.16%
"Haberma Enterprises", Ltd	Russia / Cyprus	Real estate	–	39.10%	1.3	39.10%
"Lenta Limited"	Russia / Virgin Islands	Retail	n/a	n/a	10.1	11.73%
Total investments in associates and joint ventures accounted under equity method			**35.6**		**32.4**	

In January 2014, the Group sold a 12.2% stake in Burger King Russia (Cyprus) Ltd. for USD 25 million (RUR 0.9 billion) to a financial investor. As a result, the stake of the Group in Burger King Russia (Cyprus) Ltd. decreased to 36.6%. No gain on partial disposal was recognized.

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

In September 2014, the Supervisory Council of VTB Bank approved an increase in the equity capital of RCB Bank Ltd., its Cyprus-based majority-owned subsidiary, through the issuance of additional common shares. The newly issued shares were acquired by a third party financial institution, and the Group's ownership interest in RCB Bank Ltd. was decreased to 46.29%. As a result the Group lost control of a subsidiary in November 2014 and the remaining investment in RCB Bank Ltd. is accounted for as investment in associate using the equity method. The gain from disposal of subsidiary amounted to RUR 4.2 billion. As at 31 December 2014 the Group had no contingent liabilities or capital commitments related to RCB Bank Ltd. (Note 54).

(in billions of Russian roubles)

15. Investments in Associates and Joint Ventures (continued)

Summarized financial information of material investments in associates and joint ventures accounted under equity method is as follows at 31 December 2014:

	2014			2013	
	RCB Bank Ltd.	**"Vietnam-Russia Joint Venture Bank"**	**"Eurofinance Mosnarbank", OJSC**	**"Vietnam-Russia Joint Venture Bank"**	**"Eurofinance Mosnarbank", OJSC**
Total assets	548.5	33.7	47.0	15.6	54.3
Including:					
cash and cash equivalents	*40.0*	*2.3*	*6.1*	*1.7*	*2.9*
due from other banks	*11.1*	*10.3*	*11.2*	*4.2*	*21.2*
loans and advances to customers	*479.8*	*18.1*	*8.3*	*8.5*	*7.5*
Total liabilities	517.8	26.7	36.0	12.0	40.6
Including:					
due to other banks	*366.7*	*9.1*	*11.0*	*3.8*	*17.1*
customer deposits	*131.1*	*15.5*	*16.1*	*6.9*	*17.1*
Net assets	30.7	7.0	11.0	3.6	13.7
Revenue	6.0	0.5	1.9	0.6	2.0
Net profit from continuing operations	1.4	-	0.7	-	0.7
Other comprehensive income	11.2	-	(2.6)	-	(0.6)
Total comprehensive income	12.6	-	(1.9)	-	0.1
Dividends received	-	-	0.2	-	0.1
Share of the Group in net assets	14.2	3.5	2.8	1.8	3.4
Goodwill included in carrying amount and other adjustments	n/a	-	(0.4)	-	(0.1)
Carrying value of investment in associate and joint venture	14.2	3.5	2.4	1.8	3.3

Summarized financial information of "KS Holding", CJSC accounted under equity method is as follows at 31 December 2014 and 31 December 2013:

	2014	2013
Total assets, including:	30.8	28.3
Cash and cash equivalents	*1.4*	*6.7*
Financial investments	*11.3*	*10*
Reinsurer's share of provision	*8.3*	*4.9*
Other trade receivables and prepayments	*9.8*	*6.7*
Total liabilities, including:	18.9	17.7
Insuarance provision	*13.1*	*10.1*
Other trade creditors and prepayments received	*5.8*	*7.6*
Net assets	11.9	10.6
Net profit from continuing operations	0.9	1.4
Other comprehensive income	-	0.2
Total comprehensive income	0.9	1.6
Share of the Group in net assets	5.8	5.2
Goodwill included in carrying amount and other adjustments	-	1.3
Carrying value of investment in associate and joint venture	5.8	6.5

(in billions of Russian roubles)

15. Investments in Associates and Joint Ventures (continued)

Summarized financial information of “Lenta Limited (BVI)””, Ltd accounted under equity method is as follows at 31 December 2013:

	“Lenta Limited (BVI)”
Current assets	31.0
Non-current assets	57.1
Current liabilities	41.5
Non-current liabilities	41.9
Net assets	4.7
Revenue	144.3
Net profit from continuing operations	7.1
Share of the Group in net assets	0.6
Goodwill included in carrying amount and other adjustments	9.5
Carrying value of investment in associate and joint venture	10.1

The unrecognized share of losses of associates for 2014 and cumulatively at 31 December 2014 was RUR 2.6 billion and RUR 4.5 billion, respectively (2013 and cumulatively at 31 December 2013: RUR 1.2 billion and RUR 1.9 billion, respectively).

As at 31 December 2014, investment in associate in the amount of RUR 6.5 billion was pledged against the funds obtained by the subsidiary of that associate (31 December 2013: RUR 1.7 billion).

16. Land, Premises and Equipment

	Land and premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 2013	**106.2**	**27.5**	**14.2**	**22.4**	**170.3**
Cost or revalued amount					
Opening balance at 1 January 2014	**108.9**	**56.0**	**14.2**	**26.4**	**205.5**
Effect of hyperinflation	0.4	0.2	–	–	**0.6**
Acquisitions of subsidiaries	23.4	0.4	0.7	–	**24.5**
Disposal of subsidiaries	(2.4)	(5.4)	(0.1)	–	**(7.9)**
Additions	5.8	10.0	12.8	40.7	**69.3**
Transfers and reclassifications	10.6	2.2	(12.2)	4.9	**5.5**
Disposals	(5.2)	(1.6)	(0.2)	–	**(7.0)**
Impairment	(4.4)	(2.0)	(0.2)	–	**(6.6)**
Effect of translation	2.3	2.8	0.2	5.7	**11.0**
Closing balance at 31 December 2014	**139.4**	**62.6**	**15.2**	**77.7**	**294.9**
Accumulated depreciation					
Opening balance at 1 January 2014	**2.7**	**28.5**	**–**	**4.0**	**35.2**
Effect of hyperinflation	–	0.1	–	–	**0.1**
Depreciation charge	3.9	8.6	–	2.7	**15.2**
Disposals	(0.5)	(2.6)	–	(0.1)	**(3.2)**
Disposal of subsidiaries	(0.2)	(1.7)	–	–	**(1.9)**
Transfers and reclassifications	–	0.1	–	–	**0.1**
Effect of translation	–	1.8	–	0.7	**2.5**
Closing balance at 31 December 2014	**5.9**	**34.8**	**–**	**7.3**	**48.0**
Net book amount at 31 December 2014	**133.5**	**27.8**	**15.2**	**70.4**	**246.9**

(in billions of Russian roubles)

16. Land, Premises and Equipment (continued)

	Land and premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 2012	**93.4**	**22.7**	**7.9**	**18.5**	**142.5**
Cost or revalued amount					
Opening balance at 1 January 2013	**93.4**	**44.8**	**7.9**	**20.8**	**166.9**
Effect of hyperinflation	0.1	0.1	–	–	**0.2**
Acquisitions of subsidiaries	11.1	0.9	4.6	3.6	**20.2**
Disposal of subsidiaries	(3.5)	(1.0)	–	–	**(4.5)**
Additions	6.0	11.5	12.5	2.5	**32.5**
Transfers and reclassifications	3.5	1.1	(8.9)	(0.1)	**(4.4)**
Disposals	(1.3)	(1.4)	(0.9)	–	**(3.6)**
Impairment	(0.7)	(0.6)	(1.1)	(0.6)	**(3.0)**
Effect of translation	0.3	0.6	0.1	0.2	**1.2**
Closing balance at 31 December 2013	**108.9**	**56.0**	**14.2**	**26.4**	**205.5**
Accumulated depreciation					
Opening balance at 1 January 2013	**–**	**22.1**	**–**	**2.3**	**24.4**
Effect of hyperinflation	–	0.1	–	–	**0.1**
Depreciation charge	2.5	7.9	–	1.4	**11.8**
Disposals	(0.1)	(1.3)	–	–	**(1.4)**
Disposal of subsidiaries	–	(0.1)	–	–	**(0.1)**
Transfers and reclassifications	0.1	(0.1)	–	–	**–**
Effect of translation	0.2	(0.1)	–	0.3	**0.4**
Closing balance at 31 December 2013	**2.7**	**28.5**	**–**	**4.0**	**35.2**
Net book amount at 31 December 2013	**106.2**	**27.5**	**14.2**	**22.4**	**170.3**

Transfers and reclassifications include both transfers between the categories of the land, premises and equipment, and reclassifications to/from investment property and property intended for sale in the ordinary course of business in other assets.

Land and premises were revalued at fair value at 31 December 2012. The valuation was carried out by an independent firm of appraisers, who hold a recognized and relevant professional qualification and who had experience in the valuation of assets in similar locations and in a similar category. Fair value was determined by reference to market-based evidence.

As at 31 December 2014 the Group analysed market prices in relation to its land and premises and concluded that the market value of land and premises was not materially different from their carrying value and had not performed revaluation.

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

	31 December 2014	*31 December 2013*
Cost	158.0	93.6
Less: accumulated depreciation and impairment	(15.8)	(9.4)
Net carrying amount	**142.2**	**84.2**

(in billions of Russian roubles)

17. Investment Property

	_2014_	_2013_
Investment property at 1 January	**160.7**	**148.0**
Acquisitions of subsidiaries	5.9	2.2
Disposal of subsidiaries	(8.7)	–
Additions	21.5	11.8
Disposals	(3.5)	(5.9)
Reclassified to premises	(4.8)	(0.8)
Reclassified from premises	2.7	5.3
Reclassified to property held for sale	(1.1)	(4.4)
Reclassified to assets of disposal groups held for sale	–	(5.2)
Reclassified from assets of disposal groups held for sale (Note 20)	4.4	–
Net gain from change in fair value recognised on the disposal or revaluation	3.8	3.4
Capitalization of expenses	11.3	6.5
Effect of translation	0.1	(0.2)
Investment property at 31 December	**192.3**	**160.7**

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	_2014_	_2013_
Not later than 1 year	5.2	3.2
Later than 1 year and not later than 5 years	6.2	9.4
Later than 5 years	0.2	0.3
Total operating lease payments receivable	**11.6**	**12.9**

In 2014 the Group recognized rental income as part of income arising from non-banking activities of RUR 4.8 billion (2013: RUR 3.5 billion) and direct operating expenses of RUR 0.9 billion (2013: RUR 0.7 billion) in relation to investment property that generated rental income.

In 2014 investment property was revalued by RUR 3.6 billion (in 2013 – revalued by RUR 1.7 billion). The valuation was carried out on the basis of market prices for comparable real estate by the Group's internal appraisers and by an independent, professionally qualified appraiser who had recent experience in valuing similar properties in the Russian Federation.

In 2014, the Group's investment property increased in the total amount of 5.9 RUR billion due to acquisition of "Aviapark", Ltd, "Velozavodsky Market", OJSC and "Kuntsevsky Market", OJSC. In 2013, the Group's investment property increased in the amount of 2.2 RUR billion due to acquisition of Metropolitan Insurance Group (SSG).

In 2014, the Group's investment property decreased due to disposal of "Office-Hotel complex" and LLC "Aviapark", Ltd in the total amount of RUR 8.7 billion.

In 2014 the Group received directly a property title for land plots, commercial and residential properties valued at RUR 12.7 billion (2013: RUR 4.2 billion) in exchange for settlement of the outstanding loans granted by the Group. The property of RUR 0.3 billion (2013: RUR 0.5 billion) was obtained through foreclosure of collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

In 2014 the Group purchased commercial properties and land plots in the amount of RUR 8.6 billion (2013: RUR 7.1 billion) with a view of construction and development and future use as investment property.

As at 31 December 2014 investment property in the amount of RUR 46.5 billion was under construction in progress or development (31 December 2013: RUR 41.9 billion).

(in billions of Russian roubles)

18. Goodwill and Other Intangible Assets

The movements in goodwill and other intangible assets were as follows:

	Core deposit and customer loan intangible	*Computer software*	*Relations with the major lessee*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2013	**18.5**	**7.0**	**10.4**	**4.7**	**1.5**	**120.4**	**162.5**
Cost less impairment							
Opening balance at 1 January 2014	**30.8**	**10.6**	**10.4**	**9.2**	**1.9**	**120.4**	**183.3**
Opening balance at 1 January 2014	**30.8**	**10.6**	**10.4**	**9.2**	**1.9**	**120.4**	**183.3**
Additions	–	4.2	–	1.7	–	–	**5.9**
Acquisition through business combinations	–	–	–	–	–	1.4	**1.4**
Disposals	(0.6)	(0.7)	–	(2.2)	–	–	**(3.5)**
Write-offs through impairment	–	(0.1)	–	–	–	(5.7)	**(5.8)**
Effect of translation	–	1.6	7.3	0.1	0.1	0.2	**9.3**
Transfer	–	0.1	–	(0.1)	–	–	**–**
Closing balance at 31 December 2014	**30.2**	**15.7**	**17.7**	**8.7**	**2.0**	**116.3**	**190.6**
Accumulated amortization							
Opening balance at 1 January 2014	**12.3**	**3.6**	**–**	**4.5**	**0.4**	**–**	**20.8**
Opening balance at 1 January 2014	**12.3**	**3.6**	**–**	**4.5**	**0.4**	**–**	**20.8**
Amortization charge	5.1	2.1	0.1	2.5	0.3	–	**10.1**
Disposals	(0.4)	(0.5)	–	(2.3)	–	–	**(3.2)**
Write-offs through impairment	–	(0.1)	–	–	–	–	**(0.1)**
Effect of translation	(0.3)	1.3	–	0.1	0.1	–	**1.2**
Closing balance at 31 December 2014	**16.7**	**6.4**	**0.1**	**4.8**	**0.8**	**–**	**28.8**
Net book amount at 31 December 2014	**13.5**	**9.3**	**17.6**	**3.9**	**1.2**	**116.3**	**161.8**

(in billions of Russian roubles)

18. Goodwill and other intangible assets (continued)

	Core deposit and customer loan intangible	*Computer software*	*Relations with the major lessee*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2012 (restated)	**23.5**	**5.4**	–	**2.1**	**1.4**	**120.4**	**152.8**
Cost less impairment							
Opening balance at 1 January 2013 (restated)	**30.8**	**8.1**	–	**5.3**	**1.5**	**120.4**	**166.1**
Opening balance at 1 January 2013	**30.8**	**8.1**	–	**5.3**	**1.5**	**120.4**	**166.1**
Additions	–	3.5	–	4.3	0.1	–	**7.9**
Acquisition through business combinations	–	0.5	10.4	0.2	0.3	–	**11.4**
Disposals	–	(0.9)	–	(0.8)	–	–	**(1.7)**
Write-offs through impairment	–	–	–	(0.6)	–	–	**(0.6)**
Effect of translation	–	0.2	–	–	–	–	**0.2**
Transfer	–	(0.8)	–	0.8	–	–	**–**
Closing balance at 31 December 2013	**30.8**	**10.6**	**10.4**	**9.2**	**1.9**	**120.4**	**183.3**
Accumulated amortization							
Opening balance at 1 January 2013	**7.3**	**2.7**	**–**	**3.2**	**0.1**	**–**	**13.3**
Opening balance at 1 January 2013	**7.3**	**2.7**	**–**	**3.2**	**0.1**	**–**	**13.3**
Amortization charge	5.0	1.6	–	1.8	0.3	–	**8.7**
Disposals	–	(0.8)	–	(0.5)	–	–	**(1.3)**
Effect of translation	–	0.1	–	–	–	–	**0.1**
Closing balance at 31 December 2013	**12.3**	**3.6**	**–**	**4.5**	**0.4**	**–**	**20.8**
Net book amount at 31 December 2013	**18.5**	**7.0**	**10.4**	**4.7**	**1.5**	**120.4**	**162.5**

(in billions of Russian roubles)

18. Goodwill and other intangible assets (continued)

The table below presents the carrying amount of goodwill, core deposit and customer loan intangible, and relations with the major lessee intangible allocated to relevant cash-generating units (CGU) of the following entities:

	31 December 2014				*31 December 2013*			
	Carrying amount of goodwill	***Carrying amount of core deposit and customer loan intangible***	***Relations with the major lessee intangible***	***Total***	***Carrying amount of goodwill***	***Carrying amount of core deposit and customer loan intangible***	***Relations with the major lessee intangible***	***Total***
"Bank of Moscow", OJSC	101.8	11.9	–	**113.7**	101.8	16.0	–	**117.8**
- CIB	*6.5*	*–*	*–*	***6.5***	*6.5*	*–*	*–*	***6.5***
- MCB	*86.7*	*10.9*	*–*	***97.6***	*86.7*	*14.4*	*–*	***101.1***
- Retail	*8.6*	*1.0*	*–*	***9.6***	*8.6*	*1.6*	*–*	***10.2***
"Avia Capital Management" Ltd.	–	–	17.6	**17.6**	–	–	10.4	**10.4**
"VTB Bank", OJSC [1]	8.8	–	–	**8.8**	8.8	–	–	**8.8**
"Bank VTB 24", PJSC	3.4	1.6	–	**5.0**	3.4	2.4	–	**5.8**
"Upravlyayuschaya kompaniya Dynamo", CJSC (former "VTB Arena", CJSC)	–	–	–	**–**	4.3	–	–	**4.3**
Other subsidiaries	2.3	–	–	**2.3**	2.1	0.1	–	**2.2**
Net book amount	**116.3**	**13.5**	**17.6**	**147.4**	**120.4**	**18.5**	**10.4**	**149.3**

[1] in part of reallocated CGUs of former "TransCreditBank", JSC and former "Bank VTB North-West", OJSC

The goodwill related to "TransCreditBank", JSC was allocated to *Loans and Deposits*, a sub-segment of Corporate-Investment banking (CIB) and *Retail banking,* a sub-segment of Retail business, cash-generated units. In November 2013, "TransCreditBank", OJSC ceased its operations as a subsidiary of VTB following the legal merger of "Bank VTB 24", PJSC and "TransCreditBank", OJSC. This reorganization was accompanied by recomposition of cash-generated units. As a result, the Group has reallocated the *Retail banking* CGU of "TransCreditBank", JSC and the respective goodwill to the appropriate CGU of "Bank VTB 24", PJSC. The *Loans and Deposits* CGU of "TransCreditBank", JSC was distributed among appropriate CGUs of VTB Bank, "Bank of Moscow", OJSC and other minor subsidiaries of the Group with respective reallocation of related goodwill. Core deposit and customer loan intangible was mainly attributable to *Retail banking* and were reallocated to "Bank VTB 24", PJSC.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering up to three-year period or estimated life of asset (in respect to intangible assets with definite useful life - relations with major lessee). Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below.

The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2014	**2013**
Growth rate beyond projection periods	**% p.a.**	**% p.a.**
"Bank of Moscow", OJSC *(CIB/ MCB/Retail)*	5.66	6.91
"Avia Capital Management" Ltd.	n/a	n/a
"VTB Bank" (CIB), OJSC	10.50	3.58
Pre-tax discount rate	**% p.a.**	**% p.a.**
"Bank of Moscow", OJSC *(CIB/ MCB/Retail)*	13.50-19.50	11.50-12.00
"Avia Capital Management" Ltd.	7.18	7.06
"VTB Bank" (CIB), OJSC	14.00	6.97

18. Goodwill and Other Intangible Assets (continued)

The goodwill related to **“Bank of Moscow”, OJSC** (including part of reallocated goodwill of former “TransCreditBank”, JSC as disclosed above) was allocated to Corporate-Investment banking (CIB), Mid-Corporate Banking (MCB) and Retail business CGUs and is tested separately for impairment for each CGU. As at 31 December 2014 the recoverable amounts related to these CGUs of “Bank of Moscow”, OJSC was determined based on a value in use calculation using pretax cash flow projections of three-year financial budgets approved by the Management. The calculated recoverable amounts at 31 December 2014 for Corporate-Investment banking (CIB),Mid-Corporate Banking (MCB) and Retail business CGUs were RUR 8.7 billion, RUR 604.6 billion and RUR 10.1 billion respectively, which significantly exceeded the carrying amounts of the relevant CGUs and allocated goodwill. The discount rates applied to cash flow projections were in the range from 13.5 to 19.5% p.a. The discount rates used are pre-tax, and reflect specific risks relating to the relevant CGUs. If the revised estimated pre-tax discount rates applied to the discounted cash flows of CIB, MCB, Retail business CGUs had been 1% higher than management’s estimates (the discount rates applied to cash flow projections would be in the range from 14.5 to 20.5% p.a.), the Group would need to reduce the carrying value of goodwill by RR 6.8 billion. Had this impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods, even if circumstances improve.

Avia Capital Management Ltd. The Group recognised an intangible asset – relations with major lessee - that arose on acquisition of subsidiary in 2013. It was allocated to Avia Capital Management Ltd CGU and tested for impairment as part of this CGU. The calculated fair value of CGU at 31 December 2014 was RUR 58.9 billion. The discount rates used are pre-tax, and reflect specific risks relating to the relevant CGU. The fair value of “Avia Capital Management ” Ltd. CGU exceeds its carrying amount by RUR 0.91 billion. The CGUs’ carrying amount would be equal to fair value at a discount rate of 7.27 % .

VTB. The CGUs of former “TransCreditBank”, JSC and former “Bank VTB North-West”, OJSC, reallocated to VTB, formed the new CGU within Corporate-Investment banking segment, which recoverable amount was RUR 285.0 billion as at 31 December 2014. The discount rates used are pre-tax, and reflect specific risks relating to the relevant CGUs. If the revised estimated pre-tax discount rate applied to the discounted cash flows of CGU had been 1% higher than management’s estimates, the Group would need to reduce the carrying value of goodwill by RR 8.8 billion. Had this impairment been recognised, the Group would not be able to reverse any impairment losses that arose on goodwill in subsequent periods, even if circumstances improve. The recoverable amount of CGU exceeds its carrying amount by RR 3.9 billion. The CGUs’ carrying amount would be equal to value in use at a discount rate of 14.05% p.a.

The goodwill related to **“Upravlyayuschaya kompaniya Dynamo”, CJSC (**former “VTB Arena”, CJSC) was allocated to the development project of subsidiary as a separate CGU. The recoverable amount of “Upravlyayuschaya kompaniya Dynamo”, CJSC at the date of goodwill impairment testing at 31 December 2014 was determined based on a value in use calculation using pre-tax cash flow projections covering a twelve-year period (as a more reliable for a long-term development project). The discount rate applied to cash flow projections of the development project was 13.2% p.a. The calculation of value in use for “Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC) CGU was most sensitive to assumptions in discount rates, terminal capitalization rate; weighted average rent rates for shopping and entertainment centres, prices and sales schedules for apartments, occupancy rates and average prices per room in hotels and apart hotels

As at 31 December 2014 the carrying value of “Upravlyayuschaya kompaniya Dynamo”, CJSC amounted to RUR 23.1 billion and exceeded its recoverable amount by RUR 5.7 billion which was recognised as a goodwill impairment loss due to the negative implication of the current macroeconomic environment of the development business.

(in billions of Russian roubles)

19. Other Assets

	31 December 2014	31 December 2013
Other financial assets		
Amounts in course of settlement	37.7	37.6
Initial margin and other performance collateral	22.8	4.6
Trade receivables and prepayments	5.9	2.3
Reinsurance and insurance receivables	5.6	8.3
Accrued commission income	4.6	4.6
Advances issued to leasing equipment suppliers	3.5	4.4
Accrued income on operating leases	2.5	1.8
Positive fair value of derivatives (hedges) (Note 47)	0.3	8.9
Other	3.8	6.2
Total other financial assets before allowance for impairment	**86.7**	**78.7**
Less: allowance for impairment of other financial assets	(3.6)	(3.3)
Total other financial assets	**83.1**	**75.4**
Insurance assets		
Reinsurers' share of provision for unearned premiums	1.7	1.9
Reinsurers' share of loss provisions	1.6	0.5
Deferred acquisition costs	1.6	0.9
Total insurance assets	**4.9**	**3.3**
Other non-financial assets		
Property intended for sale in the ordinary course of business	59.8	60.7
Precious metals	39.1	34.9
Other assets related to non-banking activities	35.8	54.5
Prepayments	31.7	11.6
Tax prepayments	12.9	11.3
Inventories	6.0	3.8
Deferred expenses	5.2	5.4
Equipment purchased for subsequent leasing	2.8	3.3
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs	–	1.5
Other	3.8	0.3
Total other non-financial assets	**197.1**	**187.3**
Total other assets	**285.1**	**266.0**

As at 31 December 2014 amounts in course of settlement includes settlements with Deposit Insurance Agency for the reimbursement of bankrupt banks' deposits in the amount of RUR 13.2 billion (31 December 2014: RUR 29.6 billion).

As at 31 December 2014 and 2013, property intended for sale in the ordinary course of business mainly represented operations of "Hals-Development", OJSC, "Upravlyayuschaya kompaniya Dynamo", CJSC and "M", CJSC.

As at 31 December 2014 and 2013, other assets related to non-banking activities were predominantly related to real estate and construction.

As at 31 December 2014, property intended for sale in the ordinary course of business under construction in progress or development amounted to RUR 34.9 billion (31 December 2013: RUR 59.1 billion) and property intended for sale in the ordinary course of business ready for use by buyer amounted to RUR 24.8 billion (31 December 2013: RUR 1.6 billion).

As at December 2014, inventories include the amount of RUR 5.5 billion (31 December 2013: RUR 3.4 billion) representing foreclosed collateral (goods, equipment, etc.) under default loans before further decision). Refer to Note 50.

(in billions of Russian roubles)

19. Other Assets (continued)

The movements in allowances for impairment of other financial assets were as follows:

	Other financial assets
31 December 2012	**2.9**
Provision for impairment during the period	1.5
Write-offs	(1.5)
Recoveries of amounts written-off in previous period	0.1
Reclassification to allowance due to reclassification of items to this category	0.1
Effect of translation	0.2
31 December 2013	**3.3**
Provision for impairment during the period	2.3
Write-offs	(1.7)
Recoveries of amounts written-off in previous period	0.1
Business Combinations	(0.9)
Reclassification to allowance due to reclassification of items to this category	0.2
Effect of translation	0.3
31 December 2014	**3.6**

20. Disposal Groups Held for Sale

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

		31 December 2014	_31 December 2013_
Assets of disposal groups held for sale			
Mariisky NPZ, CJSC	99.3% owned subsidiary	10.0	6.1
Tower B of Skylight Business Centre (Note 17)	non-current asset held for sale	0.6	5.2
Segezha Pulp and Paper Mill, OJSC	100% owned subsidiary	n/a	17.2
BM Bank, Ltd., Ukraine	100% owned subsidiary	n/a	7.0
Other		0.5	1.2
Total assets of disposal groups held for sale		**11.1**	**36.7**
Liabilities of disposal groups held for sale			
Mariisky NPZ, CJSC	99.3% owned subsidiary	4.4	0.4
Segezha Pulp and Paper Mill, OJSC	100% owned subsidiary	n/a	12.7
BM Bank, Ltd., Ukraine	100% owned subsidiary	n/a	6.9
Other		0.3	0.7
Total liabilities of disposal groups held for sale		**4.7**	**20.7**

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

20. Disposal Group Held for Sale (continued)

In February 2014, the Group obtained 100% share in Derevoobrabotka-Proekt, LLC for non-cash consideration of RUR 4.0 billion.

In September 2014, the Group disposed 100% of its shares in “Segezha Pulp and Paper Mill, OJSC” and 100% share in “Derevoobrabotka-Proekt, LLC” for the total consideration of RUR 11.4 billion. The result from disposal of subsidiaries amounted to RUR 1.2 billion. Gain from disposal was recognised within profit after tax from subsidiaries acquired exclusively with a view to resale .

In June 2014, the Group classified Gorki-8, Ltd. as a disposal group held for sale. In July 2014, the Group disposed of its 74.9% ownership interest in Gorki-8, Ltd. and recognised RUR 2.5 billion within gain from disposal of subsidiaries and associates. As a result of disposal, the Group also acquired additional available-for-sale investment in a real estate development company (Note 14).

In the fourth quarter 2014, the Group decided to lease out most part of the Tower B of Skylight Business Centre and reclassified the non-current asset to investment property.

In the fourth quarter 2014, the Group ceased to classify certain other subsidiaries previously acquired exclusively with a view to resale as a disposal group held for sale.

In connection with negative tendencies in the Russian economy the Group analysed fair value for each items of its disposal groups held for sale and concluded that the fair value of disposal groups held for sale was not materially different from their carrying value.

The Group undertakes necessary actions to respond to the changes in the current operainting environment and circumstances and remains committed to the plans to sell Mariisky NPZ, CJSC. As at 31 December 2014 the Group considers that sale is highly probable.

(in billions of Russian roubles)

20. Disposal Group Held for Sale (continued)

Major classes of non-current assets classified as held for sale and assets of disposal groups held for sale are as follows:

	31 December 2014	*31 December 2013*
Assets of a disposal group held for sale:		
Cash and cash equivalents	0.1	1.3
Mandatory cash balances with central banks	–	0.2
Financial assets at fair value through profit or loss	–	0.2
Due from other banks	–	0.1
Loans and advances to customers	–	5.3
Investment properties	–	0.1
Deferred income tax asset	1.4	0.1
Intangible assets and goodwill	0.1	0.6
Premises and equipment	0.6	10.1
Other assets	8.3	13.4
Non-current assets held for sale:		
Premises and equipment	–	0.1
Investment properties (Note 17)	0.6	5.2
Total non-current assets and assets of disposal groups held for sale	**11.1**	**36.7**

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

	31 December 2014	*31 December 2013*
Due to other banks	0.1	2.3
Customer accounts	1.6	11.1
Deferred income tax liability	–	1.0
Other liabilities	3.0	6.3
Total liabilities directly associated with disposal groups held for sale	**4.7**	**20.7**

21. Due to Other Banks

	31 December 2014	*31 December 2013 (restated)*
Term loans and deposits	448.7	303.5
Correspondent accounts and overnight deposits of other banks	204.6	214.7
Sale and repurchase agreements with other banks	79.9	106.4
Total due to other banks	**733.2**	**624.6**

At 31 December 2014, term loans and deposits contain the amount of RUR 20.5 billion (31 December 2013: RUR 50.0 billion) secured with a pledge of financial assets at fair value through profit or loss in the amount of RUR 28.3 billion (31 December 2013: RUR 26.0 billion).

As at 31 December 2014, term loans and deposits in the amount of RUR 2.4 billion (31 December 2013: RUR 6.5 billion) is collateralized with loans to customers in the amount of RUR 2.8 billion (31 December 2013: RUR 16.6 billion).

As at 31 December 2014, financial assets pledged against sale and repurchase agreements with other banks are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of RUR 42.4 billion (31 December 2013: RUR 34.0 billion), classified as loans and advances to customers with amortized cost of RUR 27.0 billion (31 December 2013: RUR 30.6 billion)and pledged financial assets classified as due from other banks of RUR 2.5 billion (31 December 2013: nil). As at 31 December 2014, financial assets pledged against sale and repurchase agreements with other banks were also represented by financial assets received under reverse sale and repurchase agreements in the total amount of RUR 61.5 billion (31 December 2013: RUR 61.5 billion).

(in billions of Russian roubles)

22. Customer Deposits

	31 December 2014	_31 December 2013 (restated)_
Government bodies		
Current / settlement deposits	157.1	126.9
Term deposits	565.2	300.9
Other legal entities		
Current / settlement deposits	712.0	751.5
Term deposits	2,085.6	1,398.7
Individuals		
Current / settlement deposits	390.4	337.2
Term deposits	1,758.7	1,456.2
Sale and repurchase agreements	0.4	12.0
Total customer deposits	**5,669.4**	**4,383.4**

As at 31 December 2014, the Group's 10 largest groups of interrelated customers had aggregated balances amounting to RUR 1,748.5 billion or 30.8% of total customer deposits (31 December 2013: RUR 1,102.6 billion or 25.2%).

As at 31 December 2014, deposits of RUR 23.5 billion (31 December 2013: RUR 10.5 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 47).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2014		_31 December 2013 (restated)_	
	Amount	_%_	_Amount_	_%_
Individuals	2,149.1	37.9	1,793.4	40.9
Oil and Gas	1,009.0	17.8	643.7	14.7
Government bodies	722.3	12.7	427.8	9.8
Finance	327.2	5.8	374.8	8.6
Building construction	314.7	5.6	241.9	5.5
Manufacturing	265.6	4.7	225.6	5.1
Trade and commerce	223.8	3.9	134.4	3.1
Metals	104.2	2.2	31.0	2.4
Transport	125.1	1.8	104.6	0.7
Telecommunications and media	89.3	1.6	119.3	2.7
Chemical	51.2	0.9	30.0	0.7
Food and agriculture	31.1	0.5	23.0	0.5
Aircraft	27.0	0.5	19.0	0.4
Energy	26.2	0.5	26.9	0.6
Coal mining	11.2	0.2	12.2	0.3
Other	192.4	3.4	175.8	4.0
Total customer deposits	**5,669.4**	**100.0**	**4,383.4**	**100.0**

As at 31 December 2014 financial assets pledged against sale and repurchase agreements represent financial assets at fair value through profit or loss and financial assets available-for-sale with fair value of RUR 0.1 billion (31 December 2013: RUR 1.7 billion) (Note 14) and securities received under reverse sale and repurchase agreements with fair value of RUR 1.1 billion (31 December 2013: RUR 11.0 billion).

(in billions of Russian roubles)

23. Other Borrowed Funds

	31 December 2014	*31 December 2013*
Funds from local central banks:	2,388.9	1,028.5
- *Reverse Sale and Repurchase Agreements*	*771.9*	*399.5*
- *Term deposits from local central banks*	*1,617.0*	*629.0*
Syndicated loans	131.5	179.1
Other borrowings	208.8	278.3
Total other borrowed funds	**2,729.2**	**1,485.9**

In September 2011, “Bank of Moscow”, OJSC received a RUR 294.8 billion deposit from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support (the “Plan”) of “Bank of Moscow”, OJSC approved by the CBR and the DIA. During the fourth quarter 2014, the DIA agreed to the deposit extension due to adverse effects of the current political and macro-economic environment on “Bank of Moscow”, OJSC and its clients, which in turn influenced the execution of the Plan. In December 2014, the CBR and the DIA approved the extension of the deposit until September 2026 at 0.51% p.a.

The Group accounted for this extension as de-recognition of the previously existing deposit with the carrying amount of RUR 166.9 billion and the recognition of the new deposit at its estimated fair value of RUR 67.7 billion in accordance with financial instrument modification accounting rules. The Group estimated the fair value using deemed market rate of 14.06% determined based on market information for government debt instruments of similar maturity, including yields on OFZ, modified, as appropriate, to account for the estimated credit spread the Group. The Group recognized the difference in the amount of RUR 99.2 billion between the carrying amount of the previously existing deposit and the estimated fair value of the new deposit as a gain in its consolidated income statement in accordance with the government grant accounting rules. If the Group had used the deemed market rates from 13.06% to 15.06%, the gain at initial recognition would have ranged from RUR 92.6 billion to RUR 105.2 billion.

As at 31 December 2014, the carrying amount of the deposit amounted to RUR 67.7 billion (31 December 2013: RUR 159.0 billion) and was included in Other Borrowings. The contractual amount of the deposit was RUR 272.8 billion at 31 December 2014 (31 December 2013: RUR 277.4 billion). The deposit was collateralized by loans and advances to customers with the carrying amount of RUR 134.0 billion at 31 December 2014 (31 December 2013: RUR 205.4 billion) (Note 13). Under the terms of the deposit agreement, if certain reference distressed assets perform better than originally anticipated, the Group is required to repay a corresponding part of the deposit. For the year ended 31 December 2014, the Group recognized losses from early repayment of deposit in the amount of RUR 1.1 billion (for the year ended 31 December 2013: RUR 3.7 billion) included in Gains net of losses / (losses net of gains) arising from extinguishment of liability in the accompanying consolidated income statement.

As at 31 December 2014 term deposits from local central banks were secured by pledged loans to customers in the amount of RUR 1,086.3 billion (31 December 2013: RUR 874.8 billion) (Note 13).

As at 31 December 2014 financial assets pledged against sale and repurchase agreements with local central banks are financial assets with a total carrying amount of RUR 649.3 billion (31 December 2013: RUR 399.7 billion), which comprised of the financial assets held for trading with fair value of RUR 72.0 billion (31 December 2013: RUR 117.3 billion), financial assets available-for-sale with fair value of RUR 66.2 billion (31 December 2013: RUR 20.1 billion), financial assets held to maturity with amortised cost of RUR 3.3 bln (31 December 2013; nil), pledged financial assets classified as loans and advances to customers of RUR 436.1 billion (31 December 2013: RUR 259.5 billion), pledged financial assets classified as due from other banks of RUR 71.7 billion (31 December 2013: RUR 2.8 billion) (Note 12), and securities received under reverse sale and repurchase agreements with fair value of RUR 25.0 billion (31 December 2013:RUR 12.4 billion).

In March 2013, the Group received a syndicated loan of USD 2.0 billion maturing in March 2016 with a floating rate of LIBOR plus 1.5% p.a. As at 31 December 2014 the carrying amount of the syndicated loan was RUR 111.9 billion (31 December 2013: RUR 65.0 billion).

As at 31 December 2014 other borrowed funds also contain other borrowings in the amount of RUR 20.1 billion (31 December 2013: RUR 22.9 billion) securitized with a pledge of loans to customers of RUR 19.8 billion (31 December 2013: RUR 27.2 billion) (Note 13) and other assets of nil (31 December 2013: RUR 1.4 billion) (Note 19).

(in billions of Russian roubles)

24. Debt Securities Issued

	31 December 2014	_31 December 2013_
Bonds	780.7	592.1
Promissory notes	123.4	133.4
Deposit certificates	17.3	12.7
Total debt securities issued	**921.4**	**738.2**

Promissory notes represent notes primarily issued by VTB in the local market as an alternative to customer/bank deposits. As at 31 December 2014 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to December 2044 (31 December 2013: from demand to October 2028).

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

	Rates, p.a.	_Maturity_	_31 December 2014_	_31 December 2013_
USD Eurobonds (EMTN)	2.03% to 6.88%	2015-2035	402.2	249.2
Local bonds	3.00% to 18.75%	2015-2046	164.5	179.7
Other Eurobonds	2.31% to 13.23%	2015-2034	134.8	97.6
CHF Eurobonds (EMTN)	2.90% to 5.00%	2015-2018	68.3	43.9
ECP	n/a	2015	10.9	21.7
Total bonds			**780.7**	**592.1**

25. Subordinated Debt

	Rates, p.a.	_Maturity_	_31 December 2014_	_31 December 2013_
VTB:				
USD 1.5 billion subordinated Eurobonds	6.95%	2022	85.2	49.5
CHF 350 million subordinated Eurobonds	5.00%	2024	19.3	–
USD 400 million subordinated Eurobonds	5.01%	2015	19.4	11.5
RUR 100 billion subordinated deposit	14.50%	2044	100	–
RUR 200 billion subordinated loans	6.50%	2019	–	183.6
“Bank of Moscow”, OJSC:				
USD 400 million subordinated Eurobonds	6.02%	2017	22.3	12.7
USD 300 million subordinated Eurobonds	5.97%	2015	16.6	9.6
USD 100 million subordinated loans	6M USD LIBOR + 2.65%	2016	0.3	3.3
RUR 11.1 billion subordinated loans	6.50%	2019	–	10.4
“Bank VTB 24”, PJSC (including former “TransCreditBank”, JSC):				
RUR 2.0 billion subordinated loans (31 December 2013: RUR 6.8 billion)	10.00%	2020	2.1	7.5
RUR 2.9 billion subordinated loans	6.50%	2019	–	2.9
Total subordinated debt			**265.2**	**291.0**

In July 2014, VTB issued CHF 350 million (RUR 13.5 billion) Series 4 Subordinated Eurobonds under EMTN program 3 maturing in October 2024 with a fixed coupon of 5.0% p.a. payable annually till a call option in October 2019 with a coupon reset after call option date. In September 2014, the Group repaid the subordinated loan facilities previously granted by the Bank for Development and Foreign Economic Affairs (VEB) to VTB, “Bank of Moscow”, OJSC and “Bank VTB 24”, PJSC. The proceeds from the repayment of these subordinated loan facilities were used by the Ministry of Finance of the Russian Federation to purchase the preference shares of VTB (Note 27).

In December 2014, VTB received subordinated deposit of RUR 100 billion maturing in December 2044 from National Wealth Fund, which is a related party to the Group. The deposit has fixed interest rate of 14.5% p.a. for the period from December 2014 to the end of March 2015, and afterwards the interest rate is re-set annually at the rate of inflation rate for the preceding year plus 1% p.a. As at 31 December 2014, the carrying amount of this subordinated debt was RUR 100.0 billion (31 December 2013: none).

(in billions of Russian roubles)

26. Other Liabilities

	31 December 2014	31 December 2013 (restated)
Other financial liabilities		
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives) (Note 47)	396.9	69.1
Amounts in course of settlement	26.2	11.0
Obligation to deliver securities	25.8	26.9
Accrued expenses	18.1	4.3
Trade creditors and prepayments received	4.5	1.6
Non-controlling interests in consolidated mutual funds	2.6	23.4
Advances received from lessees	2.0	1.9
Reinsurance and insurance payables	1.6	1.8
Deferred income	1.0	0.9
Negative fair value of derivatives (hedges) (Note 47)	0.9	2.5
Dividends payable	0.4	0.2
Other	6.1	3.9
Total other financial liabilities	**486.1**	**147.5**
Insurance liabilities		
Pension liabilities accounted under IFRS 4	69.9	–
Provision for unearned premiums	17.7	17.6
Loss provisions	12.7	13.3
Total insurance liabilities	**100.3**	**30.9**
Other non-financial liabilities		
Other liabilities related to non-banking activities	43.1	29.9
Payable to employees	30.0	29.3
Provisions for credit related commitments and legal claims (Note 47)	21.3	3.6
Liabilities to pay taxes	10.2	8.0
Liabilities on pension plans	4.1	1.9
Deferred income	1.8	1.2
Trade creditors and prepayments received	1.2	1.3
Other	12.0	9.0
Total other non-financial liabilities	**123.7**	**84.2**
Total other liabilities	**710.1**	**262.6**

As at 31 December 2014 and 2013, other liabilities related to non-banking activities are predominantly related to real estate and other non-banking activity.

At 31 December 2014 non-controlling interests in consolidated mutual funds included RUR nil billion (31 December 2013: RUR 20.4 billion) of non-controlling interest in the consolidated VTB – Long term investments, Closed-end Unit Investment Fund (Note 32).

27. Share Capital

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

	31 December 2014		31 December 2013	
	Number of shares	Nominal amount	Number of shares	Nominal amount
Ordinary shares	12,960,541,337,338	138.1	12,960,541,337,338	138.1
Preference shares	21,403,797,025,000	214.0	–	–

27. Share Capital (continued)

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.

As at 31 December 2014 the total authorised ordinary share capital comprised 14,000,000,000,000 shares (2013: 14,000,000,000,000) with a par value of RUR 0.01 each.

In September 2014, following the amendments to the Federal Law of the Russian Federation dated 13 October 2008 "On additional measures for supporting the financial system of the Russian Federation", the Ministry of Finance of the Russian Federation acquired 21,403,797,025,000 non-cumulative preference shares of VTB for RUR 214.0 billion. The proceeds from the repayment of certain subordinated loan facilities (Note 25) were used by the Ministry of Finance of the Russian Federation to purchase the preference shares of VTB. At the repayment date, the notional and carrying values of the Group's outstanding subordinated loan facilities were RUR 200.0 billion and 185.3 billion in VTB, RUR 11.1 billion and RUR 10.4 billion in "Bank of Moscow", OJSC and RUR 2.9 billion and RUR 2.9 billion in "Bank VTB 24", PJSC, respectively. The difference of RUR 12.3 billion between the carrying amount of the preference shares issued by VTB and the carrying amount of the repaid subordinated loan facilities, net of income tax, represented an equity component of the subordinated debt to preference shares conversion and was recognised within retained earnings.

The terms of the preference shares do not include any fixed dividend. The Annual General Meeting of VTB shareholders will approve the size of the dividends on preference shares, if any. The preference shares are not included in determining a quorum at the Annual General Meeting of VTB shareholders and do not change the total number of votes attributable to VTB's common shareholders.

During 2014 the net change in Group members' balances of the Bank's ordinary shares increased by 95,864,890,679 and the number of treasury shares increased to 155,062,242,344. As a result, the number of the outstanding ordinary shares at 31 December 2014 amounted to 12,805,479,094,994.

During 2013 the net change in Group members' balances of the Bank's ordinary shares decreased by 58,641,531,002 and the number of treasury shares decreased to 59,197,351,665. As a result, the number of the outstanding ordinary shares at 31 December 2013 amounted to 12,901,343,985,673.

28. Perpetual Loan Participation Notes

In August 2012 and November 2012, VTB issued Perpetual loan participation notes for the amount of USD 1.0 billion (RUR 32.5 billion) and USD 1,250 million (RUR 39.2 billion) respectively. The transaction included the issuance of Perpetual Loan Participation Notes by VTB Eurasia Limited (Ireland), a consolidated structured entity, which used the proceeds to provide a subordinated loan to VTB. The Perpetual loan participation notes have an unlimited term and are redeemable at VTB's option starting from December 2022 at their principal amount. Coupon rate is fixed at 9.5% p.a. and will be reset in 10.5 years and then every 10 years as 10 year US Treasury yield increased by 806.7 b.p. Coupon payments are paid semi-annually from December 2012 and may be cancelled or deferred in accordance with the terms of the notes. Such cancellation or deferral might be mandatory or at the discretion of VTB.

Due to the undefined maturity and optional non-cumulative cancellation of coupon payments, the Group accounts for the Perpetual loan participation notes as an equity instrument and as a Tier I eligible instrument for the purpose of Basel Capital Adequacy Ratio calculation. Further, the CBR approved the inclusion of the subordinated loan in the statutory capital ratio calculation of VTB Bank.

The Group accounts for the USD-denominated Perpetual loan participation notes in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings. Issuance costs were also recorded in retained earnings. As at 31 December 2014, the carrying amount of the Perpetual Loan Participation Notes is RUR 126.6 billion (31 December 2013: RUR 73.6 billion).

While coupon payments are optional at the discretion of VTB, certain terms in the Perpetual loan participation notes may cause such payments to become mandatory, one of such events being declaration or payment of dividends on ordinary shares within six months prior to the coupon payment date (Note 45).

In their capacity as market-makers, VTB Group subsidiaries buy and sell Perpetual loan participation notes in the market, usually with a short holding period. During the holding period, Perpetual loan participation notes are included in Treasury shares and bought back perpetual loan participation notes in equity.

(in billions of Russian roubles)

29. Other Reserves

Movements in other reserves were as follows:

	Unrealised gain on financial assets available-for-sale and cash flow hedge	*Land and premises revaluation reserve*	*Currency translation difference*	*Total*
31 December 2012	**4.3**	**20.8**	**8.8**	**33.9**
Total comprehensive income for the period	(1.3)	–	3.6	**2.3**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.7)	–	**(0.7)**
Acquisition of non-controlling interests	–	–	0.1	**0.1**
31 December 2013	**3.0**	**20.1**	**12.5**	**35.6**
Total comprehensive income for the period	(21.4)	(0.4)	36.0	**14.2**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(2.3)	–	**(2.3)**
Disposal of subsidiaries	(0.3)	(0.3)	(4.3)	**(4.9)**
Acquisition of non-controlling interests	–	0.1	0.1	**0.2**
31 December 2014	**(18.7)**	**17.2**	**44.3**	**42.8**

30. Interest Income and Expense

	2014	*2013 (restated)*
Interest income		
Financial assets at fair value through profit or loss	**31.1**	**36.4**
Loans and advances to customers	792.8	637.7
Due from other banks	12.5	6.9
Other financial assets, including securities	7.7	5.3
Financial assets not at fair value through profit or loss	**813.0**	**649.9**
Total interest income	**844.1**	**686.3**
Interest expense		
Customer deposits	(263.1)	(215.1)
Due to other banks and other borrowed funds	(156.5)	(76.4)
Debt securities issued	(50.9)	(49.7)
Subordinated debt	(19.3)	(22.1)
Total interest expense	**(489.8)**	**(363.3)**
Net interest income	**354.3**	**323.0**

During 2014 interest income on impaired loans, recognized by the Group amounted to RUR 43.4 billion (2013: RUR 30.5 billion).

(in billions of Russian roubles)

31. Net Fee and Commission Income

	2014	*2013*
Commission on settlement transactions	49.9	42.7
Commission on guarantees issued and trade finance	12.8	10.2
Commission on operations with securities and capital markets	5.5	8.4
Commission on cash transactions	5.4	4.8
Other	7.9	4.2
Total fee and commission income	**81.5**	**70.3**
Commission on settlement transactions	(11.7)	(10.0)
Commission on cash transactions	(2.8)	(2.2)
Other	(3.9)	(2.7)
Total fee and commission expense	**(18.4)**	**(14.9)**
Net fee and commission income	**63.1**	**55.4**

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

	2014	*2013*
Losses net of gains arising from trading financial instruments	(1.9)	(18.2)
(Losses net of gains) / gains less losses arising from financial instruments designated as at fair value through profit or loss	(13.2)	16.5
Gains less losses arising from associates and joint-ventures designated as at fair value through profit or loss (Note 15)	4.8	14.9
Gains from puttable financial instruments arising from non-parent interests in consolidated funds	7.3	–
Total (losses net of gains) / gains less losses / arising from financial instruments at fair value through profit or loss	**(3.0)**	**13.2**

In June and August 2014 the Group acquired for RUR 12.7 billion from certain third-party holders 66.27% interests in the consolidated VTB − Long term investments, Closed-end Unit Investment Fund which were previously accounted for within other liabilities, and as a result, the Group recognised a RUR 7.3 billion gain from puttable financial instruments arising from non-parent interests in consolidated funds. As a result, the Group's interest in VTB − Long term investments, Closed-end Unit Investment Fund increased from 33.73% to 100.00% (Notes 26, 53).

33. Losses Net of Gains Arising From Foreign Currencies

	2014	*2013*
Gains less losses arising from dealing in foreign currencies	70.1	20.4
Foreign exchange translation losses net of gains	(73.3)	(29.1)
Losses net of gains arising from foreign currencies	**(3.2)**	**(8.7)**

(in billions of Russian roubles)

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

	2014	*2013*
Financial assets		
Loans and advances to customers	(0.2)	0.2
Financial liabilities		
Other borrower funds	–	0.3
Debt securities issued	1.0	0.7
Restructuring and other gains on loans and advances to customers	2.7	7.9
Total gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers	**3.5**	**9.1**

35. Gains Net of Losses / (Losses Net of Gains) from Extinguishment of Liabilities

	2014	*2013*
Customer deposits	2.7	0.1
Other borrowed funds	(1.1)	(3.7)
Own issued debt securities (non-subordinated)	(1.4)	(0.1)
Subordinated debts	0.6	–
Total gains net of losses / (losses net of gains) from extinguishment of liabilities	**0.8**	**(3.7)**

36. Other Operating Income

	2014	*2013*
Operating lease of equipment	7.5	2.1
Income arising from disposal of property	2.5	2.1
Fines and penalties received	1.0	0.2
Dividends received	0.4	1.2
Other	7.1	4.0
Total other operating income	**18.5**	**9.6**

37. Net Insurance Premiums Earned

	2014	*2013*
Gross premiums written	45.4	32.4
Premiums inward	2.0	1.5
Change in provision for unearned premiums, gross	(0.1)	(2.6)
Premiums ceded to reinsurers	(3.4)	(2.7)
Change in reinsurers' share of provision for unearned premiums	(0.2)	0.8
Pension contributions accounted under IFRS 4	0.2	–
Net insurance premiums earned	**43.9**	**29.4**

(in billions of Russian roubles)

37. Net Insurance Premiums Earned (continued)

The movements in provision for unearned premiums were as follows:

	Provision for unearned premiums, gross	***Reinsurers' share of provision for unearned premiums***	***Provision for unearned premiums, net***
31 December 2012	**7.1**	**(0.8)**	**6.3**
Change in provision, gross	2.6	–	2.6
Change in reinsurers' share of provision	–	(0.8)	(0.8)
Acquisition through business combination	7.9	(0.3)	7.6
31 December 2013	**17.6**	**(1.9)**	**15.7**
Change in provision, gross	0.1	–	0.1
Change in reinsurers' share of provision	–	0.2	0.2
31 December 2014	**17.7**	**(1.7)**	**16.0**

38. Net Insurance Claims Incurred, Movement in Liabilities to Policyholders and Acquisition Costs

	2014	***2013***
Gross claims paid	(24.5)	(13.9)
Claims paid inward	(1.4)	(0.2)
Change in loss provisions, gross	0.6	0.1
Claims ceded to reinsurers	1.1	0.4
Change in reinsurers' share of loss provisions	1.1	(0.3)
Pension benefits accounted under IFRS 4	(0.1)	–
Change in pension liabilities accounted under IFRS 4	(2.4)	–
Acquisition costs paid net of related commission income from reinsurance ceded	(6.2)	(2.5)
Net insurance claims incurred, movement in liabilities to policyholders and acquisition costs	**(31.8)**	**(16.4)**

The movements in loss provisions were as follows:

	Loss provisions, gross	***Reinsurers' share of loss provisions***	***Loss provisions, net***
31 December 2012	**4.9**	**(0.4)**	**4.5**
Provision created during the period	3.9	–	3.9
Insurance claims settled	(4.0)	–	(4.0)
Change in reinsurers' share of provision	–	0.3	0.3
Acquisition through business combination	8.5	(0.4)	8.1
31 December 2013	**13.3**	**(0.5)**	**12.8**
Provision created during the period	14.9	–	14.9
Insurance claims settled	(15.5)	–	(15.5)
Change in reinsurers' share of provision	–	(1.1)	(1.1)
31 December 2014	**12.7**	**(1.6)**	**11.1**

(in billions of Russian roubles)

38. Net Insurance Claims Incurred, Movement in Liabilities to Policyholders and Acquisition Costs (continued)

The movements in pension liabilities accounted under IFRS 4 were as follows:

	Pension liabilities accounted under IFRS 4
31 December 2012	**–**
Change in pension liabilities accounted under IFRS 4	–
31 December 2013	**–**
Change in pension liabilities accounted under IFRS 4	2.4
Acquisition through business combination	67.5
31 December 2014	**69.9**

39. Revenue from Other Non-Banking Activities

Revenues from other non-banking activities were as follows:

	2014	*2013*
Construction, development and other real estate operations		
Revenue from sale of property intended for sale in the ordinary course of business	13.0	0.6
Rental income from investment property	4.8	3.5
Revenue recognised in relation to non-completed construction contracts	2.1	10.8
Net gain from change in fair value of investment property recognised on the disposal or revaluation	3.8	3.4
Other income from real estate operations	3.8	1.7
Total revenue from construction, development and other real estate operations	***27.5***	***20.0***
Other non-banking business	10.6	14.2
Total revenue from other non-banking activities	**38.1**	**34.2**

(in billions of Russian roubles)

40. Cost of sales and Other Expenses from Other Non-Banking Activities

Cost of sales and other expenses from other non-banking activities were as follows:

	2014	*2013*
Construction, development and other real estate operations		
Cost of sales		
Cost of sales – construction contracts	(0.4)	(1.5)
Cost of sales – property intended for sale in the ordinary course of business	(7.5)	(0.5)
Staff cost and administrative expenses	(14.3)	(13.9)
Total cost of sales and other expenses from construction, development and other real estate operations	***(22.2)***	***(15.9)***
Other non-banking business		
Cost of sales	(4.9)	(5.3)
Staff cost and administrative expenses	(18.8)	(14.9)
Total cost of sales and other expenses from other non-banking business	***(23.7)***	***(20.2)***
Total cost of sales and other expenses from other non-banking activities	**(45.9)**	**(36.1)**

41. Staff Costs and Administrative Expenses

	2014	*2013*
Staff costs	112.7	108.0
Defined contribution pension expense	11.8	10.8
Depreciation and other expenses related to premises and equipment	24.4	19.7
Charity	17.5	3.4
Leasing and rent expenses	11.7	10.4
Advertising expenses	8.8	8.2
Taxes other than on income	7.6	9.4
Payments to deposit insurance system	7.0	6.1
Professional services	6.9	6.0
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit and customer loan intangibles	5.8	5.2
Amortization of core deposit and customer loan intangibles	5.1	5.0
Post and telecommunication expenses	4.6	4.0
Security expenses	3.6	3.2
Transport expenses	3.5	2.7
Insurance costs	0.6	0.9
Other	7.7	7.9
Total staff costs and administrative expenses	**239.3**	**210.9**

(in billions of Russian roubles)

42. Income Tax

Income tax expense comprises the following:

	2014	*2013*
Current tax expense	20.7	21.4
Deferred tax expense due to the origination and reversal of temporary differences	10.8	2.7
Income tax expense for the year	**31.5**	**24.1**

The income tax rate applicable to the majority of the Group's income in 2014 is 20% (2013: 20%). The income tax rate applicable to subsidiaries' income ranges from 0% to 35% in 2014 (2013: 0% to 35%).

	2014	*2013*
IFRS profit before tax	**32.8**	**119.2**
Theoretical tax expense at the applicable statutory rate of each Group entity	6.5	24.6
Tax effect of items, which are not deductible or assessable for tax purposes:		
- Change in unrecognized deferred taxes	14.6	(1.5)
- Non-deductible expenses	10.2	5.9
- Income taxed at different rates	(1.3)	(6.7)
- Other	1.5	1.8
Income tax expense for the year	**31.5**	**24.1**

The difference between the theoretical and actual income tax expense for 2014 and 2013 was mainly due to unrecognised deferred tax assets of Ukrainian subsidiaries and differences associated with non-deductible expenses.

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 0% to 35% (2013: from 0% to 35%). 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.

(in billions of Russian roubles)

42. Income Tax (continued)

Origination and reversal of temporary differences	*2012*	*Origination and reversal of temporary differences*			*Currency translation difference*	*Business combination*	*2013*	*Origination and reversal of temporary differences*			*Currency translation difference*	*Reclassification to assets of disposal group held for sale*	*Business combination*	*2014*
		Credited/ (charged) to profit or loss	*Credited/ (charged) to other comprehensive income*	*Credited/ (charged) to retained earnings*				*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehensive income*	*Credited/ (charged) to retained earnings*				
Tax effect of deductible temporary differences:														
Fair value of loans acquired through business combinations	**24.6**	(2.3)	–	–	–	–	22.3	6.4	–	–	(0.1)	–	–	**28.6**
Allowances for impairment and provisions for other losses	**21.8**	(10.5)	–	–	0.1	–	11.4	15.2	–	–	1.2	–	(0.3)	**27.5**
Tax losses carried forward	**22.4**	4.5	–	3.2	0.2	0.8	31.1	47.8	–	11.5	1.2	–	(1.6)	**90.0**
Fair value of derivatives	**1.9**	0.1	(0.2)	–	–	–	1.8	5.3	–	–	–	–	–	**7.1**
Accruals	**16.3**	2.5	–	–	–	–	18.8	(7.3)	0.2	3.1	0.2	–	–	**15.0**
Fair value of securities	**4.1**	(5.7)	0.5	–	–	0.6	(0.5)	5.8	(0.2)	0.5	0.1	–	–	**5.7**
Fair value of investment property	**5.1**	(3.6)	–	–	–	0.3	1.8	0.1	–	–	0.1	–	–	**2.0**
Loans to customers	**–**	2.9	–	–	0.1	–	3.0	(2.5)	–	–	(0.4)	–	–	**0.1**
Other	**8.8**	(3.9)	–	(0.2)	0.1	6.0	10.8	3.5	–	0.1	0.7	(0.1)	(0.1)	**14.9**
Gross deferred tax assets	**105.0**	**(16.0)**	**0.3**	**3.0**	**0.5**	**7.7**	**100.5**	**74.3**	**–**	**15.2**	**3.0**	**(0.1)**	**(2.0)**	**190.9**
Unrecognized deferred tax assets	**(7.9)**	1.5	–	–	–	0.2	**(6.2)**	(14.6)	–	–	(1.4)	–	2.0	**(20.2)**
Gross deferred tax asset	**97.1**	**(14.5)**	**0.3**	**3.0**	**0.5**	**7.9**	**94.3**	**59.7**	**–**	**15.2**	**1.6**	**(0.1)**	**–**	**170.7**
Tax effect of taxable temporary differences:														
Fair value measurement of securities	**(2.8)**	0.9	–	–	(0.1)	–	**(2.0)**	(17.5)	4.9	–	(0.9)	–	–	**(15.5)**
Property and equipment	**(11.4)**	0.5	–	(0.1)	–	(1.0)	**(12.0)**	(2.0)	–	(0.3)	–	–	(0.5)	**(14.8)**
Intangible assets	**(4.9)**	0.3	–	–	–	–	**(4.6)**	1.2	–	–	–	–	–	**(3.4)**
Net investment in lease	**(1.2)**	5.0	–	–	–	(7.2)	**(3.4)**	1.6	–	–	–	–	0.8	**(1.0)**
Fair value of investment property	**(11.8)**	3.1	–	–	–	–	**(8.7)**	0.2	–	–	0.1	–	–	**(8.4)**
Allowances for impairment and provisions for other losses	**(2.3)**	(0.6)	–	–	(0.1)	–	**(3.0)**	(1.8)	–	–	–	–	–	**(4.8)**
Fair value of derivatives	**(4.6)**	0.5	–	–	–	–	**(4.1)**	(34.2)	(0.2)	–	–	–	–	**(38.5)**
Other borrowed funds	**(27.5)**	4.7	–	–	–	–	**(22.8)**	(16.7)	–	–	–	–	–	**(39.5)**
Other	**–**	(2.6)	–	–	–	(0.6)	**(3.2)**	(1.3)	–	0.1	(0.1)	–	–	**(4.5)**
Gross deferred tax liability	**(66.5)**	**11.8**	**–**	**(0.1)**	**(0.2)**	**(8.8)**	**(63.8)**	**(70.5)**	**4.7**	**(0.2)**	**(0.9)**	**–**	**0.3**	**(130.4)**
Deferred tax asset, net	**42.9**	**(0.6)**	**0.3**	**2.9**	**0.3**	**(0.3)**	**45.5**	**5.2**	**0.1**	**14.9**	**0.9**	**(0.1)**	**0.4**	**66.9**
Deferred tax liability, net	**(12.3)**	**(2.1)**	–	–	–	**(0.6)**	**(15.0)**	**(16.0)**	**4.6**	**0.1**	**(0.2)**		**(0.1)**	**(26.6)**

(in billions of Russian roubles)

42. Income Tax (continued)

As at 31 December 2014, recognised deferred tax assets included RUR 84.6 billion resulting from tax losses carried forward (31 December 2013: RUR 27.5 billion), primarily related to the Group subsidiaries located in the Russian Federation. The existing tax losses eligible for carry forward are expected to be fully utilised by 2027. The recoverability of the deferred tax asset has been determined using profitability forecast, including the assumption of profitability growth of 10% p.a. and the planned legal entity organisational changes within the Group. A 20% reduction in the aggregate forecast profits during the utilisation period may result in a partial impairment of the deferred tax asset depending upon the timing of the reversal of deductible temporary differences. The forecast assumptions do not include any incremental tax planning strategies.

As at 31 December 2014 the Group had unrecognised deferred tax asset of RUR 5.4 billion (2013: RUR 3.6 billion) in respect of unused tax loss expiring as presented below:

	2014	***2013***
Unused tax loss carried forward expiring by the end of:		
31 December 2014	0.0	1.4
31 December 2015	4.8	0.9
31 December 2016	1.2	1.9
31 December 2017	2.5	1.6
31 December 2018	2.1	3.3
31 December 2019	3.8	0.7
After 31 December 2019	13.0	9.1
Total tax loss carry forwards	**27.4**	**18.9**

In 2014, loss after tax from subsidiaries acquired exclusively with a view to resale was presented net of income tax expense in the amount of RUR 0.5 billion (2013: profit after tax of RUR 5.4 billion).

As at 31 December 2014, the aggregate amount of temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred tax liability has not been recognized amounted to RUR 113.0 billion (31 December 2013: RUR 92.7 billion).

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

	2014			***2013***		
	Before tax	***Tax expense/ (recovery)***	***Net of tax***	***Before tax***	***Tax expense/ (recovery)***	***Net of tax***
Net result on financial assets available-for-sale	(25.4)	4.7	(20.7)	(2.3)	0.5	(1.8)
Cash flow hedges	(0.2)	(0.2)	(0.4)	1.0	(0.2)	0.8
Share of other comprehensive income of associates and joint ventures	2.0	–	2.0	–	–	–
Effect of translation	37.2	–	37.2	3.9	–	3.9
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(1.4)	0.2	(1.2)	(0.2)	–	(0.2)
Land and premises revaluation	(0.4)		(0.4)	–	–	–
Other comprehensive income	**11.8**	**4.7**	**16.5**	**2.4**	**0.3**	**2.7**

43. Share-based Payments

In February 2012, several VTB Group members introduced for their selected employees a share-based remuneration plan. This plan has established a right of those employees to receive common shares (“Shares Plan”) or GDR (“GDRs Plan”) of VTB (depending on the employing entity’s country of incorporation) contingent on their service over a specified period of time.

In February 2013, several VTB Group members made additional awards to their selected employees under the same plan rules and vesting conditions.

Shares Plan. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the shares award. The awarded shares vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee’s continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or paid if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

GDRs Plan. Under GDRs Plan the selected employees are granted zero strike price options to purchase GDRs exercisable over ten years from each respective vesting date. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the GDRs award. The awarded GDRs vest gradually in three equal instalments over the vesting periods of one, two and three years, subject to employee’s continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or exercised if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules.

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

As at 31 December 2014 the total value of the award granted under the GDRs Plan was RUR 1.8 billion (31 December 2013: RUR 1.3 billion) represented by 9.0 million of GDRs of VTB (31 December 2013: 9.7 million). Each GDR contains 2,000 VTB shares.

For the year ended 31 December 2014 the Group recognised in Staff costs the amount of RUR 0.8 billion (31 December 2013: RUR 1.3 billion) as expenses related to the above equity-settled share-based payment transactions.

For 2014 quantity of units were determined as fixed monetary value communicated to employees on the grant date divided by a simple average of the daily weighted-average market price of shares/GDRs for the actual number of relevant exchange working days in January 2014.

For 2013 quantity of units were determined as fixed monetary value communicated to employees on the grant date divided by a simple average of the daily weighted-average market price of shares/GDRs for the actual number of relevant exchange working days in January 2013.

As at 31 December 2014 under the GDRs Plan 7.5 million GDRs were vested (31 December 2013: 3.2 million). As at 31 December 2014 the quantity of vested unexercised options comprised 1.0 million (31 December 2013: 0.2 million).

(in billions of Russian roubles)

44. Basic and Diluted Earnings per Share

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

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

	2014	***2013***
Weighted average number of ordinary shares in issue	12,882,983, 222,509	11,911,112,707,137
Net profit attributable to shareholders of the parent	4.1	101.5
Amounts due and paid on perpetual loan participation notes, net of tax	(7.0)	(5.6)
Total net profit attributable to shareholders of the parent	**(2.9)**	**95.9**
Basic and diluted earnings per share (expressed in Russian roubles per share)	**(0.00023)**	**0.00805**
(Loss) / (profit) after tax from subsidiaries acquired exclusively with a view to resale	(0.5)	5.4
Basic and diluted earnings per share based on profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian roubles per share)	**(0.00004)**	**0.00045**
Total net (loss) / (profit) attributable to shareholders of the parent net of profit after tax from subsidiaries acquired exclusively with a view to resale	(2.4)	90.5
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian Roubles per share)	**(0.00019)**	**0.00760**

45. Dividends and Amounts Due and Paid under Perpetual Loan Participation Notes

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

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

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

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

In June 2014 VTB accrued amounts due under Perpetual Loan Participation Notes in the amount of USD 213.8 (RUR 7.5 billion) for the coupon periods ending June and December 2014. VTB paid the amounts in June and December 2014 respectively.

(in billions of Russian roubles)

45. Dividends and Amounts Paid and Due under Perpetual Loan Participation Notes (continued)

In June 2013 and December 2013, VTB paid USD 106.9 million (RUR 3.4 billion) and USD 106.9 million (RUR 3.6 billion) respectively due under Perpetual Loan Participation Notes. There were no other amounts due under Perpetual Loan Participation Notes as at 31 December 2013.

In May 2014, the Annual General Meeting of VTB Africa S.A. shareholders approved dividends of RUR 0.1 billion (AOA 0.3 billion) for 2013 (RUR 26.9 or AOA 78.1 per share) including dividends payable to non-controlling shareholders in amount RUR 0.1 billion.

In May 2014, the Annual General Meeting of VTB Capital AD shareholders approved dividends of RUR 0.3 billion (BGN 44,180 per B-class share without voting right) including dividends payable to non-controlling shareholders in amount RUR 0.3 billion that were fully paid in June 2014.

In June 2014, the Annual General Meeting of “Bank of Moscow”, OJSC shareholders approved dividends of RUR 25.8 billion (RUR 95.68 per share) including dividends payable to non-controlling shareholders in amount RUR 0.9 billion that were fully paid in June-August 2014.

In March 2013, the Annual General Shareholders' Meeting of “TransCreditBank”, JSC shareholders approved dividends of RUR 41.2 billion for 2012 (RUR 15.7 per share) including dividends payable to non-controlling shareholders in the amount of RUR 0.1 billion that were fully paid in March-May 2013.

In May 2013, the Annual General Shareholders' Meeting of “Banco VTB Africa S.A.” shareholders approved dividends of RUR 0.4 billion (AOA 1.12 billion) for 2012 (RUR 108.8 or AOA 320.4 per share) including dividends payable to non-controlling shareholders in the amount of RUR 0.2 billion that were fully paid in June 2013.

In June 2013, the Annual General Shareholders' Meeting of “Bank of Moscow”, OJSC shareholders approved dividends of RUR 6.9 billion for 2012 (RUR 25.21 per share) including dividends payable to non-controlling shareholders in the amount of RUR 0.3 billion that were fully paid in June-August 2013..

46. Transfers of Financial Assets and Assets Held or Pledged as Collateral

The Group transferred financial assets in transactions that did not qualify for derecognition. The following note provides a summary of financial assets which have been transferred in such a way that part or all of the transferred financial assets do not qualify for derecognition.

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety

The table below shows the amount of operations under sale and repurchases agreements which the Group entered into in the normal course of business as at 31 December 2014 and 31 December 2013. (Notes 11, 12, 13)

	31 December 2014			*31 December 2013 (restated)*		
	Carrying amount of the assets	***Carrying amount of the associated liabilities***	***Net position***	***Carrying amount of the assets***	***Carrying amount of the associated liabilities***	***Net position***
Financial assets at fair value through profit or loss	100.4	103.5	(3.1)	137.3	169.7	(32.4)
Investment financial assets available-for-sale	80.3	118.0	(37.7)	35.8	34.2	1.6
Investment financial assets held to maturity	3.3	3.6	(0.3)	0.1	0.1	–
Loans and advances to customers, pledged under repurchase agreements	463.1	454.5	8.6	290.6	283.0	7.6
Due from other banks, pledged under repurchase agreements	74.2	60.5	13.7	2.8	0.5	2.3
Total	**721.3**	**740.1**	**(18.8)**	**466.6**	**487.5**	**(20.9)**

(in billions of Russian roubles)

46. Transfer of Financial Assets and assets held or pledged as collateral (continued)

(a) Transfers that did not qualify for derecognition of the financial asset in its entirety (continued)

The table below shows the amount of securitization operations as at 31 December 2014 and 2013 which the Group enters into in the normal course of business.

		31 December 2014			*31 December 2013*		
	Note	*Carrying amount of the assets*	*Carrying amount of the associated liabilities*	*Net position*	*Carrying amount of the assets*	*Carrying amount of the associated liabilities*	*Net position*
Correspondent accounts [(A)]	12	1.4	1.4	0.0	3.2	3.2	–
Mortgage loans [(A)]	13	38.1	32.9	5.2	38.9	36.3	2.6
Car loans [(B)]	13	10.4	11.2	(0.8)	17.3	12.3	5.0
Total		**49.9**	**45.5**	**4.4**	**59.4**	**51.8**	**7.6**

(A) Starting from 2010 “Bank VTB 24”, PJSC participates in VEB Program to support affordable housing projects using the mortgage. Under this Program “Bank VTB 24”, PJSC issues mortgage-backed securities which are all bought by VEB. As at 31 December 2014 carrying amount of pledged assets under this Program was RUR 39.5 billion, including RUR 38.1 billion of mortgage loans and RUR 1.4 billion on correspondent account with Central Bank of Russian Federation, amortized cost of issued mortgage-backed securities to RUR 34.3 billion.

(B) In January 2014, “Bank VTB 24”, PJSC arranged a structured transaction related to its car loan portfolio in the amount of RUR 6.7 billion through a sale to a special purpose entity, which further attracted funds through secured loan deal in the amount of USD 200 million with the expected maturity in June 2018. The USD loan bears the floating interest rate of monthly LIBOR plus 1.5% p.a. payable monthly.

As at 31 December 2014 the carrying amount of the loan of RUR 11.2 billion was included in other borrowings. This loan was securitized with a pledge of loans to customers with the carrying amount of RUR 10.4 billion.

(b) Transfers that qualified for derecognition of the financial asset in its entirety

The Group has certain transferred financial assets which have been derecognized in their entirety, but for which there is continuing involvement at the reporting date due to the representation on the board of directors and/or due to effectively holding collateral under transferred assets to secure remaining payments from third parties related to the transfer. The collateral fair value under transferred assets comprised RUR 3.1 billion as at 31 December 2014 (31 December 2013: RUR 18.1 billion; 31 December 2012: RUR 81.9 billion). Proceeds from the transfer were received in several instalments with RUR 0.01 billion; RUR 1.5 billion and RUR 80.6 billion received in 2014, 2013 and 2012 respectively and the amount of RUR 0.04 billion to be received in future periods. The gain recognized at the date of transfer comprised RUR 0.5 billion.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements for RUR 721.3 billion (2013: RUR 466.6 billion). Refer to the section “(a) Transfers that did not qualify for derecognition of the financial asset in its entirety” above.

Assets held as collateral

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with a fair value of RUR 329.0 billion (2013: RUR 324.0 billion). Of these, securities with a fair value of RUR 25.8 billion (2013: RUR 26.9 billion) were transferred to satisfy commitments under short sale transactions and securities with a fair value of RUR 61.1 billion (2013: RUR 84.9 billion) were sold under agreements to repurchase under the usual terms and conditions applying to such agreements.

In addition, the Group held RUR 23.5 billion of Customer deposits (2013: RUR 10.5 billion) as collateral for irrevocable commitments under import letters of credit (Note 22). The Group is obliged to return the collateral at maturity of the import letters of credit.

(in billions of Russian roubles)

47. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As at the reporting date the Group had several unresolved legal claims. Management assessed probable outflow of resources and is of the opinion that there would be no material outflow of resources and accordingly no material provision has been made as at 31 December 2014 (31 December 2013: RUR 2.8 billion).

The movements in provisions for legal claims recorded in liabilities were as follows:

	Legal claims
31 December 2012	**1.9**
Provision during the period	0.9
31 December 2013	**2.8**
Provision / (reversal of provision) during the period	(1.8)
Write-offs	(0.3)
Effect of translation	(0.7)
31 December 2014	**–**

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

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

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

The Group also operates in various jurisdictions and includes companies incorporated outside of Russia that are taxed at different rates and under different legislation. Tax liabilities of the Group are determined on the basis that non-Russian companies of the Group do not have a permanent establishment in Russia and hence are not subject to Russian profits tax except for Russian tax withheld at source (i.e. dividend, interest, certain capital gains, etc.).

Federal law No. 376-FZ, dated 24 November 2014 (widely known as "deoffshorization law" or "controlled foreign companies" law) introduced the concepts of "tax residency" for foreign legal entities, "beneficial ownership" and "controlled foreign companies" in the Russian tax legislation starting from 2015. The adoption of this law generally leads to an increase in the administrative (including tax) burden for the Russian entities that have subsidiary structures incorporated outside Russia. No assurance can currently be given as to how the new rules introduced by Law No. 376-FZ will apply, their potential interpretation by the Russian tax authorities and the possible impact on the taxpayers. 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 and courts to their interpretation and application, the non-taxable status of some or all of the foreign companies of the Group in Russia may be challenged, in which case the foreign companies may be taxed according to the rules similar to the rules applicable to the Russian entities. In the meantime, Law No. 376-FZ does not effect the Group's tax position in 2014, since any additional tax liabilities arising due to the adoption of Law No. 376-FZ (if any) will be reflected in the future reporting periods. As at 31 December 2014, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

(in billions of Russian roubles)

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

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

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

The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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

Outstanding credit related commitments are as follows:

	31 December 2014	*31 December 2013*
Guarantees issued	1,387.5	975.2
Letters of credit	60.2	46.0
Undrawn credit lines	22.5	28.0
Commitments to extend credit	4.2	2.6
Less: provision for credit related commitments	(21.3)	(0.8)
Total credit related commitments	**1,453.1**	**1,051.0**

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2014 is RUR 299.4 billion (31 December 2013: RUR 109.0 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 23.5 billion (31 December 2013: RUR 10.5 billion) (Note 22).

As at 31 December 2014, included in guarantees issued are guarantees issued for a related Russian entity of RUR 98.1 billion or 7.1% of the guarantees issued. (31 December 2013: RUR 91.5 billion or 9.4% of the guarantees issued).

The movements in provisions for credit related commitments were as follows:

	Credit related commitments
31 December 2012	**0.9**
Provision during the period	**(0.1)**
31 December 2013	**0.8**
Provision during the period	19.5
Write-offs	(0.4)
Business combination	1.2
Effect of translation	0.2
31 December 2014	**21.3**

Provisions for credit-related commitments are recorded in liabilities.

(in billions of Russian roubles)

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

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

	31 December 2014	***31 December 2013***
Remaining contractual maturity:		
Within 1 year	8.3	8.9
From 1 to 5 years	19.1	18.3
More than 5 years	35.8	47.5
Total operating lease commitments	**63.2**	**74.7**

Purchase commitments. As at 31 December 2014 the Group had RUR 71.0 billion of outstanding commitments for the purchase of precious metals (31 December 2013: RUR 27.8 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognized on these contracts.

Commitments under construction contracts. The Group has entered into agreements with third parties for construction of investment property objects or properties intended for sale which will require capital outlays subsequent to 31 December 2014.

As at 31 December 2014 the Group has future minimum capital expenditures related to investment property under construction in progress or development in the amount of RUR 29.9 billion (31 December 2012: RUR 18.7 billion) of which RUR 11.8 billion to be expended in less than 1 year (31 December 2013: RUR 10.2 billion) and RUR 19.1 billion to be expended later than 1 year and not later than 5 years (31 December 2013: RUR 8.5 billion).

As at 31 December 2014 the Group has future minimum capital expenditures related to property intended for sale in the ordinary course of business under construction in progress or development in the amount of RUR 67.3 billion (31 December 2013: RUR 42.2 billion) of which RUR 35.1 billion to be expended in less than 1 year (31 December 2013: RUR 16.4 billion) and RUR 32.2 billion to be expended later than 1 year and not later than 5 years (31 December 2013: RUR 25.8 billion).

(in billions of Russian roubles)

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

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

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

	31 December 2014		*31 December 2013*	
	Positive fair value	*Negative fair value*	*Positive fair value*	*Negative fair value*
Derivative financial assets and liabilities at fair value through profit or loss held for trading				
Foreign exchange and precious metals contracts				
Forwards	37.6	(14.9)	4.6	(4.3)
Futures	3.3	(3.8)	0.1	(0.7)
Swaps	35.8	(67.1)	13.4	(10.2)
Options	46.7	(50.0)	3.1	(4.9)
Contracts with securities				
Forward sale of equity securities	13.2	–	–	–
Forward sale of debt securities	0.1	(1.7)	–	–
Swap with securities	–	–	0.2	(0.2)
Options	6.6	(5.6)	4.2	(8.1)
Interest Rate contracts				
Single Currency Interest Rate swaps	28.6	(26.3)	10.1	(10.0)
Cross Currency Interest Rate swaps	197.7	(198.0)	34.1	(23.4)
Swaptions	–	(0.1)	–	–
Cap/Floor	0.4	(1.7)	0.6	(0.9)
Forward rate agreement	0.1	–	–	–
Contracts with other basic variables				
Sale of Credit Default swaps	4.0	(14.0)	3.2	(1.4)
Purchase of Credit Default swaps	1.6	(1.2)	0.6	(1.9)
Futures on Indexes	0.2	(0.4)	0.1	–
Options on Indexes	7.5	(5.2)	1.7	(1.2)
Commodity swaps	–	(0.4)	0.4	(0.2)
Commodity futures	2.6	(2.4)	0.5	(0.5)
Commodity options	7.0	(1.4)	0.1	(0.2)
Forward sale of commodities	0.3	–	–	–
Embedded derivatives on structured instruments				
Embedded derivatives on foreign exchange instruments	12.4	(1.9)	1.9	–
Embedded derivatives on credit risk	0.8	–	0.3	–
Embedded derivatives on interest rate instruments	0.2	–	1.0	–
Embedded derivatives on indexes	–	(0.5)	–	(0.9)
Embedded derivatives on securities instruments	–	(0.3)	–	(0.1)
Total derivative financial assets and liabilities at fair value through profit or loss held for trading	**406.7**	**(396.9)**	**80.2**	**(69.1)**
Derivative financial assets and liabilities designated as hedging instruments				
Derivatives held as fair value hedges				
Interest Rate swaps	–	–	0.1	(2.4)
Derivatives held as cash flow hedges				
Interest Rate swaps	–	(0.9)	0.2	(0.1)
Foreign exchange swaps	0.3	–	0.8	–
Forward sale of equity securities	–	–	7.8	–
Total derivative financial assets and liabilities designated as hedging instruments	**0.3**	**(0.9)**	**8.9**	**(2.5)**
Total derivatives	**407.0**	**(397.8)**	**89.1**	**(71.6)**

(in billions of Russian roubles)

48. Offsetting of Financial Instruments

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2014:

Assets _(gross before allowance for impairment)_	**_Gross amount of recognized financial assets_**	**_Gross amount of recognized financial liabilities set off in the statement of financial position_**	**_Net amount of financial assets presented in the statement of financial position_**	**_Related amounts not set off in the statement of financial position_**		**_Net amount_**
				Financial instruments	**_Cash collateral received_**	
Due from banks other than Central banks and other than pledged under repurchase agreements	746.8	(13.5)	733.3	(26.0)	–	707.3
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	721.3	–	721.3	(669.2)	–	52.1
Reverse sale and repurchase agreements with other banks	_284.5_	–	_284.5_	_(177.4)_	–	_107.1_
Reverse sale and repurchase agreements with legal entities and individuals	_2.8_	–	_2.8_	_(2.6)_	–	_0.2_
Derivative financial assets	407.0	–	407.0	(122.7)	–	284.3
Total	**2,162.4**	**(13.5)**	**2,148.9**	**(997.9)**	–	**1,151.0**

Liabilities	**_Gross amount of recognized financial liabilities_**	**_Gross amount of recognized financial assets set off in the statement of financial position_**	**_Net amount of financial liabilities presented in the statement of financial position_**	**_Related amounts not set off in the statement of financial position_**		**_Net amount_**
				Financial instruments	**_Cash collateral pledged_**	
Funds from local central banks under sale and repurchase agreements (other borrowed funds)	771.9	–	771.9	(364.2)	–	407.7
Derivative financial liabilities	397.8	–	397.8	(122.7)	–	275.1
Sale and repurchase agreements with other banks (due to other banks)	93.4	(13.5)	79.9	(53.1)	–	26.8
Sale and repurchase agreements with customers (customer deposits)	0.4	–	0.4	(0.4)	–	–
Total	**1,263.5**	**(13.5)**	**1,250.0**	**(540.4)**	–	**709.6**

(in billions of Russian roubles)

48. Offsetting of Financial Instruments (continued)

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2013:

Assets *(gross before allowance for impairment) (restated)*	***Gross amount of recognized financial assets***	***Gross amount of recognized financial liabilities set off in the statement of financial position***	***Net amount of financial assets presented in the statement of financial position***	***Related amounts not set off in the statement of financial position***		***Net amount***
				Financial instruments	***Cash collateral received***	
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	173.2	–	173.2	(172.8)	–	0.4
Reverse sale and repurchase agreements with other banks	*42.2*	–	*42.2*	*(42.2)*	–	–
Reverse sale and repurchase agreements with legal entities and individuals	*212.3*		*212.3*	*(212.3)*	–	–
Due from banks other than Central banks and other than pledged under repurchase agreements	425.8	(6.8)	419.0	–	–	419.0
Due from other banks, pledged under repurchase agreements	2.8	–	2.8	(2.8)	–	–
Loans and advances to customers, pledged under repurchase agreements	290.6	–	290.6	(290.6)	–	–
Derivative financial assets including fair value hedge	89.1	–	89.1	(1.1)	–	88.0
Total	**1,236.0**	**(6.8)**	**1,229.2**	**(721.8)**	–	**507.4**

(in billions of Russian roubles)

48. Offsetting of Financial Instruments (continued)

Liabilities	*Gross amount of recognized financial liabilities*	*Gross amount of recognized financial assets set off in the statement of financial position*	*Net amount of financial liabilities presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral pledged*	
Funds from local central banks under sale and repurchase agreements (other borrowed funds)	399.5	–	399.5	(399.5)	–	–
Sale and repurchase agreements with other banks (due to other banks)	113.2	(6.8)	106.4	(64.6)	–	41.8
Sale and repurchase agreements with customers (customer deposits)	12.0	–	12.0	(2.3)	–	9.7
Derivative financial liabilities including fair value hedge	71.6	–	71.6	(1.1)	–	70.5
Total	**596.3**	**(6.8)**	**589.5**	**(467.5)**	**–**	**122.0**

The Group has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position.

49. Analysis by Segment

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

(a) Description of products and services from which each reportable segment derives its revenue

In accordance with IFRS 8, *Operating Segments*, the Group defined as the major operating segments the global business lines. On this basis, the Group aggregated these operating segments in accordance with IFRS 8 into the following reportable segments:

Corporate-Investment banking (CIB):		
	Investment banking	representing all operations on the securities market, excluding operations with securities included in Treasury securities portfolio for liquidity purpose; currency exchange operations with corporate customers and financial institutions (excluding Treasury operations); operations with derivative financial instruments of any kind, excluding operations for liquidity, currency and interest rate risk regulation; operations with precious metals, operations on commodity markets; brokerage services and financial consulting for corporate customers and financial institutions; syndication and securitization, placements on the primary and secondary markets of equity and debt instruments; structured products; trading credit products, merger and acquisitions advice.
	Loans and Deposits	representing operations with corporate customers with regard to lending in any form (including overdrafts on current accounts of customers) and borrowing in the form of term deposits/loans from customers (including agreements on holding a minimum balance on settlement/current accounts).
	Transaction banking	representing operations with corporate customers: raising customer funds on current and settlement accounts and raising the funds of legal entities on corporate cards; documentary operations: letters of credit and guarantees including raising customer funds to cover the conducted trade finance operations (without credit risk taking on these operations); depositary operations with corporate customers; fee services and products of all kinds not related to operations on financial markets and currency valuables, credit and deposit products: settlement and cash services, collection, storage box, providing distance banking services, electronic banking services, payment processing centre service, etc.
Mid-Corporate banking (MCB):		
	Investment banking	representing all operations on the securities market, excluding operations with securities included in Treasury securities portfolio for liquidity purpose; currency exchange operations with corporate customers and financial institutions (excluding Treasury operations); operations with derivative financial instruments of any kind, excluding operations for liquidity, currency and interest rate risk regulation; operations with precious metals, operations on commodity markets; brokerage services and financial consulting for corporate customers and financial institutions; syndication and securitization, placements on the primary and secondary markets of equity and debt instruments; structured products; trading credit products, merger and acquisitions advice.
	Loans and Deposits	representing operations with corporate customers with regard to lending in any form (including overdrafts on current accounts of customers) and borrowing in the form of term deposits/loans from customers (including agreements on holding a minimum balance on settlement/current accounts).
	Transaction banking	representing operations with corporate customers: raising customer funds on current and settlement accounts and raising the funds of legal entities on corporate cards; documentary operations: letters of credit and guarantees including raising customer funds to cover the conducted trade finance operations (without credit risk taking on these operations); depositary operations with corporate customers; fee services and products of all kinds not related to operations on financial markets and currency valuables, credit and deposit products: settlement and cash services, collection, storage box, providing distance banking services, electronic banking services, payment processing centre service, etc.
Retail business (RB):		
	Retail banking	representing operations with individuals, corporate customers defined as "small business" customers, and also POS-acquiring operations with major retail chains. It also includes Private Banking operations, operations of individuals with plastic cards and processing, payroll programs (including funds of corporate customers received as part of payroll programs), financial consulting of individuals; repurchase transactions and investment operations with individuals and small business customers, fiduciary and other operations with individual and small business customers.
	Insurance	representing all types of insurance services.
Treasury:		representing operations aimed to manage liquidity, payment and currency positions, and the interest rate risk and cash flow (including via internal funding procedure), reallocates resources both within the Head office or subsidiary and between VTB Group members.
Corporate Centre:		representing unallocated staff and administrative expenses related to VTB Group management; expenses on strategic programs, connected with VTB Group brand development and positioning at local and international markets.
Other business (OB):		
	Construction and development	representing non-banking business of the Group's entities operating in construction and development industry (construction and development, investment property, property intended for sale in the ordinary course of business etc.)
	Other	representing non-banking business other than insurance and construction and development and/or assets acquired from defaulted borrowers and managed by an internal department of VTB Group member or an outside contractor

49. Analysis by Segment (continued)

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business lines that focus on different customers. They are managed separately because each business line requires different marketing strategies and service level.

Majority of the Group's entities' activities and resources are allocated and managed and their performance is assessed based on the respective global business line segment information. These operating segments represented by the global business lines are accompanied by entity based segments of those Group's entities that have not yet been integrated into the global business lines as of the reporting date.

(c) Measurement of operating segment profit or loss, assets and liabilities

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

Revenues disclosed in the note include the following: interest income, fee and commission income, Government grant from Deposit Insurance Agency, other operating income, revenue from non-banking activities, net insurance premium earned, gains less losses from financial assets available-for-sale, gains less losses arising from financial assets at fair value through profit or loss, gains less losses from dealing in foreign currencies together with foreign exchange translation gains less losses, gains less losses arising from extinguishment of liability, recovery of losses on initial recognition of financial instruments and loans restructuring and other gains/(losses) on loans and advances to customers and share in income of associates. Each element is included in calculation of revenues in case it is positive. The totals are calculated as sum of the line components.

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

(d) Changes in reportable segments

The change in reportable segment composition is mainly caused by the change in the system of the Group management and the integration of activities of certain entities into the global business lines.

During 2014 the Group introduced a new reportable segments – "Mid-Corporate banking (MCB)". MCB was previously combined in CIB and was introduced as a new reportable segment following introduction of a new global business line of Mid-Corporate banking and subsequent client segmentation on the base of the clients' revenue and global business line geographical scope. Also the Group divided the "Other business (OB)" segment into subsegments, and "Construction and development" was introduced as a new reportable subsegment due to the growth of the business of the Group's entities operating in construction and development industry.

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

(in billions of Russian roubles)

49. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2014 and results for the year ended 31 December 2014 is set out below:

	Corporate-Investment banking (CIB)					Mid-Corporate banking (MCB)					Retail business (RB)						Other business (OB)						
For the year ended 31 December 2014	*Invest-ment banking*	*Loans and deposits*	*Transac-tion banking*	*Inter-CIB elimina-tions*	*Total CIB*	*Invest-ment banking*	*Loans and deposits*	*Transac-tion banking*	*Inter-MCB elimina-tions*	*Total MCB*	*Retail banking*	*Insurance*	*Inter-RB elimina-tions*	*Total RB*	*Treasury*	*Corporate centre*	*Construc-tion and develop-ment*	*Other*	*Inter-OB elimina-tions*	*Total OB*	*Total before inter-segment elimina-tions*	*Inter-segment elimina-tions*	*Total*
Revenues from:																							
External customers	121.1	314.9	9.0	-	445.0	1.6	92.5	14.4	-	108.5	366.3	47.4	-	413.7	147.3	-	23.8	26.1	-	49.9	1,164.4	-	1,164.4
Other segments	79.6	33.3	13.4	(0.9)	125.4	-	20.7	11.1	-	31.8	52.8	3.2	(1.6)	54.4	430.0	-	1.4	6.7	(0.3)	7.8	649.4	(649.4)	-
Total revenues	**200.7**	**348.2**	**22.4**	**(0.9)**	**570.4**	**1.6**	**113.2**	**25.5**	**-**	**140.3**	**419.1**	**50.6**	**(1.6)**	**468.1**	**577.3**	**-**	**25.2**	**32.8**	**(0.3)**	**57.7**	**1,813.8**	**(649.4)**	**1,164.4**
Segment income and expense																							
Interest income	179.2	336.1	13.0	(0.2)	528.1	0.3	112.3	11.0	-	123.6	354.4	2.5	(0.9)	356.0	472.5	-	1.5	1.9	(0.3)	3.1	1,483.3	(639.2)	844.1
Interest expense	(139.6)	(270.4)	(2.2)	0.3	(411.9)	(0.3)	(92.7)	(1.3)	-	(94.3)	(164.5)	(0.3)	0.5	(164.3)	(438.5)	-	(11.9)	(7.6)	0.3	(19.2)	(1,128.2)	638.4	(489.8)
Treasury result allocation	0.2	(7.3)	-	-	(7.1)	-	70.9	21.4	-	92.3	3.0	-	-	3.0	(113.7)	19.2	-	6.3	-	6.3	-	-	-
Net interest income	**39.8**	**58.4**	**10.8**	**0.1**	**109.1**	**-**	**90.5**	**31.1**	**-**	**121.6**	**192.9**	**2.2**	**(0.4)**	**194.7**	**(79.7)**	**19.2**	**(10.4)**	**0.6**	**-**	**(9.8)**	**355.1**	**(0.8)**	**354.3**
(Provision charge) / reversal of provision for impairment of debt financial assets	(2.7)	(112.0)	-	-	(114.7)	-	(50.3)	-	-	(50.3)	(90.1)	-	(0.6)	(90.7)	0.4	-	(0.1)	-	-	(0.1)	(255.4)	-	(255.4)
Net interest income after provision for impairment	**37.1**	**(53.6)**	**10.8**	**0.1**	**(5.6)**	**-**	**40.2**	**31.1**	**-**	**71.3**	**102.8**	**2.2**	**(1.0)**	**104.0**	**(79.3)**	**19.2**	**(10.5)**	**0.6**	**-**	**(9.9)**	**99.7**	**(0.8)**	**98.9**
Net fee and commission income/(expense)	4.0	0.5	8.8	(0.2)	13.1	-	0.3	11.8	-	12.1	35.7	(0.1)	(0.1)	35.5	1.2	-	(0.1)	1.1	-	1.0	62.9	0.2	63.1
Other gains less losses arising from financial instruments and foreign currencies	7.0	(0.2)	-	-	6.8	1.4	(0.3)	-	-	1.1	10.6	(0.8)	-	9.8	(19.3)	-	(5.2)	7.3	-	2.1	0.5	(2.4)	(1.9)
Government grant from Deposit Insurance Agency	-	-	-	-	-	-	-	-	-	-	-	-	-	-	99.2	-	-	-	-	-	99.2	-	99.2
Share in income of associates and joint ventures	0.2	0.5	-	-	0.7	-	0.1	-	-	0.1	-	-	-	-	0.1	(0.6)	-	-	-	-	0.3	-	0.3
Profit from disposal of subsidiaries and associates	7.8	1.4	-	-	9.2	-	0.5	-	-	0.5	-	(2.2)	-	(2.2)	4.5	-	2.5	0.6	-	3.1	15.1	-	15.1
Provision charge for impairment of other assets, contingencies and credit related commitments	(0.4)	1.6	(6.3)	-	(5.1)	-	(0.1)	(13.3)	-	(13.4)	(1.3)	(0.1)	-	(1.4)	-	-	(0.1)	-	-	(0.1)	(20.0)	-	(20.0)
Other operating income/(expense) items	1.1	9.2	0.1	-	10.4	-	(0.2)	-	-	(0.2)	4.8	15.6	1.3	21.7	(0.1)	-	(2.0)	(5.4)	-	(7.4)	24.4	(7.0)	17.4
Net operating income	**56.8**	**(40.6)**	**13.4**	**(0.1)**	**29.5**	**1.4**	**40.5**	**29.6**	**-**	**71.5**	**152.6**	**14.6**	**0.2**	**167.4**	**6.3**	**18.6**	**(15.4)**	**4.2**	**-**	**(11.2)**	**282.1**	**(10.0)**	**272.1**
Staff costs and administrative expenses	(23.9)	(22.0)	(7.6)	0.1	(53.4)	(0.1)	(16.2)	(12.4)	-	(28.7)	(111.6)	(7.2)	0.3	(118.5)	(6.3)	(33.4)	(0.2)	(5.7)	-	(5.9)	(246.2)	6.9	(239.3)
Segment results: profit before taxation	**32.9**	**(62.6)**	**5.8**	**-**	**(23.9)**	**1.3**	**24.3**	**17.2**	**-**	**42.8**	**41.0**	**7.4**	**0.5**	**48.9**	**-**	**(14.8)**	**(15.6)**	**(1.5)**	**-**	**(17.1)**	**35.9**	**(3.1)**	**32.8**
Income tax expense	(6.0)	(2.7)	(1.5)	-	(10.2)	(0.2)	(7.2)	(3.5)	-	(10.9)	(9.3)	(2.0)	-	(11.3)	-	(0.2)	0.9	(0.3)	-	0.6	(32.0)	0.5	(31.5)
Net profit after tax	**26.9**	**(65.3)**	**4.3**	**-**	**(34.1)**	**1.1**	**17.1**	**13.7**	**-**	**31.9**	**31.7**	**5.4**	**0.5**	**37.6**	**-**	**(15.0)**	**(14.7)**	**(1.8)**	**-**	**(16.5)**	**3.9**	**(2.6)**	**1.3**
Profit after tax from subsidiaries acquired exclusively with a view to resale	-	(0.1)	-	-	(0.1)	-	-	-	-	-	-	-	-	-	-	-	-	(0.9)	-	(0.9)	(1.0)	0.5	(0.5)
Net profit	**26.9**	**(65.4)**	**4.3**	**-**	**(34.2)**	**1.1**	**17.1**	**13.7**	**-**	**31.9**	**31.7**	**5.4**	**0.5**	**37.6**	**-**	**(15.0)**	**(14.7)**	**(2.7)**	**-**	**(17.4)**	**2.9**	**(2.1)**	**0.8**
Capital expenditure	1.6	46.8	1.8	-	50.2	-	2.3	2.3	-	4.6	14.5	0.5	-	15.0	0.8	-	7.2	3.1	-	10.3	80.9	(5.7)	75.2
Depreciation/ amortization charge	0.7	3.6	0.5	-	4.8	-	3.2	1.9	-	5.1	9.2	0.3	-	9.5	0.3	0.3	0.3	5.0	-	5.3	25.3	-	25.3

(in billions of Russian roubles)

49. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)					*Mid-Corporate banking (MCB)*					*Retail business (RB)*						*Other business (OB)*						
31 December 2014	***Investment banking***	***Loans and deposits***	***Transaction banking***	***Inter-CIB eliminations***	***Total CIB***	***Investment banking***	***Loans and deposits***	***Transaction banking***	***Inter-MCB eliminations***	***Total MCB***	***Retail banking***	***Insurance***	***Inter-RB eliminations***	***Total RB***	***Treasury***	***Corporate centre***	***Construction and development***	***Other***	***Inter-OB eliminations***	***Total OB***	***Total before Inter-segment eliminations***	***Inter-segment eliminations***	***Total***
Cash and short-term funds	*83.6*	*0.6*	-	-	84.2	-	-	*1.6*	-	1.6	*247.4*	*0.3*	-	247.7	360.3	-	*0.9*	*0.5*	-	1.4	695.2	-	695.2
Mandatory cash balances with central banks	-	-	-	-	-	-	-	-	-	-	*19.9*	-	-	19.9	65.6	-	-	-	-	-	85.5	-	85.5
Due from other banks, including pledged under repurchase agreements	*222.2*	*137.2*	-	-	359.4	-	-	-	-	-	*79.9*	*3.0*	-	82.9	361.3	-	-	*10.9*	-	10.9	814.5	-	814.5
Loans and advances to customers, including pledged under repurchase agreements	*1,330.4*	*3,856.2*	-	-	5,186.6	*0.4*	*936.2*	-	-	936.6	*2,027.9*	-	-	2,027.9	384.8	-	*0.6*	*0.8*	-	1.4	8,537.3	-	8,537.3
Other financial instruments	*685.2*	*1.2*	-	-	686.4	*3.0*	*4.1*	-	-	7.1	*38.1*	*7.0*	-	45.1	182.2	-	*8.2*	*68.9*	-	77.1	997.9	-	997.9
Investments in associates and joint ventures	*68.5*	*5.8*	-	-	74.3	-	*0.3*	-	-	0.3	-	-	-	-	7.0	14.2	-	*0.5*	-	0.5	96.3	-	96.3
Other assets items	*115.8*	*162.4*	*24.0*	-	302.2	-	*124.3*	*32.9*	-	157.2	*118.6*	*19.5*	-	138.1	10.7	-	*260.5*	*95.4*	-	355.9	964.1	-	964.1
Net amount of intersegment settlements	-	-	*492.5*	*(492.5)*	-	-	-	*273.8*	*(273.8)*	-	*737.2*	*20.9*	-	758.1	2,822.8	-	-	-	-	-	3,580.9	(3,580.9)	-
Segment assets	***2,505.7***	***4,163.4***	***516.5***	***(492.5)***	**6,693.1**	***3.4***	***1, 064.9***	***308.3***	***(273.8)***	**1,102.8**	***3,269.0***	***50.7***	**-**	**3,319.7**	**4,194.7**	**14.2**	***270.2***	***177.0***	**-**	**447.2**	**15,771.7**	**(3,580.9)**	**12,190.8**
Due to other banks	*64.3*	*183.6*	*38.6*	-	286.5	-	*1.1*	-	-	1.1	*64.4*	-	-	64.4	380.9	-	-	*0.3*	-	0.3	733.2	-	733.2
Customer deposits	*1,595.9*	*134.1*	*422.3*	-	2,152.3	*0.4*	*331.6*	*245.3*	-	577.3	*2,604.3*	-	-	2,604.3	330.3	-	-	*5.2*	-	5.2	5,669.4	-	5,669.4
Other borrowed funds	*4.7*	*112.3*	-	-	117.0	-	-	-	-	-	*242.6*	*2.9*	-	245.5	2,359.7	-	*2.4*	*4.6*	-	7.0	2,729.2	-	2,729.2
Debt securities issued	*41.1*	*45.3*	-	-	86.4	-	*33.1*	-	-	33.1	*48.0*	-	-	48.0	752.0	-	-	*1.9*	-	1.9	921.4	-	921.4
Subordinated debt	-	-	-	-	-	-	-	-	-	-	*2.1*	-	-	2.1	263.1	-	-	-	-	-	265.2	-	265.2
Other liabilities items	*457.5*	*13.8*	*9.4*	-	480.7	*0.4*	*2.2*	*16.2*	-	18.8	*29.0*	*36.4*	-	65.4	39.6	-	*51.7*	*85.2*	-	136.9	741.4	-	741.4
Net amount of intersegment settlements	*165.6*	*3,373.4*	-	*(492.5)*	3,046.5	*2.2*	*498.8*	-	*(273.8)*	227.2	-	-	-	-	-	-	*223.7*	*83.5*	-	307.2	3,580.9	(3,580.9)	-
Segment liabilities	***2,329.1***	***3,862.5***	***470.3***	***(492.5)***	**6,169.4**	***3.0***	***866.8***	***261.5***	***(273.8)***	**857.5**	***2,990.4***	***39.3***	**-**	**3,029.7**	**4,125.6**	**-**	***277.8***	***180.7***	**-**	**458.5**	**14,640.7**	**(3,580.9)**	**11,059.8**

(in billions of Russian roubles)

49. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2013 and results for the year ended 31 December 2013 is set out below:

	Corporate-Investment banking (CIB)					Retail business (RB)									
For the year ended 31 December 2013	*Investment banking*	*Loans and deposits*	*Transaction banking*	*Inter-CIB elimi-nations*	*Total CIB*	*Retail banking*	*Insurance*	*Inter-RB elimi-nations*	*Total RB*	*Treasury*	*Corporate centre*	*Other*	*Total before Inter-segment elimi-nations*	*Inter-segment elimi-nations*	*Total*
Revenues from:															
External customers	*96.7*	*346.8*	*21.0*	*–*	464.5	*283.3*	*30.0*	*–*	313.3	65.7	–	38.9	**882.4**	–	**882.4**
Other segments	*62.3*	*44.2*	*22.9*	*(2.0)*	127.4	*53.1*	*2.6*	*(1.4)*	54.3	345.4	–	5.3	**532.4**	(532.4)	**–**
Total revenues	***159.0***	***391.0***	***43.9***	***(2.0)***	**591.9**	***336.4***	***32.6***	***(1.4)***	**367.6**	**411.1**	**–**	**44.2**	**1,414.8**	**(532.4)**	**882.4**
Segment income and expense															
Interest income	*119.4*	*380.8*	*22.6*	*(1.2)*	521.6	*293.0*	*1.2*	*(0.6)*	293.6	392.3	–	0.9	**1,208.4**	(522.1)	**686.3**
Interest expense	*(98.8)*	*(300.1)*	*(4.1)*	*0.9*	(402.1)	*(137.1)*	*(0.1)*	*0.4*	(136.8)	(328.6)	–	(16.5)	**(884.0)**	520.7	**(363.3)**
Treasury result allocation	*0.6*	*26.4*	*–*	*–*	27.0	*11.0*	*–*	*–*	11.0	(38.0)	–	–	**–**	–	**–**
Net interest income	***21.2***	***107.1***	***18.5***	***(0.3)***	**146.5**	***166.9***	***1.1***	***(0.2)***	**167.8**	**25.7**	**–**	**(15.6)**	**324.4**	**(1.4)**	**323.0**
Provision charge for impairment of debt financial assets	*(0.8)*	*(43.2)*	*–*	*–*	(44.0)	*(47.5)*	*–*	*(0.3)*	(47.8)	(5.0)	–	(0.1)	**(96.9)**	–	**(96.9)**
Net interest income after provision for impairment	***20.4***	***63.9***	***18.5***	***(0.3)***	**102.5**	***119.4***	***1.1***	***(0.5)***	**120.0**	**20.7**	**–**	**(15.7)**	**227.5**	**(1.4)**	**226.1**
Net fee and commission income/(expense)	*7.7*	*1.2*	*17.9*	*–*	26.8	*27.1*	*–*	*(0.1)*	27.0	0.9	–	1.1	**55.8**	(0.4)	**55.4**
Other gains less losses arising from financial instruments and foreign currencies	*28.0*	*1.3*	*–*	*(0.1)*	29.2	*4.0*	*0.3*	*–*	4.3	(10.6)	–	(6.3)	**16.6**	0.6	**17.2**
Share in income of associates and joint ventures	*1.4*	*0.6*	*–*	*–*	2.0	*–*	*–*	*–*	–	0.2	–	–	**2.2**	–	**2.2**
Profit from disposal of subsidiaries and associates	*0.1*	*–*	*–*	*–*	0.1	*–*	*–*	*–*	–	–	–	2.7	**2.8**	–	**2.8**
Other operating income/(expense) items	*0.8*	*10.9*	*0.2*	*–*	11.9	*1.7*	*12.6*	*0.4*	14.7	(0.2)	–	6.7	**33.1**	(6.7)	**26.4**
Operating income	***58.4***	***77.9***	***36.6***	***(0.4)***	**172.5**	***152.2***	***14.0***	***(0.2)***	**166.0**	**11.0**	**–**	**(11.5)**	**338.0**	**(7.9)**	**330.1**
Staff costs and administrative expenses	*(24.0)*	*(35.9)*	*(23.4)*	*–*	(83.3)	*(97.3)*	*(5.6)*	*0.4*	(102.5)	(7.2)	(18.7)	(6.0)	**(217.7)**	6.8	**(210.9)**
Segment results: profit before taxation	***34.4***	***42.0***	***13.2***	***(0.4)***	**89.2**	***54.9***	***8.4***	***0.2***	**63.5**	**3.8**	**(18.7)**	**(17.5)**	**120.3**	**(1.1)**	**119.2**
Income tax expense	*(4.6)*	*(6.5)*	*(2.6)*	*–*	(13.7)	*(10.9)*	*(1.8)*	*–*	(12.7)	(0.7)	2.8	0.1	**(24.2)**	0.1	**(24.1)**
Net profit after tax	***29.8***	***35.5***	***10.6***	***(0.4)***	**75.5**	***44.0***	***6.6***	***0.2***	**50.8**	**3.1**	**(15.9)**	**(17.4)**	**96.1**	**(1.0)**	**95.1**
Profit after tax from subsidiaries acquired exclusively with a view to resale	*5.0*	*–*	*–*	*0.3*	5.3	*–*	*–*	*–*	–	–	–	–	**5.3**	0.1	**5.4**
Net profit	***34.8***	***35.5***	***10.6***	***(0.1)***	**80.8**	***44.0***	**6.6**	**0.2**	**50.8**	**3.1**	**(15.9)**	**(17.4)**	**101.4**	**(0.9)**	**100.5**
Capital expenditure	*1.3*	*8.1*	*4.3*	*–*	13.7	*14.4*	*0.2*	*–*	14.6	1.0	–	11.1	**40.4**	–	**40.4**
Depreciation/amortization charge	*0.7*	*5.3*	*2.4*	*–*	8.4	*7.2*	*0.1*	*–*	7.3	0.3	0.7	3.8	**20.5**	–	**20.5**

(in billions of Russian roubles)

49. Analysis by Segment (continued)

As at 31 December 2013	*Corporate-Investment banking (CIB)*					*Retail business (RB)*									
	Investment banking	*Loans and deposits*	*Transaction banking*	*Inter-CIB eliminations*	*Total CIB*	*Retail banking*	*Insurance*	*Inter-RB eliminations*	*Total RB*	*Treasury*	*Corporate centre*	*Other*	*Total before Inter-segment eliminations*	*Inter-segment eliminations*	*Total*
Cash and short-term funds	*39.6*	*0.4*	*1.9*	–	41.9	*142.2*	*0.3*	–	142.5	169.6	–	0.3	**354.3**	–	**354.3**
Mandatory cash balances with central banks	–	–	–	–	–	*17.4*	–	–	17.4	41.3	–	–	**58.7**	–	**58.7**
Due from other banks, including pledged under repurchase agreements	*62.7*	*28.2*	–	–	90.9	*6.5*	*3.1*	–	9.6	345.4	–	0.3	**446.2**	–	**446.2**
Loans and advances to customers, including pledged under repurchase agreements	*485.8*	*3,810.9*	–	–	4,296.7	*1,629.8*	–	–	1,629.8	303.0	–	30.1	**6,259.6**	–	**6,259.6**
Other financial instruments	*474.5*	*7.6*	–	–	482.1	*40.9*	*8.0*	–	48.9	157.4	–	32.0	**720.4**	–	**720.4**
Investments in associates and joint ventures	*75.0*	*6.8*	–	–	81.8	–	–	–	–	5.8	–	–	**87.6**	–	**87.6**
Other assets items	*71.1*	*224.0*	*48.0*	–	343.1	*120.8*	*19.6*	–	140.4	19.3	–	338.9	**841.7**	–	**841.7**
Net amount of intersegment settlements	*164.3*	–	*652.1*	*(816.4)*	–	*527.9*	*17.0*	–	544.9	1,874.3	–	–	**2,419.2**	(2,419.2)	**–**
Segment assets	***1,373.0***	***4,077.9***	***702.0***	***(816.4)***	***5,336.5***	***2,485.5***	***48.0***	**–**	**2,533.5**	**2,916.1**	**–**	**401.6**	**11,187.7**	**(2,419.2)**	**8,768.5**
Due to other banks	*97.4*	*10.4*	–	–	107.8	*26.9*	–	–	26.9	531.5	–	0.4	**666.6**	–	**666.6**
Customer deposits	*943.3*	*482.3*	*649.8*	–	2,075.4	*2,099.9*	–	–	2,099.9	161.4	–	4.7	**4,341.4**	–	**4,341.4**
Other borrowed funds	*61.3*	*88.3*	–	–	149.6	*52.1*	*1.2*	–	53.3	1,277.6	–	5.4	**1,485.9**	–	**1,485.9**
Debt securities issued	*39.6*	*64.6*	–	–	104.2	*54.2*	–	–	54.2	577.9	–	1.9	**738.2**	–	**738.2**
Subordinated debt	–	–	–	–	–	*10.4*	–	–	10.4	280.6	–	–	**291.0**	–	**291.0**
Other liabilities items	*113.8*	*23.5*	*6.2*	–	143.5	*21.2*	*38.9*	–	60.1	8.5	–	86.2	**298.3**	–	**298.3**
Net amount of intersegment settlements	–	*2,950.5*	–	*(816.4)*	*2,134.1*	–	–	–	–	–	–	285.1	**2,419.2**	(2,419.2)	**–**
Segment liabilities	***1,255.4***	***3,619.6***	***656.0***	***(816.4)***	***4,714.6***	***2,264.7***	***40.1***	**–**	**2,304.8**	**2,837.5**	**–**	**383.7**	**10,240.6**	**(2,419.2)**	**7,821.4**

Geographical segment information is based on geographical location of entities within the Group. Information for the geographical areas of the Group is set out below for the years ended 31 December 2014 and 2013:

	2014					***2013***				
	Russia	***Other***	***Total before inter-segment eliminations***	***Inter-segment eliminations***	***Total***	***Russia***	***Other***	***Total before inter-segment eliminations***	***Inter-segment eliminations***	***Total***
Revenues from external customers for the year ended	1,059.8	85.2	**1,145.0**	–	**1,145.0**	766.9	98.7	**865.6**	–	**865.6**
Non-current assets as at end of period	617.6	79.7	**697.3**	–	**697.3**	540.1	41.0	**581.1**	–	**581.1**

50. Financial and Insurance Risk Management

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

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

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

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

As part of the Group-wide risk management reorganization, in 2012 the Group Risk Committee ("GRC") was created under the GMC (replacing the former Risk Management Sub-Committee ("RMC"), which was abolished). The principal tasks of the GRC include elaboration of the principles procedures and the basic documents on risk management of VTB Group, methodological support of "risk appetite" evaluation process in VTB Group and of implementing the economic capital conception, participation in developing aggregated limitations, checkpoints and portfolio limits with regard to the risk management in VTB Group, regular reviewing (monitoring, analysis) the current profile and the level of risks assumed by the Group, elaboration of the necessary measures to be taken in the context of the current and perspective risk management in VTB Group. GRC is chaired by the acting Head of VTB Risk Department (the Senior Vice-President of VTB who is responsible for the Group-wide risk management) and includes chief risk officers of some large subsidiaries (VTB24, Bank of Moscow, VTB Capital), representatives of VTB's units involved in consolidated risk control (Risk Department, Credit Department associated with Corporate Investment Business Global line) and representative of VTB24 Retail Business Development Division related to Retail Business Global line.

Concurrent with the creation of the GRC, the Commission on the Implementation of Risk Management Methods was established under the GRC. Its responsibility includes unifying within VTB Group principles, standards of the risk management systems and methods, coordinating practical work on implementing above standards in Group companies, as well as monitoring the realization of practical measures. This commission will also ensure the escalation of information to the GRC, implementation of measures aimed at increasing efficiency of decision making and feedback within the GRC and initiating proposals on the establishment of a general information and methodological platform for risk management operating processes within the Group.

The composition of the Commission on the Implementation of Risk Management Methods includes chief risk officers of the principal subsidiary banks and companies, as well as representatives of those of VTB's units involved in risk control.

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

Within the process of the realization of the Group's policies for credit risk management, the VTB Group Credit Committee continued working in this area during 2013.

The Risk Department ("RD") of VTB is responsible for independent financial risks management in VTB and Group (in respect of liquidity risk – jointly with Treasury of VTB). As at the end of 2013 RD consisted of the following divisions:

- Credit risk division;
- Market risk division;
- Credit applications analysis service;
- Operational risk division;
- Risks strategy, methodology and consolidated analysis division.

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

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

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

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 7 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 2014:

	Held for trading	*Designated as at fair value through profit or loss*	*Derivatives designated as hedging instruments*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Financial liabilities measured at amortized cost*	*Financial liabilities measured at fair value*	*Total*
Financial assets									
Cash and short-term funds	–	–	–	–	695.2	–	–	–	**695.2**
Mandatory cash balances with central banks	–	–	–	–	85.5	–	–	–	**85.5**
Financial assets at fair value through profit or loss	642.6	39.1	–	–	–	–	–	–	**681.7**
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	100.4	–	–	3.3	–	80.3	–	–	**184.0**
Due from other banks, including pledged under repurchase agreements	–	–	–	–	814.5	–	–	–	**814.5**
Loans and advances to customers, including pledged under repurchase agreements	–	–	–	–	8,537.3	–	–	–	**8,537.3**
Investment financial assets	–	–	–	1.2	–	131.0	–	–	**132.2**
Investments in associates and joint ventures at fair value through profit or loss	–	60.7	–	–	–	–	–	–	**60.7**
Other financial assets	0.3	–	0.3	–	82.5	–	–	–	**83.1**
Total financial assets	**743.3**	**99.8**	**0.3**	**4.5**	**10,215.0**	**211.3**	**–**	**–**	**11,274.2**
Financial liabilities									
Due to other banks	–	–	–	–	–	–	733.2	**–**	**733.2**
Customer deposits	–	–	–	–	–	–	5,669.4	**–**	**5,669.4**
Other borrowed funds	–	–	–	–	–	–	2,729.2	**–**	**2,729.2**
Debt securities issued	–	–	–	–	–	–	921.4	**–**	**921.4**
Subordinated debt	–	–	–	–	–	–	265.2	**–**	**265.2**
Other financial liabilities	423.1	–	0.9	–	–	–	59.5	**2.6**	**486.1**
Total financial liabilities	**423.1**	**–**	**0.9**	**–**	**–**	**–**	**10,377.9**	**2.6**	**10,804.5**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

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

As at 31 December 2013 (restated):

	Held for trading	*Designated as at fair value through profit or loss*	*Derivatives designated as hedging instruments*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Financial liabilities measured at amortized cost*	*Financial liabilities measured at fair value*	*Total*
Financial assets									
Cash and short-term funds	–	–	–	–	354.3	–	–	–	**354.3**
Mandatory cash balances with central banks	–	–	–	–	58.7	–	–	–	**58.7**
Financial assets at fair value through profit or loss	372.4	34.0	–	–	–	–	–	–	**406.4**
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	137.3	–	–	0.1	–	35.8	–	–	**173.2**
Due from other banks, including pledged under repurchase agreements	–	–	–	–	446.2	–	–	**–**	**446.2**
Loans and advances to customers, including pledged under repurchase agreements	–	–	–	–	6,259.6	–	–	**–**	**6,259.6**
Investment financial assets	–	–	–	0.7	–	140.1	–	**–**	**140.8**
Investments in associates and joint ventures at fair value through profit or loss	–	55.2	–	–	–	–	–	**–**	**55.2**
Other financial assets	0.1	–	8.9	–	66.4	–	–	**–**	**75.4**
Total financial assets	**509.8**	**89.2**	**8.9**	**0.8**	**7,185.2**	**175.9**	**–**	**–**	**7,969.8**
Financial liabilities	–	–	–	–	–	–			
Due to other banks	–	–	–	–	–	–	624.6	**–**	624.6
Customer deposits	–	–	–	–	–	–	4,383.4	**–**	4,383.4
Other borrowed funds	–	–	–	–	–	–	1,485.9	**–**	**1,485.9**
Debt securities issued	–	–	–	–	–	–	738.2	**–**	**738.2**
Subordinated debt	–	–	–	–	–	–	291.0	**–**	**291.0**
Other financial liabilities	96.1	–	2.5	–	–	–	25.5	**23.4**	**147.5**
Total financial liabilities	**96.1**	**–**	**2.5**	**–**	**–**	**–**	**7,548.6**	**23.4**	**7,670.6**

50. Financial and Insurance Risk Management (continued)

Credit risk

Credit risk means the risk of financial loss (reduction of revenue, extra costs) arising from non-performance or improper performance of obligations by borrower / transaction counterparty / security issuer.

VTB Group's exposures to credit risk arise principally from banking activities such as granting loans to corporate and retail customers, interbank lending, issuance of letters of credit and guarantees, securities and derivative financial instruments business and leasing business.

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

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

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

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

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

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

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

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

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

- roles and responsibilities of different committees, departments of VTB in the area of Group lending and credit risk management;
- regulations related to the approval and revision of credit policies in VTB subsidiary banks;
- Group-wide uniform basic methods, models, approaches to credit risk assessment and management;
- principles of pricing policy (interest rates and commissions), security policy and others.

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

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

50. Financial and Insurance Risk Management (continued)

Credit risk (continued)

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

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

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

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

- the GMC;
- the GRC and its Commission on the Implementation of Risk Management Methods;
- VTB Group Credit Committee (“GCC”).

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

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

VTB Group is set to reduce the risk factors related to loan concentration per separate large corporate customers / group of related customers and to ensure credit risk diversification. For this purpose the benchmark for the share of VTB Group largest borrowers in Group’s corporate loan portfolio is set. VTB Group Companies are recommended to determine reasonable local levels of similar benchmarks within their local credit policies/ risk strategies, based on the Group's acceptable credit risk concentration target. For the analytical purposes it is also recommended to regularly evaluate risk concentration based on Herfindahl - Hirschman Index (HHI).

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

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

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

The VTB subsidiary banks, which engage in retail credit granting, apply the “Basic statements of retail credit risk management in the VTB Group” and Credit policies applicable to VTB Group retail lending, approved by the GMC.

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

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit risk (continued)

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

	31 December 2014	*31 December 2013 (restated)*
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**440.4**	**237.4**
Trading credit products at fair value through profit or loss	**22.2**	**49.0**
Debt securities	**498.4**	**529.2**
Financial assets held for trading	***211.2***	***231.3***
debt securities of Russian companies and banks	113.2	157.8
debt securities of foreign companies and banks	48.5	50.4
debt securities of foreign government and municipal authorities	32.8	14.4
debt securities of Russian Federal and municipal authorities	16.7	8.7
Financial assets designated as at fair value through profit or loss	***21.8***	***17.1***
reverse sale and repurchase agreements to maturity	19.2	11.4
debt securities of foreign companies and banks	2.6	5.5
debt securities of Russian companies and banks	–	0.2
Financial assets pledged under repurchase agreements – held for trading	***88.1***	***128.6***
debt securities of Russian companies and banks	81.2	126.8
debt securities of Russian Federal and municipal authorities	5.9	0.2
debt securities of foreign companies and banks	0.8	0.8
debt securities of foreign government and municipal authorities	0.2	0.8
Financial assets pledged under repurchase agreements – available-for-sale	***80.3***	***35.8***
debt securities of Russian companies and banks	35.7	18.1
debt securities of Russian Federal and municipal authorities	26.9	17.7
debt securities of foreign government and municipal authorities	17.5	–
debt securities of foreign companies and banks	0.2	–
Financial assets pledged under repurchase agreements – held-to-maturity	**3.3**	***0.1***
debt securities of Russian companies and banks	3.3	–
debt securities of Russian Federal and municipal authorities	–	0.1
Investment financial assets available-for-sale	***92.5***	***115.4***
debt securities of foreign government and municipal authorities	61.4	32.3
debt securities of Russian Federal and municipal authorities	14.1	33.9
debt securities of foreign companies and banks	10.3	9.3
debt securities of Russian companies and banks	6.7	39.9
Investment financial assets held-to-maturity	***1.2***	***0.7***
debt securities of Russian companies and banks	1.0	0.3
debt securities of foreign companies and banks	0.2	0.1
debt securities of foreign government and municipal authorities	–	0.2
debt securities of Russian government and municipal authorities	–	0.1

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit risk (continued)

	31 December 2014	_31 December 2013 (restated)_
Due from other banks, including pledged under repurchase agreements	**814.5**	**446.2**
**Due from other banks**	_**740.3**_	_**443.4**_
Other countries	370.3	41.2
OECD	197.9	303.8
Russia	172.1	98.4
**Due to other banks pledged under repurchase agreements**	**74.2**	**2.8**
Russia	71.7	2.8
OECD	2.5	–
Loans and advances to customers, including pledged under repurchase agreements	**8,537.3**	**6,259.6**
**Loans to legal entities**	_**6,285.7**_	_**4,531.1**_
Current activity financing	4,162.4	3,033.3
Project finance and other	1,556.1	1,025.5
Reverse sale and repurchase agreements	284.5	209.3
Finance leases	282.7	263.0
**Loans to individuals**	_**1,789.0**_	_**1,437.9**_
Consumer loans and other	787.2	696.7
Mortgages	779.7	532.8
Car loans	121.0	127.6
Credit cards	98.3	77.9
Reverse sale and repurchase agreements	2.8	2.9
**Loans and advances to customers pledged under repurchase agreements**	**462.6**	_**290.6**_
Current activity financing	438.8	290.6
Project finance and other	23.8	–
Exposure arising from credit default swaps	**5.6**	**3.8**
sale of credit default swaps	4.0	3.2
purchase of credit default swaps	1.6	0.6
Other financial assets	**82.5**	**66.4**
Total balance sheet exposure	**10,400.9**	**7,591.6**
Off-balance sheet exposure		
Guarantees issued	1,368.3	974.9
Import letters of credit	58.1	45.5
Undrawn credit lines	22.5	28.0
Commitments to extend credit	4.2	2.6
Total off-balance sheet exposure	**1,453.1**	**1,051.0**
Total maximum exposure to credit risk	**11,854.0**	**8,642.6**

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.

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of due from other banks, including pledged under repurchase agreements

Credit quality of due from other banks, including pledged under repurchase agreements (gross) neither past due nor impaired, which are neither past due not impaired at 31 December 2014 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**250.9**	**490.8**
Russia	95.9	76.4
OECD	120.2	77.8
Other countries	34.8	336.6
Due from other banks pledged under repurchase agreements	–	**74.2**
Russia	–	71.7
OECD	–	2.5
Total due from other banks, including pledged under repurchase agreements (gross) neither past due nor impaired	**250.9**	**565.0**

Credit quality of due from other banks, including pledged under repurchase agreements (gross) neither past due not impaired, which are neither past due nor impaired at 31 December 2013 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**101.7**	**342.3**
Russia	34.8	63.6
OECD	52.6	251.3
Other countries	14.3	27.4
Due from other banks pledged under repurchase agreements	**–**	**2.8**
Russia	–	2.8
Total due from other banks, including pledged under repurchase agreements (gross) neither past due nor impaired	**101.7**	**345.1**

Not impaired individually assessed amounts due from other banks, including pledged under repurchase agreements, are subsequently included in the pools of collectively assessed loans.

Credit quality by class of debt securities

Credit quality of debt securities which are neither past due nor impaired is presented in accordance with the long-term credit rating as presented below:

A rated			*B (I) rated*			*B(II) rated*			*C rated*		
Standard & Poor's	*Moody's*	*Fitch IBCA*	*Standard & Poor's*	*Moody's*	*Fitch IBCA*	*Standard & Poor's*	*Moody's*	*Fitch IBCA*	*Standard & Poor's*	*Moody's*	*Fitch IBCA*
AAA	Aaa	AAA	BBB+	Baa1	BBB+	BB+	Ba1	BB+	CCC+	Caa1	CCC+
AA+	Aa1	AA+	BBB	Baa2	BBB	BB	Ba2	BB	CCC	Caa2	CCC
AA	Aa2	AA	BBB-	Baa3	BBB-	BB-	Ba3	BB-	CCC-	Caa3	CCC-
AA-	Aa3	AA-				B+	B1	B+	CC	Ca	CC
A+	A1	A+				B	B2	B	C	C	C
A	A2	A				B-	B3	B-	D		D
A-	A3	A-									

Credit quality of debt securities which are neither past due nor impaired at 31 December 2014 is presented in the tables below:

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of debt securities (continued)

	A rated	B (I) rated	B(II) rated	C rated	Unrated	Total
Debt securities held for trading						
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of Russian companies and banks	0.3	28.8	75.3	0.1	7.4	**111.9**
Bonds and eurobonds of foreign companies and banks	24.2	5.0	3.7	1.7	9.3	**43.9**
Bonds and eurobonds of foreign governments	26.2	–	0.1	0.8	5.7	**32.8**
Russian municipal bonds	–	0.9	13.3	–	0.2	**14.4**
Russian Federal loan bonds (OFZ)	–	2.3	–	–	–	**2.3**
Promissory notes of Russian Companies and banks	–	–	0.5	–	0.8	**1.3**
Total neither past due nor impaired debt securities held for trading	**50.7**	**37.0**	**92.9**	**2.6**	**23.4**	**206.6**
Debt securities designated as at fair value through profit or loss						
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	–	–	0.3	–	2.3	**2.6**
Total neither past due nor impaired debt securities designated as at fair value through profit or loss neither past due nor impaired	**–**	**–**	**0.3**	**–**	**2.3**	**2.6**
Debt securities pledged under repurchase agreements						
Neither past due nor impaired (at fair value)						
Financial assets held for trading						
Bonds and eurobonds of Russian companies and banks	–	33.1	48.1	–	–	**81.2**
Russian Federal loan bonds (OFZ)	–	5.7	-	–	–	**5.7**
Bonds and eurobonds of foreign companies and banks	–	0.4	0.2	0.2	–	**0.8**
Bonds and eurobonds of foreign governments	–	–	0.1	–	0.1	**0.2**
Russian municipal bonds	–	–	0.2	–	–	**0.2**
Financial assets available-for-sale						
Bonds and eurobonds of Russian companies and banks	–	15.4	17.2	–	3.1	**35.7**
Russian Federal loan bonds (OFZ)	–	21.3	–	–	–	**21.3**
Bonds and eurobonds of foreign governments	14.1	–	–	0.9	2.5	**17.5**
Eurobonds of the Russian Federation	–	3.7	–	–	–	**3.7**
Russian municipal bonds	–	–	1.9	–	–	**1.9**
Bonds and eurobonds of foreign companies and banks	–	–	–	–	0.2	**0.2**
Investment securities held-to-maturity						
Bonds and eurobonds of Russian companies and banks	–	–	0.9	–	2.4	**3.3**
Total neither past due nor impaired debt securities pledged under repurchase agreements	**14.1**	**79.5**	**68.6**	**1.1**	**8.3**	**171.6**
Investment debt securities available-for-sale						
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign governments	55.6	–	2.3	1.5	2.0	**61.4**
Bonds and eurobonds of foreign companies and banks	–	–	–	7.6	2.7	**10.3**
Russian Federal loan bonds (OFZ)	–	7.1	–	–	–	**7.1**
Eurobonds of the Russian Federation	–	6.5	–	–	–	**6.5**
Bonds and eurobonds of Russian companies and banks	–	1.5	2.3	1.8	–	**5.6**
Promissory notes of Russian Companies and banks	–	–	1.1	–	–	**1.1**
Russian municipal bonds	–	–	0.5	–	–	**0.5**
Total neither past due nor impaired investment debt securities available-for-sale	**55.6**	**15.1**	**6.2**	**10.9**	**4.7**	**92.5**
Investment securities held-to-maturity						
Neither past due nor impaired						
Bonds and eurobonds of Russian companies and banks	–	–	1.0	–	–	**1.0**
Bonds and eurobonds of foreign companies and banks	–	–	0.2	–	–	**0.2**
Total neither past due nor impaired investment securities held-to-maturity	**–**	**–**	**1.2**	**–**	**–**	**1.2**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of debt securities (continued)

Credit quality of debt securities which are neither past due nor impaired at 31 December 2013 (restated) is presented in the table below:

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Debt securities held for trading						
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of Russian companies and banks	0.3	83.2	62.0	0.3	10.9	**156.7**
Bonds and eurobonds of foreign companies and banks	18.3	4.4	11.0	0.3	13.5	**47.5**
Bonds and eurobonds of foreign governments	8.8	0.1	3.4	0.9	1.2	**14.4**
Russian Federal loan bonds (OFZ)	–	4.3	–	–	0.1	**4.4**
Russian municipal bonds	–	0.2	2.5	–	–	**2.7**
Eurobonds of the Russian Federation	–	1.6	–	–	–	**1.6**
Promissory notes of Russian Companies and banks	–	–	–	–	1.1	**1.1**
Total neither past due nor impaired debt securities held for trading	**27.4**	**93.8**	**78.9**	**1.5**	**26.8**	**228.4**
Debt securities designated as at fair value through profit or loss						
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	–	–	0.2	–	5.3	**5.5**
Bonds and eurobonds of Russian companies and banks	–	–	0.2	–	–	**0.2**
Total neither past due nor impaired debt securities designated as at fair value through profit or loss neither past due nor impaired	**–**	–	**0.4**	**–**	**5.3**	**5.7**
Debt securities pledged under repurchase agreements						
Neither past due nor impaired (at fair value)						
Financial assets held for trading						
Bonds and eurobonds of Russian companies and banks	–	114.1	8.6	–	4.1	**126.8**
Bonds and eurobonds of foreign companies and banks	–	0.2	0.6	–	–	**0.8**
Bonds and eurobonds of foreign governments	0.3	0.1	0.3	0.1	–	**0.8**
Eurobonds of the Russian Federation	–	0.2	–	–	–	**0.2**
Financial assets available-for-sale						
Bonds and eurobonds of foreign governments	–		–	–	–	**–**
Bonds and eurobonds of Russian companies and banks	–	12.3	4.7	–	1.1	**18.1**
Russian Federal loan bonds (OFZ)	–	13.6	–	–	–	**13.6**
Eurobonds of the Russian Federation	–	4.1	–	–	–	**4.1**
Investment securities held-to-maturity						
Russian municipal bonds	–	–	0.1	–	–	**0.1**
Total neither past due nor impaired debt securities pledged under repurchase agreements	**0.3**	**144.6**	**14.3**	**0.1**	**5.2**	**164.5**
Investment debt securities available-for-sale						
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of Russian companies and banks	–	16.5	18.8	–	3.3	**38.6**
Bonds and eurobonds of foreign governments	27.3	–	2.6	1.1	1.3	**32.3**
Russian Federal loan bonds (OFZ)	–	26.3	–	–	–	**26.3**
Bonds and eurobonds of foreign companies and banks	1.3	0.3	6.7	–	1.0	**9.3**
Eurobonds of the Russian Federation	–	5.3	–	–	–	**5.3**
Russian municipal bonds	–	–	2.3	–	–	**2.3**
Promissory notes of Russian Companies and banks	–		–	–	1.3	**1.3**
Total neither past due nor impaired investment debt securities available-for-sale	**28.6**	**48.4**	**30.4**	**1.1**	**6.9**	**115.4**
Investment securities held-to-maturity						
Neither past due nor impaired						
Bonds and eurobonds of Russian companies and banks	–	0.3	–		–	**0.3**
Bonds and eurobonds of foreign governments	–	–	–	–	0.2	**0.2**
Bonds and eurobonds of foreign companies and banks	–	–	0.1	–	–	**0.1**
Russian municipal bonds	–		0.1	–	–	**0.1**
Total neither past due nor impaired investment securities held-to-maturity	**–**	**0.3**	**0.2**	**–**	**0.2**	**0.7**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of loans and advances to customers, including pledged under repurchase agreements

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.

The table below shows credit quality by class of loans and advances to customers, including pledged under repurchase agreements (gross) at 31 December 2014, individually assessed. For individually assessed loans, which were not qualified as impaired, allowance was subsequently calculated on a collective basis.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,312.9**	**10.1**	**187.2**	**171.3**	**343.4**	**2,024.9**
Finance leases	6.4	–	38.8	23.1	7.5	**75.8**
Current activity financing	154.9	10.1	145.9	88.6	202.1	**601.6**
Reverse sale and repurchase agreements	233.9	–	–	–	–	**233.9**
Project finance and other	917.7	–	2.5	59.6	133.8	**1,113.6**
Loans and advances to customers pledged under repurchase agreements	**276.1**	**–**	**–**	**–**	**–**	**276.1**
Current activity financing	276.1	–	–	–	–	**276.1**
Loans to individuals	**0.1**	**–**	–	**1.2**	**12.4**	**13.7**
Mortgages	0.1	–	–	0.7	9.2	**10.0**
Car loans	–	–	–	–	0.7	**0.7**
Credit cards	–	–	–	0.1	0.2	**0.3**
Consumer loans and other	–	–	–	0.4	2.3	**2.7**
Total loans and advances to customers individually assessed, including pledged under repurchase agreements	**1,589.1**	**10.1**	**187.2**	**172.5**	**355.8**	**2,314.7**

The table below shows credit quality by class of loans and advances to customers, including pledged under repurchase agreements (gross) at 31 December 2014, collectively assessed.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**4,082.2**	**411.9**	**185.6**	**8.3**	**29.3**	**4,717.3**
Finance leases	220.2	2.3	5.4	0.2	0.1	**228.2**
Current activity financing	3,464.9	325.4	21.1	7.7	28.3	**3,847.4**
Reverse sale and repurchase agreements	50.6	–	–	–	–	**50.6**
Project finance and other	346.5	84.2	159.1	0.4	0.9	**591.1**
Loans and advances to customers pledged under repurchase agreements	**187.0**	**–**	**–**	**–**	**–**	**187.0**
Current activity financing	163.1	–	–	–	–	**163.1**
Project finance and other	23.9	–	–	–	–	**23.9**
Loans to individuals	**1,689.4**	**17.6**	**49.4**	**24.6**	**150.4**	**1,931.4**
Mortgages	767.3	2.6	9.6	3.7	2.1	**785.3**
Car loans	112.4	4.0	1.9	0.2	10.5	**129.0**
Credit cards	86.6	2.4	5.8	2.6	16.1	**113.5**
Consumer loans and other	720.3	8.6	32.1	18.1	121.7	**900.8**
Reverse sale and repurchase agreements	2.8	–	–	–	–	**2.8**
Total loans and advances to customers collectively assessed, including pledged under repurchase agreements	**5,958.6**	**429.5**	**235.0**	**32.9**	**179.7**	**6,835.7**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of loans and advances to customers, including pledged under repurchase agreements (continued)

The table below shows credit quality by class of loans and advances to customers, including pledged under repurchase agreements (gross) at 31 December 2013, individually assessed. For individually assessed loans, which were not qualified as impaired, allowance was subsequently calculated on a collective basis.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**832.9**	**2.7**	**95.2**	**68.2**	**219.9**	**1,218.9**
Finance leases	0.1	0.2	0.7	3.6	14.8	**19.4**
Current activity financing	252.5	0.9	30.1	36.3	128.6	**448.4**
Reverse sale and repurchase agreements	162.8	–	–	–	–	**162.8**
Project finance and other	417.5	1.6	64.4	28.3	76.5	**588.3**
Loans and advances to customers pledged under repurchase agreements	**290.6**	–	–	–	–	**290.6**
Current activity financing	290.6	–	–	–	–	**290.6**
Loans to individuals	**9.9**	**0.2**	**–**	**1.2**	**6.4**	**17.7**
Mortgages	1.0	–	–	0.2	6.1	**7.3**
Credit cards	–	–	–	0.1	–	**0.1**
Consumer loans and other	8.9	0.2	–	0.9	0.3	**10.3**
Total loans and advances to customers individually assessed, including pledged under repurchase agreements	**1,133.4**	**2.9**	**95.2**	**69.4**	**226.3**	**1,527.2**

The table below shows credit quality by class of loans and advances to customers, including pledged under repurchase agreements (gross) at 31 December 2013, collectively assessed.

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**2,956.7**	**432.2**	**186.5**	**2.6**	**12.4**	**3,590.4**
Finance leases	246.3	4.3	7.5	–	0.1	**258.2**
Current activity financing	2,371.3	325.6	36.8	2.6	12.1	**2,748.4**
Reverse sale and repurchase agreements	46.6	–	–	–	–	**46.6**
Project finance and other	292.5	102.3	142.2	–	0.2	**537.2**
Loans to individuals	**1,361.5**	**13.3**	**36.0**	**12.3**	**80.0**	**1,503.1**
Mortgages	519.9	1.8	9.9	0.3	0.7	**532.6**
Car loans	121.3	0.3	4.0	1.6	6.0	**133.2**
Credit cards	72.2	0.7	3.3	1.7	8.2	**86.1**
Consumer loans and other	645.2	10.5	18.8	8.7	65.1	**748.3**
Reverse sale and repurchase agreements	2.9	–	–	–	–	**2.9**
Total loans and advances to customers collectively assessed, including pledged under repurchase agreements	**4,318.2**	**445.5**	**222.5**	**14.9**	**92.4**	**5,093.5**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of loans and advances to customers, including pledged under repurchase agreements (continued)

The table below shows credit quality by class of loans and advances to customers, including pledged under repurchase agreements (gross) at 31 December 2014, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Total*
Loans to legal entities	**5,286.4**	**412.4**	**218.4**	**5,917.2**
Finance leases	207.3	1.7	5.6	**214.6**
Current activity financing	3,537.2	326.7	56.2	**3, 920.1**
Reverse sale and repurchase agreements	284.5	–	–	**284.5**
Project finance and other	1,257.4	84.0	156.6	**1,498.0**
Loans and advances to customers pledged under repurchase agreements	**463.1**			**463.1**
Current activity financing	439.3	–	–	**439.3**
Project finance and other	23.8	–	–	**23.8**
Loans to individuals	**1,678.6**	**7.6**	**8.3**	**1,694.5**
Mortgages	757.0	–	0.7	**757.7**
Car loans	112.3	–	–	**112.3**
Credit cards	86.6	2.0	0.8	**89.4**
Reverse sale and repurchase agreements	2.8	–	–	**2.8**
Consumer loans and other	719.9	5.6	6.8	**732.3**
Total loans and advances to customers, including pledged under repurchase agreements	**7,428.1**	**420.0**	**226.7**	**8,074.8**

The table below shows credit quality by class of loans and advances to customers, including pledged under repurchase agreements (gross) at 31 December 2013, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Total*
Loans to legal entities	**3,738.1**	**432.7**	**256.1**	**4,426.9**
Finance leases	244.4	4.3	6.9	**255.6**
Current activity financing	2,587.2	324.7	49.4	**2,961.3**
Reverse sale and repurchase agreements	209.4	–	–	**209.4**
Project finance and other	697.1	103.7	199.8	**1,000.6**
Loans and advances to customers pledged under repurchase agreements	**290.6**	**–**	**–**	**290.6**
Current activity financing	290.6	–	–	**290.6**
Loans to individuals	**1,362.7**	**5.5**	**1.4**	**1,369.6**
Mortgages	514.1	0.4	1.4	**515.9**
Car loans	121.2	–	–	**121.2**
Credit cards	71.9	–	–	**71.9**
Reverse sale and repurchase agreements	2.9	–	–	**2.9**
Consumer loans and other	652.6	5.1	–	**657.7**
Total loans and advances to customers, including pledged under repurchase agreements	**5,391.4**	**438.2**	**257.5**	**6,087.1**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of loans and advances to customers, including pledged under repurchase agreements (continued)

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2014 and 2013 is presented in the table below.

	31 December 2014	*31 December 2013*
Building construction	110.4	51.7
Energy	107.7	15.4
Manufacturing	60.9	53.9
Trade and commerce	55.0	59.4
Oil and gas	38.6	43.6
Transport	31.1	16.7
Metals	30.7	12.6
Food and agriculture	22.4	20.0
Finance	19.3	10.2
Telecommunications and media	16.5	1.6
Individuals	13.6	7.6
Chemical	12.7	0.4
Coal mining	2.0	0.5
Other	7.4	2.1
Total loans and advances to customers individually impaired	**528.3**	**295.7**

As at 31 December 2014 the Group has a pool of collectively assessed impaired loans and advances in the amount of RUR 212.6 billion (31 December 2013: RUR 107.3 billion).

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2014 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	**147.2**	**21.1**	**3.5**	**36.2**	**53.9**	**10.8**	**272.7**
Finance leases	27.0	1.3	2.6	26.7	–	0.9	**58.5**
Current activity financing	117.1	19.8	0.8	9.4	53.4	1.7	**202.2**
Project finance and other	3.1	–	0.1	0.1	0.5	8.2	**12.0**
Loans to individuals	**48.6**	**3.2**	**2.0**	**1.4**	**1.2**	**5.6**	**62.0**
Mortgages	11.2	1.8	1.0	1.3	1.1	5.5	**21.9**
Car loans	4.4	0.9	0.7	–	–	–	**6.0**
Credit cards	5.1	0.2	0.1	–	–	–	**5.4**
Consumer loans and other	27.9	0.3	0.2	0.1	0.1	0.1	**28.7**
Total loans and advances to customers past due but not impaired	**195.8**	**24.3**	**5.5**	**37.6**	**55.1**	**16.4**	**334.7**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Credit quality by class of loans and advances to customers, including pledged under repurchase agreements (continued)

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2013 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	**33.5**	**5.6**	**2.9**	**16.0**	**11.4**	**9.9**	**79.3**
Finance leases	1.8	0.3	0.2	0.6	0.2	0.4	**3.5**
Current activity financing	28.4	5.2	2.6	5.5	11.0	3.2	**55.9**
Project finance and other	3.3	0.1	0.1	9.9	0.2	6.3	**19.9**
Loans to individuals	**39.6**	**2.0**	**0.7**	**1.0**	**0.9**	**7.1**	**51.3**
Mortgages	7.3	1.1	0.6	0.9	0.8	6.0	**16.7**
Car loans	4.2	0.1	–	–	–	0.1	**4.4**
Credit cards	3.9	0.2	0.1	0.1	–	–	**4.3**
Consumer loans and other	24.2	0.6	–	–	0.1	1.0	**25.9**
Total loans and advances to customers past due but not impaired	**73.1**	**7.6**	**3.6**	**17.0**	**12.3**	**17.0**	**130.6**

Collateral and other credit enhancements

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

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

Collateral received by the Group from borrowers as a result of loan settlement is usually represented by real estate, financial instruments and other assets.

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

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

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

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

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

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

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

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Collateral and other credit enhancements (continued)

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

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

The effect of collateral at 31 December 2014 and 2013 by class is presented below:

	31 December 2014		*31 December 2013*	
	Over-collateralized	*Under-collateralized*	*Over-collateralized*	*Under-collateralized*
Loans to legal entities	**3,340.7**	**3,401.5**	**2,388.8**	**2,420.5**
Financial lease	269.1	34.9	214.8	62.8
Current activity financing	1,707.7	2,741.3	1,276.1	1,920.7
Reverse sale and repurchase agreements	280.8	3.7	164.2	45.2
Project finance and other	1,083.1	621.6	733.7	391.8
Loans and advances to customers pledged under repurchase agreements	**18.3**	**444.8**	**–**	**290.6**
Current activity financing	–	439.3	–	290.6
Project finance and other	18.3	5.5	–	–
Loans to individuals	**854.8**	**1,090.3**	**512.1**	**1,008.7**
Mortgage	704.8	90.5	374.8	165.1
Car loans	124.1	5.6	110.7	22.5
Credit cards	2.5	111.3	1.2	85.0
Reverse sale and repurchase agreements	2.8	–	2.9	–
Consumer loans and other	20.6	882.9	22.5	736.1
Total loans and advances to customers, including pledged under repurchase agreements	**4,213.8**	**4,936.6**	**2,909.9**	**3,719.8**

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

Collateral repossessed

During 2014 and 2013 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers. The carrying values and the nature of assets received as the collateral repossessed during the relevant year are as follows:

	2014	*2013*
Investment property	13.0	4.7
Premises and equipment	1.7	1.1
Assets of disposal group available-for-sale	–	6.9
Investment financial assets available-for-sale	–	0.1
Other assets	4.2	2.8
Total collateral repossessed during the period	**18.9**	**15.6**

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

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Collateral and other credit enhancements (continued)

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

	31 December 2014	*31 December 2013*
Investment property	87.4	75.0
Assets of disposal group available-for-sale	6.0	6.9
Premises and equipment	6.0	4.4
Other assets	5.5	3.4
Investments in associates	5.4	5.4
Investment financial assets available-for-sale	1.3	1.4
Total collateral repossessed	**111.6**	**96.5**

Geographical concentration

Geographical concentration information is based on registration of the Group's counterparts. As at 31 December 2014 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	416.8	210.6	67.8	**695.2**
Mandatory cash balances with central banks	68.5	7.9	9.1	**85.5**
Financial assets at fair value through profit or loss	299.8	270.6	111.3	**681.7**
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	165.3	14.2	4.5	**184.0**
Due from other banks, including pledged under repurchase agreements	243.8	200.4	370.3	**814.5**
Loans and advances to customers, including pledged under repurchase agreements	6,390.7	411.1	1,735.5	**8,537.3**
Investment financial assets	49.6	61.3	21.3	**132.2**
Investments in associates and joint ventures	9.1	57.6	29.6	**96.3**
Assets of disposal group held for sale	11.1	–	–	**11.1**
Land, premises and equipment	197.5	2.8	46.6	**246.9**
Investment property	184.4	–	7.9	**192.3**
Goodwill and other intangible assets	139.5	1.3	21.0	**161.8**
Deferred tax asset	63.8	2.9	0.2	**66.9**
Other assets	196.9	75.6	12.6	**285.1**
Total assets	**8,436.8**	**1,316.3**	**2,437.7**	**12,190.8**
Liabilities				
Due to other banks	372.3	175.5	185.4	**733.2**
Customer deposits	4,999.8	353.9	315.7	**5,669.4**
Other borrowed funds	2,445.2	247.9	36.1	**2,729.2**
Debt securities issued	277.7	615.6	28.1	**921.4**
Liabilities of disposal group held for sale	4.7	–	–	**4.7**
Deferred tax liability	25.2	1.0	0.4	**26.6**
Other liabilities	278.0	401.5	30.6	**710.1**
Subordinated debt	102.1	163.1	–	**265.2**
Total liabilities	**8,505.0**	**1,958.5**	**596.3**	**11,059.8**
Net balance sheet position	**(68.2)**	**(642.2)**	**1,841.4**	**1,131.0**
Net off-balance sheet position – Credit Related Commitments	**1,183.4**	**42.7**	**227.0**	**1,453.1**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Geographical concentration (continued)

Geographical concentration information is based on geographical registration of the Group's counterparts. As at 31 December 2013 (restated) 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	248.8	83.2	22.3	**354.3**
Mandatory cash balances with central banks	48.7	1.6	8.4	**58.7**
Financial assets at fair value through profit or loss	204.1	115.2	87.1	**406.4**
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	170.6	0.3	2.3	**173.2**
Due from other banks, including pledged under repurchase agreements	101.2	303.8	41.2	**446.2**
Loans and advances to customers, including pledged under repurchase agreements	4,940.7	245.6	1,073.3	**6,259.6**
Investment financial assets	85.4	31.6	23.8	**140.8**
Investments in associates and joint ventures	11.8	57.0	18.8	**87.6**
Assets of disposal group held for sale	23.4	4.6	8.7	**36.7**
Land, premises and equipment	152.6	3.5	14.2	**170.3**
Investment property	156.4	–	4.3	**160.7**
Goodwill and other intangible assets	150.1	0.5	11.9	**162.5**
Deferred tax asset	42.0	1.9	1.6	**45.5**
Other assets	218.5	28.2	19.3	**266.0**
Total assets	**6,554.3**	**877.0**	**1,337.2**	**8,768.5**
Liabilities				
Due to other banks	469.0	122.2	33.4	**624.6**
Customer deposits	3,936.9	174.7	271.8	**4,383.4**
Other borrowed funds	1,192.3	271.0	22.6	**1,485.9**
Debt securities issued	319.4	411.8	7.0	**738.2**
Liabilities of disposal group held for sale	8.5	4.9	7.3	**20.7**
Deferred tax liability	14.1	0.3	0.6	**15.0**
Other liabilities	151.3	86.5	24.8	**262.6**
Subordinated debt	204.4	86.6	–	**291.0**
Total liabilities	**6,295.9**	**1,158.0**	**367.5**	**7,821.4**
Net balance sheet position	**258.4**	**(281.0)**	**969.7**	**947.1**
Net off-balance sheet position – Credit Related Commitments	**961.9**	**38.5**	**50.6**	**1,051.0**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Market risk

Market risk is the risk that the financial results/capital of the Group, determined in accordance with International Financial Reporting Standards, will decrease due to changes in assets/liabilities because of market variables - risk factors (such as exchange rates, interest rates, yield of debt securities and credit spreads, shares, indices and commodity prices and so on), as well as due to changes in volatilities, and the correlations between them.

Interest rate risk exposure and sensitivity analysis

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

The RD presents to the ALCO on a monthly basis interest rate risk indicators of the Group and of individual banks of the Group, including net present value of assets and liabilities exposed to interest rate risk, ECap, and sensitivity analysis of Net Interest Income as well as of present value of assets and liabilities to 100 b.p. change of intererest rates. Valuations are made by using Kamakura Risk Manager software.

To mitigate the interest rate risk the ALCO set up ECap limitations to cover interest rate risk of the Group as well as individual banks of the Group.

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

As at 31 December 2014 the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 months to 6 months*	*From 6 months to 1 year*	*From 1 year to 3 years*	*From 3 years to 5 years*	*More than 5 years*	*Total*
Assets								
Interest bearing assets								
RUR	640.8	912.4	476.0	902.6	1,486.4	1,253.9	1,144.5	6,816.6
USD	1,529.5	1,263.2	392.0	474.9	580.4	592.9	310.0	5,142.9
EUR	268.7	123.3	95.6	66.7	61.4	52.3	44.3	712.3
Other currencies	216.7	258.4	101.2	148.4	293.5	31.4	92.8	1,142.4
Total assets	**2,655.7**	**2,557.3**	**1,064.8**	**1,592.6**	**2,421.7**	**1,930.5**	**1,591.6**	**13,814.2**
Liabilities								
Interest bearing liabilities								
RUR	3,123.8	1,139.7	563.0	726.7	629.2	116.9	433.7	6,733.0
USD	1,108.1	1,520.7	495.9	591.6	987.4	246.4	339.9	5,290.0
EUR	343.0	86.1	100.6	119.2	245.7	27.1	16.0	937.7
Other currencies	219.5	309.6	96.9	153.0	213.5	53.9	71.8	1,118.2
Total liabilities	**4,794.4**	**3,056.1**	**1,256.4**	**1,590.5**	**2,075.8**	**444.3**	**861.4**	**14,078.9**
Net repricing gap	**(2,138.7)**	**(498.8)**	**(191.6)**	**2.1**	**345.9**	**1,486.2**	**730.2**	**(264.7)**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

As at 31 December 2013 the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	461.0	198.5	891.3	712.7	1,597.7	976.7	807.3	**5,645.2**
USD	892.1	173.1	748.6	365.7	632.4	232.4	135.7	**3,180.0**
EUR	167.9	7.1	163.9	22.7	49.9	17.1	27.2	**455.8**
Other currencies	105.1	36.5	176.6	74.3	68.1	51.1	60.6	**572.3**
Total assets	**1,626.1**	**415.2**	**1,980.4**	**1,175.4**	**2,348.1**	**1,277.3**	**1,030.8**	**9,853.3**
Liabilities								
Interest bearing liabilities								
RUR	(1,921.2)	(668.4)	(1,106.2)	(719.0)	(632.4)	(40.8)	(517.7)	**(5,605.7)**
USD	(787.2)	(155.5)	(828.1)	(444.6)	(620.3)	(317.4)	(210.7)	**(3,363.8)**
EUR	(247.1)	(12.2)	(130.1)	(48.0)	(139.3)	(18.2)	(19.5)	**(614.4)**
Other currencies	(113.0)	(34.6)	(232.1)	(42.2)	(81.1)	(28.2)	(44.7)	**(575.9)**
Total liabilities	**(3,068.5)**	**(870.7)**	**(2,296.5)**	**(1,253.8)**	**(1,473.1)**	**(404.6)**	**(792.6)**	**(10,159.8)**
Net repricing gap	**(1,442.4)**	**(455.5)**	**(316.1)**	**(78.4)**	**875.0**	**872.7**	**238.2**	**(306.5)**

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

Interest rate sensitivity analysis as at 31 December 2014 as an effect on net interest income is as follows.

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	400	(90.5)	(400)	90.5
USD	2	0.1	(2)	(0.1)
Total		**(90.4)**		**90.4**

Interest rate sensitivity analysis as at 31 December 2013 as an effect on net interest income is as follows.

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	72	(9.8)	(72)	9.8
USD	3	0.1	(3)	(0.1)
Total		**(9.7)**		**9.7**

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.

50. Financial and Insurance Risk Management (continued)

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 set by the ALCO include risk appetite limit for structural open currency position (OCP) based on VaR approach, internal VaR limits and stop-loss limits for trading operations and regulatory OCP limits set by the CBR.

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

VTB also measures its currency risk exposures by using VaR approach. It estimates the largest potential negative effect in pre-tax profit due to changes in value of foreign currency denominated positions over a given holding period for a specified confidence level. During 2014 the Bank moved to 1 day financial result volatility measure with 95% confidence level VaR 1d,95% (instead of VaR 10d, 99% that Bank used earlier).

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.

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 95% confidence level. The use of one-day holding period assumes as well that all positions can be liquidated or hedged in 1 business 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;
- 95% confidence level;
- 1 business day holding period.

As at 31 December 2014 and 2013, 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).

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Currency risk and VaR analysis (continued)

As at 31 December 2014 and 2013, 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 2014***	***31 December 2013***
USD	92.0	80.1
CHF	(14.7)	(0.3)
UAH	11.0	26.8
GBP	10.9	7.4
SEK	(7.5)	–
NOK	6.9	1.8
AUD	5.2	4.4
CNY	5.0	0.4
BYR	4.7	2.8
AMD	4.2	2.2
EUR	(3.8)	4.7
GEL	3.7	1.7
KZT	3.2	1.1
XAU	3.2	–
AZN	3.2	0.9
TRY	(1.7)	–
AOA	1.5	1.3
ZAR	(1.4)	–
JPY	(0.7)	(0.5)
SGD	0.4	0.8
RSD	(0.3)	0.3
Other	0.6	0.7

As at 31 December 2014 and 2013, the Group had the following VaR for its foreign currency positions:

	31 December 2014	***31 December 2013***
Value at Risk	1.21	1.14

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

50. Financial and Insurance Risk Management (continued)

Price risk

The Group is exposed to market risk of its securities portfolio, which is the risk of loss resulting from changes in market quotes of securities and stock indices. To mitigate Group market risk GMC set and reviews risk appetite limits(e.g. stress-limits, VaR limits, stop-loss limits), which are then allocated across legal entities and business lines.

On a weekly basis RD controls Group market risk limits utilization. Local risk management controls local market risk limits on a daily basis. On a weekly basis RD reports limits usage to the Business Departments, on a monthly basis RD reports limits discipline ALCO, suggests/reviews limit values and risks mitigation/hedging strategies. VTB measures its securities portfolio risk exposures using VaR measurement of risk. The basic assumptions applicable to the calculation of VaR for currency risk, as described above, are also applicable for the calculation of VaR for securities portfolio market risk.

Parameters for VaR calculation are following:

- historical period – 2 year;
- holding period – 1 trading day;
- confidence level – 95%;
- method – historical simulation.

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

50. Financial and Insurance Risk Management (continued)

Price risk (continued)

Original historical data is used for instruments with quotes history at least for 200 days and not more than 10 successive days without quotes and the issue date of the instrument is as early as the reporting year.

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

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

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

During 2014 the Bank enhanced its Risk IT infrastructure through further implementation of Kamakura Risk Manager, moved to 1 day financial result volatility measure with 95% confidence level VaR 1d,95% (instead of VaR 10d, 99% that Bank used earlier).

Total Group's VaR 1d.95% measure for 2014 amounts to RUR 1.5 billion (2013: RUR 1.8 billion).

Liquidity risk and contractual maturity analysis

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

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

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

50. Financial and Insurance Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

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

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

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

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

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

VTB Group has a number of additional funding facilities made available by Bank of Russia to bridge negative medium term liquidity gaps.

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

In 2014 due to geopolitical circumstances, the Group increased the volume of funds borrowed from the CBR and the Ministry of Finance (Note 22 and 23). Traditionally, at the end of the year, the state authorities place the funds in short term instruments, and as a result, a significant part of these resources has maturity up to 1 month. While Management believes that, given the efforts of CBR to extend refinancing facilities to the banking system and the expected inflow of funds on customer accounts of budget organizations, the Group will be able to roll over the major part of these resources.

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As at 31 December 2014, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	_Inflow_	_Outflow_	_Gap_	_Gap Cumulative_	_FX Swap Cumulative_	_Dynamic Gap (total) Cumulative_
RUR positions						
Opening balance	–	–	219.2	219.2	–	219.2
Up to 1 month	639.4	(2,835.0)	(2,195.6)	(1,976.4)	36.3	(1,940.1)
From 1 to 3 months	575.8	(1,006.6)	(430.8)	(2,407.2)	44.1	(2,363.1)
From 3 months to 1 year	1,897.0	(1,439.8)	457.2	(1,950.0)	(9.2)	(1,959.2)
From 1 to 3 years	2,426.9	(1,047.4)	1,379.5	(570.5)	(12.4)	(582.9)
More than 3 years	3,283.4	(1,221.5)	2,061.9	1,491.4	(12.4)	1,479.0
Other currency positions						
Opening balance	–	–	644.8	644.8	–	644.8
Up to 1 month	1,077.2	(838.6)	238.6	883.4	(31.9)	851.5
From 1 to 3 months	739.9	(1,017.4)	(277.5)	605.9	(41.2)	564.7
From 3 months to 1 year	1,249.6	(1,664.4)	(414.8)	191.1	26.1	217.2
From 1 to 3 years	1,892.6	(2,365.0)	(472.4)	(281.3)	31.5	(249.8)
More than 3 years	2,699.2	(1,796.1)	903.1	621.8	30.7	652.5
Total						
Opening balance	–	–	864.0	864.0	–	864.0
Up to 1 month	1,716.6	(3,673.6)	(1,957.0)	(1,093.0)	4.4	(1,088.6)
From 1 to 3 months	1,315.7	(2,024.0)	(708.3)	(1,801.3)	2.9	(1,798.4)
From 3 months to 1 year	3,146.6	(3,104.2)	42.4	(1,758.9)	16.9	(1,742.0)
From 1 to 3 years	4,319.5	(3,412.4)	907.1	(851.8)	19.1	(832.7)
More than 3 years	5,982.6	(3,017.6)	2,965.0	2,113.2	18.3	2,131.5

As at 31 December 2013, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	_Inflow_	_Outflow_	_Gap_	_Gap Cumulative_	_FX Swap Cumulative_	_Dynamic Gap (total) Cumulative_
RUR positions						
Opening balance	–	–	198.8	198.8	–	198.8
Up to 1 month	588.7	(1,276.7)	(688.0)	(489.2)	(291.3)	(780.5)
From 1 to 3 months	358.8	(1,058.7)	(699.9)	(1,189.1)	(291.5)	(1,480.6)
From 3 months to 1 year	1,448.2	(1,260.8)	187.4	(1,001.7)	(264.7)	(1,266.4)
From 1 to 3 years	2,491.2	(941.6)	1,549.6	547.9	(308.2)	239.7
More than 3 years	2,806.5	(871.4)	1,935.1	2,483.0	(308.2)	2,174.8
Other currency positions						
Opening balance	–	–	161.6	161.6	–	161.6
Up to 1 month	1,435.7	(1,285.5)	150.2	311.8	293.8	605.6
From 1 to 3 months	280.3	(285.9)	(5.6)	306.2	293.7	599.9
From 3 months to 1 year	882.8	(1,064.7)	(181.9)	124.3	267.0	391.3
From 1 to 3 years	1,355.4	(1,619.6)	(264.2)	(139.9)	308.0	168.1
More than 3 years	1,326.2	(1,111.3)	214.9	75.0	308.0	383.0
Total						
Opening balance	–	–	360.4	360.4	–	360.4
Up to 1 month	2,024.4	(2,562.2)	(537.8)	(177.4)	2.5	(174.9)
From 1 to 3 months	639.1	(1,344.6)	(705.5)	(882.9)	2.2	(880.7)
From 3 months to 1 year	2,331.0	(2,325.5)	5.5	(877.4)	2.3	(875.1)
From 1 to 3 years	3,846.6	(2,561.2)	1,285.4	408.0	(0.2)	407.8
More than 3 years	4,132.7	(1,982.7)	2,150.0	2,558.0	(0.2)	2,557.8

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2014 by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Total*
Non-derivative liabilities						
Due to other banks	402.4	89.6	18.4	12.7	279.4	**802.5**
Customer deposits	2,580.0	855.4	516.5	696.4	1,184.5	**5,832.8**
Other borrowed funds	1,558.5	386.2	59.9	339.8	661.4	**3,005.8**
Debt securities issued	29.8	187.9	63.3	131.7	695.6	**1,108.3**
Subordinated debt	–	4.0	4.1	47.6	643.2	**698.9**
Other liabilities	49.0	3.0	1.1	4.1	2.3	**59.5**
Total cash flows payable under non-derivative liabilities	**4,619.7**	**1,526.1**	**663.3**	**1,232.3**	**3,466.4**	**11,507.8**
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(274.3)	(147.0)	(210.1)	(214.5)	(645.2)	**(1,491.1)**
Outflow	245.5	113.9	162.4	168.5	503.1	**1,193.4**
Negative fair value of derivatives						
(Inflow)	(222.6)	(230.2)	(219.1)	(155.6)	(393.0)	**(1,220.5)**
Outflow	247.3	280.3	260.7	195.2	514.9	**1,498.4**
Derivative financial instruments – net settled						
(Inflow)	(17.9)	(4.3)	(9.2)	(11.0)	(18.9)	**(61.3)**
Outflow	19.3	14.5	14.6	5.6	38.5	**92.5**
Credit related commitments	**1,474.4**	**–**	**–**	**–**	**–**	**1,474.4**

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2013 (restated) by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Total*
Non-derivative liabilities						
Due to other banks	425.4	134.8	62.0	14.1	56.9	**693.2**
Customer deposits	1,856.4	602.3	491.5	564.0	1,027.7	**4,541.9**
Other borrowed funds	386.1	326.7	39.6	483.3	407.9	**1,643.6**
Debt securities issued	34.9	30.3	69.3	80.8	736.5	**951.8**
Subordinated debt	–	3.7	5.5	10.1	411.6	**430.9**
Other liabilities	71.9	0.4	–	0.1	3.5	**75.9**
Total cash flows payable under non-derivative liabilities	**2,774.7**	**1,098.2**	**667.9**	**1,152.4**	**2,644.1**	**8,337.3**
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(408.6)	(192.8)	(200.8)	(210.7)	(591.3)	**(1,604.2)**
Outflow	402.8	181.4	192.2	206.8	555.6	**1,538.8**
Negative fair value of derivatives						
(Inflow)	(95.3)	(183.8)	(164.4)	(191.7)	(604.7)	**(1,239.9)**
Outflow	96.5	186.7	172.7	194.0	609.5	**1,259.4**
Derivative financial instruments – net settled						
(Inflow)	(5.9)	(15.9)	(9.2)	(16.8)	(25.4)	**(73.2)**
Outflow	8.3	11.7	6.5	12.0	104.0	**142.5**
Credit related commitments	**1,051.8**	**–**	**–**	**–**	**–**	**1,051.8**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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.

Current and non-current assets and liabilities

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

The table below shows assets and liabilities at 31 December 2014 by their remaining contractual maturity by which the Group expects to realise the assets and settle the liabilities.

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	695.2	–	–	**695.2**
Mandatory cash balances with central banks	78.4	7.1	–	**85.5**
Financial assets at fair value through profit or loss	437.7	224.4	19.6	**681.7**
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	103.1	80.9	–	**184.0**
Due from other banks, including pledged under repurchase agreements	598.6	215.6	0.3	**814.5**
Loans and advances to customers, including pledged under repurchase agreements	2,106.5	6,253.8	177.0	**8,537.3**
Investment financial assets	25.8	67.9	38.5	**132.2**
Investments in associates and joint ventures	–	–	96.3	**96.3**
Assets of disposal group held for sale	11.1	–	–	**11.1**
Land, premises and equipment	–	–	246.9	**246.9**
Investment property	–	–	192.3	**192.3**
Goodwill and other intangible assets	–	–	161.8	**161.8**
Deferred tax asset	–	–	66.9	**66.9**
Other assets	194.5	25.3	65.3	**285.1**
Total assets	**4,250.9**	**6,875.0**	**1,064.9**	**12,190.8**
Liabilities				
Due to other banks	507.6	225.6	–	**733.2**
Customer deposits	4,374.2	1,295.2	–	**5,669.4**
Other borrowed funds	2,316.8	412.4	–	**2,729.2**
Debt securities issued	358.2	563.2	–	**921.4**
Liabilities of disposal group held for sale	4.7	–	–	**4.7**
Deferred tax liability	–	–	26.6	**26.6**
Other liabilities	407.5	295.2	7.4	**710.1**
Subordinated debt	36.0	229.2	–	**265.2**
Total liabilities	**8,005.0**	**3,020.8**	**34.0**	**11,059.8**

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

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Current and non-current assets and liabilities (continued)

The table below shows assets and liabilities at 31 December 2013 (restated) by their remaining contractual maturity.

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	354.3	–	–	**354.3**
Mandatory cash balances with central banks	52.8	5.9	–	**58.7**
Financial assets at fair value through profit or loss	338.2	51.3	16.9	**406.4**
Financial assets, other than loans and advances to customers and due from other banks, pledged under repurchase agreements	137.4	35.8	–	**173.2**
Due from other banks, including pledged under repurchase agreements	414.1	32.0	0.1	**446.2**
Loans and advances to customers, including pledged under repurchase agreements	1,363.7	4,795.9	100.0	**6,259.6**
Investment financial assets	23.6	92.5	24.7	**140.8**
Investments in associates and joint ventures	–	–	87.6	**87.6**
Assets of disposal group held for sale	36.7	–	–	**36.7**
Land, premises and equipment	–	–	170.3	**170.3**
Investment property	–	–	160.7	**160.7**
Goodwill and other intangible assets	–	–	162.5	**162.5**
Deferred tax asset	–	–	45.5	**45.5**
Other assets	156.6	33.3	76.1	**266.0**
Total assets	**2,877.4**	**5,046.7**	**844.4**	**8,768.5**
Liabilities				
Due to other banks	576.3	48.3	–	**624.6**
Customer deposits	3,453.3	930.1	–	**4,383.4**
Other borrowed funds	1,223.6	262.3	–	**1,485.9**
Debt securities issued	164.1	574.1	–	**738.2**
Liabilities of disposal group held for sale	20.7	–	–	**20.7**
Deferred tax liability	–	–	15.0	**15.0**
Other liabilities	166.3	67.3	29.0	**262.6**
Subordinated debt	0.7	290.3	–	**291.0**
Total liabilities	**5,605.0**	**2,172.4**	**44.0**	**7,821.4**

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probabilities is applied to pricing and reserving, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial techniques. Factors that aggravate insurance risk include a lack of risk diversification in terms of the type and amount of risk, the geographical location and the type of policyholder base covered.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected pervasively by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the gender, age and geography of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome.

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Insurance risk (continued)

The Group conducts a liability adequacy test (LAT) to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. The test considers current estimates of all contractual cash flows, and of related cash flows. If a test shows that liabilities are insufficient, the total amount of deficit is charged to profit or loss.

The Group also discloses results of a sensitivity analysis that shows how its liabilities would have been affected if changes in the relevant risk variables that were reasonably possible at the end of the reporting period had occurred.

The Group is exposed to insurance risk using actuarial techniques, but applying different assumptions:

(1) The principal assumption is increase in loss ratio that directly influences loss provision. The following analysis is performed for reasonably possible movements in key assumption with all other assumptions held constant, showing the impact on loss provisions. Confident level is considered between 75% and 95%. The table below represents the sensitivity of values of loss provision to changes in actuarial assumptions as at 31 December 2014.

Lines of insurance business	***Increase in loss provisions***			
Increase in variable:				
- confident level	75%	75%	95%	95%
- loss ratio	5%	10%	5%	10%
Motor own damage insurance	0.1	0.1	0.1	0.2
Voluntary Medical insurance	–	0.1	0.1	0.1
Property insurance and Third party liability insurance	0.2	0.3	0.6	0.6
Personal Accident insurance	0.5	0.9	0.6	1.1
Obligatory Military State Insurance	0.2	0.4	0.2	0.4
Obligatory motor third party liability insurance	–	–	–	0.1
Other non-life insurance	0.3	0.3	0.7	0.7
Total	**1.3**	**2.1**	**2.3**	**3.2**

The table below represents the sensitivity of values of loss provisions to changes in actuarial assumptions as at 31 December 2013.

Lines of insurance business	***Increase in loss provisions***			
Increase in variable:				
- confident level	75%	75%	95%	95%
- loss ratio	5%	10%	5%	10%
Motor own damage insurance	–	–	0.1	0.1
Voluntary Medical insurance	–	–	0.1	0.1
Personal Accident insurance	0.1	0.1	0.2	0.2
Obligatory Military State Insurance	0.3	0.5	0.5	0.7
Total	**0.4**	**0.6**	**0.9**	**1.1**

(2) The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience, including analysis of deviation between actual and forecast amounts. The following analysis is performed for reasonably possible movements in key assumption with all other assumptions held constant, showing the impact on loss provisions. The table below represents the sensitivity of values of loss provisions to changes in actuarial assumptions as at 31 December 2014.

Lines of insurance business	***Increase in loss provisions***			
Increase in variable: claims	5%	10%	15%	20%
Motor own damage insurance	0.1	0.2	0.3	0.5
Property insurance and Third party liability insurance	–	–	0.1	0.1
Obligatory motor third party liability insurance	0.1	0.2	0.3	0.3
Total	**0.2**	**0.4**	**0.7**	**0.9**

(in billions of Russian roubles)

50. Financial and Insurance Risk Management (continued)

Insurance risk (continued)

The table below represents the sensitivity of values of loss provisions to changes in actuarial assumptions as at 31 December 2013.

Lines of insurance business	*Increase in loss provisions*			
Increase in variable: claims	5%	10%	15%	20%
Motor own damage insurance	0.1	0.3	0.4	0.5
Voluntary Medical insurance	–	–	–	–
Property insurance and Third party liability insurance	0.1	0.2	0.2	0.3
Personal Accident insurance	–	–	0.1	0.1
Obligatory motor third party liability insurance	0.2	0.4	0.6	0.8
Total	**0.4**	**0.9**	**1.3**	**1.7**

51. Fair value measurement

Fair value of financial instruments measured at fair value

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

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

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

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

(in billions of Russian roubles)

51. Fair value measurement (continued)

Assets and liabilities measured at fair value

The following table shows an analysis of assets and liabilities recorded at fair value by level of the fair value hierarchy as at 31 December 2014:

	Quoted prices in active markets _Level 1_	_Significant observable inputs_ _Level 2_	_Significant unobservable inputs_ _Level 3_	_Total_
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities	54.7	122.6	29.3	**206.6**
Trading credit products	–	6.4	15.8	**22.2**
Equity securities	6.8	–	0.3	**7.1**
Financial assets designated as at fair value through profit or loss				
Equity securities	13.4	–	3.9	**17.3**
Reverse sale and repurchase agreements to maturity	–	19.2	–	**19.2**
Debt securities	–	0.3	2.3	**2.6**
Derivative financial assets at fair value through profit or loss				
Trading derivative financial instruments				
Interest rate contracts	–	204.8	22.0	**226.8**
Foreign exchange and precious metals contracts	–	115.6	7.8	**123.4**
Other basic assets contracts	–	23.2	–	**23.2**
Contracts with securities	–	8.8	11.1	**19.9**
Embedded derivatives on structured instruments	–	6.0	7.4	**13.4**
Investment financial assets available-for-sale				
Debt securities	51.8	34.7	6.0	**92.5**
Equity securities	0.1	–	38.4	**38.5**
Hedging derivative financial instruments				
Derivatives held as cash flow hedges	–	0.3	–	**0.3**
Financial assets, other than loans and advances and due from other banks, pledged under repurchase agreements	43.9	123.8	13.0	**180.7**
Investments in associates and joint ventures at fair value through profit or loss	–	–	60.7	**60.7**
Financial assets measured at fair value within assets of disposal group held for sale				
Non- financial assets measured at fair value				
Land and premises	–	–	133.5	**133.5**
Investment property	–	–	192.3	**192.3**
Investment property within assets of disposal group held for sale	–	–	0.6	**0.6**
Financial liabilities measured at fair value				
Financial liabilities				
Trading derivative financial instruments				
Interest rate contracts	–	(226.1)	–	**(226.1)**
Foreign exchange and precious metals contracts	–	(135.8)	–	**(135.8)**
Contracts with securities	–	(5.9)	(1.4)	**(7.3)**
Other basic assets contracts	–	(25.0)	–	**(25.0)**
Embedded derivatives on structured instruments	–	(0.8)	(1.9)	**(2.7)**
Hedging derivative financial instruments	– –			
Derivatives held as cash flow hedges	–	(0.9)	–	**(0.9)**
Obligation to deliver securities	(25.0)	(0.8)	–	**(25.8)**
Non-controlling interests in consolidated mutual funds	–	–	(2.6)	**(2.6)**

(in billions of Russian roubles)

51. Fair value measurement (continued)

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

	Quoted prices in active markets Level 1	*Significant observable inputs Level 2*	*Significant unobservable inputs Level 3*	*Total*
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities	166.4	57.9	4.1	**228.4**
Trading credit products	–	49.0	–	**49.0**
Equity securities	9.4	5.4	–	**14.8**
Financial assets designated as at fair value through profit or loss				
Equity securities	–	1.4	15.5	**16.9**
Reverse sale and repurchase agreements to maturity	11.4	–	–	**11.4**
Debt securities	0.4	–	5.3	**5.7**
Derivative financial assets at fair value through profit or loss				
Trading derivative financial instruments				
Interest rate contracts	–	43.6	1.2	**44.8**
Foreign exchange and precious metals contracts	–	16.1	5.1	**21.2**
Other basic assets contracts	–	6.6	–	**6.6**
Contracts with securities	–	4.4	–	**4.4**
Embedded derivatives on structured instruments	–	2.9	0.3	**3.2**
Investment financial assets available-for-sale				
Debt securities	60.5	54.3	0.6	**115.4**
Equity securities	0.1	0.7	23.9	**24.7**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	0.1	–	**0.1**
Derivatives held as cash flow hedges	–	1.0	7.8	**8.8**
Financial assets, other than loans and advances and due from other banks, pledged under repurchase agreements	101.7	71.1	0.3	**173.1**
Investments in associates and joint ventures at fair value through profit or loss	–	–	55.2	**55.2**
Financial assets measured at fair value within assets of disposal group held for sale	–	0.2	–	**0.2**
Non- financial assets measured at fair value				
Land and premises	–	–	106.2	**106.2**
Investment property	–	–	160.7	**160.7**
Investment property within assets of disposal group held for sale	–	–	5.3	**5.3**
Financial liabilities measured at fair value				
Financial liabilities				
Trading derivative financial instruments				
Interest rate contracts	–	(34.3)	–	**(34.3)**
Foreign exchange and precious metals contracts	–	(20.1)	–	**(20.1)**
Contracts with securities	–	(2.0)	(6.3)	**(8.3)**
Other basic assets contracts	–	(5.4)	–	**(5.4)**
Embedded derivatives on structured instruments	–	(1.0)	–	**(1.0)**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	(2.4)	–	**(2.4)**
Derivatives held as cash flow hedges	–	(0.1)	–	**(0.1)**
Obligation to deliver securities	(25.5)	(1.4)	–	**(26.9)**
Non-controlling interests in consolidated mutual funds	–	–	(23.4)	**(23.4)**

(in billions of Russian roubles)

51. Fair value measurement (continued)

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

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

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 financial instruments for the year ended 31 December 2014 is as follows:

	Financial assets at fair value through profit or loss						***Financial liabilities***
	Financial assets held for trading including pledged under repurchase agreements	***Financial assets designated as at fair value through profit or loss***	***Financial assets available-for-sale including pledged under repurchase agreements***	***Investments in associates and joint ventures at fair value through profit or loss***	***Trading derivative financial instruments***	***Derivative financial instruments designated as hedging instrument***	***Non-controlling interests in consolidated mutual funds***
Fair value at 1 January 2014	**4.1**	**20.8**	**24.8**	**55.2**	**0.3**	**7.8**	**(23.4)**
Gains less losses arising from financial instruments at fair value through profit or loss	3.7	1.0	–	4.8	31.0	–	8.1
Gains less losses recognized in net result on financial assets available-for-sale and cash flow hedge	–	–	12.8		–	2.1	–
Initial recognition – purchase	25.2	–	7.7	0.7	(2.3)	–	–
Derecognition – sale	(6.6)	(15.6)	(2.2)		0.8	–	12.7
Derecognition – settlement	(1.9)	–	(1.0)		5.3	–	–
Acquisition of subsidiaries	9.3	–	–		–	–	–
Transfers into Level 3	38.8	–	8.3		–	–	–
Transfers out of Level 3 including reclassifications to other categories	(16.1)	–	(3.7)		–	–	–
Reclassification within Level 3	–	–	–		9.9	(9.9)	–
Disposal of subsidiary	–	–	(0.4)		–	–	–
Fair value at 31 December 2014	**56.5**	**6.2**	**46.3**	**60.7**	**45.0**	–	**(2.6)**
Unrealized gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income	–	–	14.3	–	–	1.5	–
Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss	3.0	4.4	–	4.8	31.0	–	0.8
Gains less losses from available-for-sale financial assets	–	–	(1.4)		–	0.6	–

(in billions of Russian roubles)

51. Fair value measurement (continued)

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

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial instruments for the year ended 31 December 2013 is as follows:

	Financial assets at fair value through profit or loss						Financial liabilities
	Financial assets held for trading including pledged under repurchase agreements	Financial assets designated as at fair value through profit or loss	Financial assets available-for-sale including pledged under repurchase agreements	Investments in associates and joint ventures at fair value through profit or loss	Trading derivative financial instruments	Derivative financial instruments designated as hedging instrument	Non-controlling interests in consolidated mutual funds
Fair value at 1 January 2013	**1.9**	**9.5**	**40.0**	**1.3**	**7.0**	–	(3.9)
Gains less losses / (losses less gains) arising from financial instruments at fair value through profit or loss	(0.1)	11.3	(9.5)	13.2	(3.3)	–	0.9
Gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income	–	–	5.7	–	–	–	–
Initial recognition – purchase	2.3	–	3.1	40.7	(0.7)	7.8	(20.4)
Derecognition – sale	(1.8)	–	(7.7)	–	–	–	–
Derecognition – settlement	–	–	–	–	(2.7)	–	–
Acquisition of subsidiaries	–	–	0.1	–	–	–	–
Transfers into Level 3	3.9	–	0.9	–	–	–	–
Transfers out of Level 3	(2.1)	–	(7.8)	–	–	–	–
Fair value at 31 December 2013	**4.1**	**20.8**	**24.8**	**55.2**	**0.3**	**7.8**	**(23.4)**
Unrealized gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income	–	–	2.8	–	–	–	–
Unrealized gains less losses / (losses less gains) recognized in gains less losses arising from financial instruments at fair value through profit or loss	(0.1)	11.3	–	13.2	(3.3)	–	0.9
Gains less losses from available-for-sale financial assets	–	–	(9.5)	–	–	7.8	–

(in billions of Russian roubles)

51. Fair value measurement (continued)

Movement in Level 3 non-financial assets measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2014 is as follows:

	Land and premises	*Investment property*	*Investment property within Assets of disposal group held for sale*
Fair value at 1 January 2014	**106.2**	**160.7**	**5.3**
(Losses less gains) / gains less losses recognized in profit or loss	(7.9)	3.8	(0.3)
Gains less losses recognized in other comprehensive income	2.3	0.1	–
Initial recognition – purchase	5.8	21.5	–
Initial recognition – capitalization of expenses	–	11.3	–
Derecognition – sale	(4.8)	(3.5)	–
Acquisition of subsidiaries	23.4	5.9	–
Disposal of subsidiaries	(2.2)	(8.7)	–
Transfers into Level 3 due to reclassification	10.7	7.1	–
Transfers out of Level 3 due to reclassification	–	(5.9)	(4.4)
Fair value at 31 December 2014	**133.5**	**192.3**	**0.6**
Unrealized gains less losses recognized in other comprehensive income	2.3	0.1	–
Unrealized (losses less gains) / gains less losses recognized in profit or loss	(7.9)	3.6	(0.3)

A reconciliation of movements in Level 3 of the fair value hierarchy by class of non-financial assets measured at fair value for the year ended 31 December 2013 is as follows:

	Land and premises	*Investment property*	*Investment property within Assets of disposal group held for sale*
Fair value at 1 January 2013	***93.4***	**148.0**	**0.3**
Gains or (losses) recognized in profit or loss	(3.1)	3.4	–
Gains less losses recognized in other comprehensive income	0.2	(0.2)	–
Initial recognition – purchase	8.1	11.8	–
Initial recognition – capitalization of expenses	–	6.5	–
Derecognition – sale	(1.3)	(5.9)	–
Acquisition of subsidiaries	9.1	2.2	–
Disposal of subsidiaries	(3.5)	–	–
Transfers into Level 3 due to reclassification	3.3	5.3	5.0
Transfers out of Level 3 due to reclassification	–	(10.4)	–
Fair value at 31 December 2013	**106.2**	**160.7**	**5.3**
Unrealized gains less losses losses / (losses less gains) recognized in other comprehensive income	0.2	(0.2)	–
Unrealized (losses less gains) / gains less losses recognized in profit or loss	(3.1)	1.0	–

(in billions of Russian roubles)

51. Fair value measurement (continued)

Transfers between levels

During the period ended 31 December 2014	*Reason for transfer (valuation at the reporting date)*	*Financial assets held for trading including pledged under repurchase agreements*	*Financial assets designated as at fair value through profit or loss*	*Financial assets available-for-sale including pledged under repurchase agreements*	*Total*
From Level 1:					
- to Level 2	valuation models with market observable inputs	188.0	0.3	57.4	**245.7**
- to Level 3	valuation models with non-market-observable inputs	11.3	–	3.4	**14.7**
From Level 2:					
- to Level 1	active market quotes	51.7	1.1	13.3	**66.1**
- to Level 3	valuation models with non-market-observable inputs	27.5	–	4.9	**32.4**
From Level 3:					
- to Level 1	active market quotes	2.3	–	–	**2.3**
- to Level 2	valuation models with market observable inputs	6.5	–	3.7	**10.2**
Total		**287.3**	**1.4**	**82.7**	**371.4**

During the period ended 31 December 2013	*Reason for transfer (valuation at the reporting date)*	*Financial assets held for trading including pledged under repurchase agreements*	*Financial assets designated as at fair value through profit or loss*	*Financial assets available-for-sale including pledged under repurchase agreements*	*Total*
From Level 1:					
- to Level 2	valuation models with market observable inputs	107.1	1.4	67.2	**175.7**
- to Level 3	valuation models with non- market-observable inputs	0.4	–	0.3	**0.7**
From Level 2:					
- to Level 1	active market quotes	9.6	–	1.7	**11.3**
- to Level 3	valuation models with non- market-observable inputs	3.5	–	0.6	**4.1**
From Level 3:					
- to Level 1	active market quotes	–	–	7.6	**7.6**
- to Level 2	valuation models with market observable inputs	2.1	–	0.2	**2.3**
Total		**122.7**	**1.4**	**77.6**	**201.7**

(in billions of Russian roubles)

51. Fair value measurement (continued)

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

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

31 December 2014	_Carrying amount_	_Valuation techniques_	_Unobservable input description_	_Input_
**Financial instruments held for trading, including pledged under repurchase agreements**				
**Equity securities**				
Other mechanical engineering	0.3	Discounted Cash flow	Weighted average cost of capital	10% - 30% (20%)
			Exit multiple	4 - 8 (6)
**Debt securities**				
Finance companies and banks	1.9	Discounted Cash flow	Credit spread adjustment	-1% - 1% (0%)
			Future expected volatility	10%-43% (26.5%)
	2.2	Discounted Cash flow	Uncertainty factor	-8.32% - 8.32% (0.00%)
	3.6	Discounted Cash flow	Credit spread	7.41% - 9.41% (8.41%)
	1.6	Discounted Cash flow	Own credit spread	2.35% - 4.35% (3.35%)
			Counterparty credit spread	0.18% - 0.38% (0.28%)
	3.3	Third party valuation	n/a	n/a
	3.9	Other	n/a	n/a
Finance Companies Servicing Mortgage And Real Estate Debts	2.9	Discounted Cash flow	Credit spread	1% - 3% (2%)
	1.0	Other	n/a	n/a
Oil	1.1	Discounted Cash flow	Credit spread	-2.58% - 0.43% (-1.50%)
	0.4	Other	n/a	n/a
Government bodies	4.5	Other	n/a	n/a
Ferrous metals	7.6	Discounted Cash flow	Credit spread	8.15% - 16.58% (11.92%)
Other economic sectors	6.4	Other	n/a	n/a
**Trading credit products**				
Finance companies and banks	5.6	Discounted Cash flow	Credit spread	3.0% - 5.0% (3.4%)
			Equity Fractional Recovery	0% - 25% (20%)
Food and agriculture	10.2	Discounted Cash flow	Credit spread	4.81% - 6.81% (5.81%)
**Derivative financial instruments**				
Equity Derivatives	10.9	Discounted Cash flow	CDS Spread	4.5% - 6.5% (5.5%)
			Underlying valuation	13.2-19.5 (13.2)
	(1.4)	Option model	Volatility	25% - 45% (31.4%)
	0.2	Other	n/a	n/a
Embedded derivatives on structured instruments	7.4	Modified Black model	CDS spread	6.96% - 8.69% (7.7%)
	(1.9)	Other	n/a	n/a
Foreign exchange	7.4	Interest rate parity	Overnight BYR yield	17% - 49.7% (22.7%)
	0.4	Other	n/a	n/a
Interest rate derivatives	22.0	Discounted Cash flow	CDS spread	6.6% - 6.9% (6.8%)
**Financial assets designated as at fair value through profit or loss**				
**Equity securities**				
Trade and commerce	3.7	NAV	n/a	n/a
Other economic sectors	0.2	Other	n/a	n/a
**Debt securities**				
Finance companies and banks	2.3	NAV + option adjustment	Volatility	25% - 45% (35%)
**Financial Assets Available-for-Sale, including pledged under repurchase agreements**				
**Debt securities**				
Finance companies and banks	1.1	Discounted Cash flow	Uncertainty factor	-8.32% - 8.32% (0.00%)
	2.6	Other	n/a	n/a
Other economic sectors	4.1	Other	n/a	n/a
**Equity securities**				
Finance companies, banks and leasing	2.2	Discounted Cash flow	Weighted average cost of capital	11.3%-15.3% (13.3%)
			exit multiple	0.6-1 (0.8)
	0.6	Other	n/a	n/a
Trade and commerce	4.5	NAV	n/a	n/a
Railway vehicle construction	0.3	Discounted Cash flow;	Change in Rental Rate	-40% - -20% (-30%)
		EV/EBITDA multiple	Change in Price of Railcars	-6% - +6% (0%)
Manufacturing	4.1	Comparative method	EV/EBITDA (defence/security systems)	6.22-10.22 (8.22)
			EV/EBITDA (microelectronics)	7.99-11.99 (9.99)
Non-ferrous metals	13.2	Discounted Cash flow	Weighted average cost of capital	13.3%-14.9% (12.8%)
			Terminal growth	$%-4% (4%)
			Cost of Debt (USD, pre-tax)	7.6%-7.6% (7.6%)
Air transport	2.3	Market comparable companies	EV/pax, comparable airports	69.1 - 84.4 (76.8)
			Discount to comparable airports	15% - 35% (25%)
Building construction	7.9	NAV	n/a	n/a
Other mechanical engineering	0.6	Discounted Cash flow	Weighted average cost of capital	10%-30% (20%)
			exit multiple	4 - 8 (6)
Other economic sectors	2.8	Other	n/a	n/a
**Investments in associates and joint ventures at fair value through profit or loss**				
Telecommunications	53.5	Discounted Cash flow	Average revenue per user forecast adjustment	-4% - 4% (0%)
			FX forecast adjustment	-4% - 4% (0%)
			Financing rate adjustment	-4% - 4% (0%)
Building construction and development	6.5	Discounted Dividend flow	Base equity cost of capital	7% - 8% (7.5%)
	0.7	Discounted Cash flow; EV/EBITDA multiple	Change in Growth of Cards Sold (%)	-2% - +2% (0%)
			Change in PT Growth per Client (%)	-5% - +5% (0%)
**Non-financial assets**				
Land and premises	131.5	Comparative method	Trade discount	5.0% - 26.7% (8.6%)
	2.0	Discounted cash flow	Capitalisation ratio	13.3% - 15.1% (14.3%)
Investment property	192.3	Combination of comparative, discounted cash flow and cost	Trade discount	5.0% - 40.0% (10.4%)
			Capitalisation ratio	8.5% - 16.5% (14.8%)
			Rate of return on investments	9.7% - 16.5% (12.9%)
Investment property within Assets of disposal group held for sale	0.6	Discounted cash flow	Capitalisation ratio	13.0%-15.0% / (14.0%)
**Non-derivative financial liabilities measured at fair value**				
Non-controlling interests in consolidated mutual funds	(2.6)	Net asset value	n/a	n/a

(in billions of Russian roubles)

51. Fair value measurement (continued)

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

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

31 December 2013	_Carrying amount_	_Valuation techniques_	_Unobservable input description_	_Input_
Financial assets held for trading, including pledged under repurchase agreements				
Debt securities				
Other economic sectors	4.1	Net asset value	n/a	n/a
Derivative financial instruments				
Foreign exchange	5.1	Discounted Cash flow	BYR interest rate curve	20%-30%/ (25%)
Interest rate derivatives	1.2	Discounted Cash flow	CDS spread	1.64%-4.59% (3.12%)
Embedded derivatives on structured instruments	0.3	Modified Black model	CDS spread	6.96%-8.69% (7.69%)
Equity options	(6.3)	Option model	Volatility	10%-30% / (20%)
Financial assets designated as at fair value through profit or loss				
Equity securities				
Mass Media	13.6	Net asset value	n/a	n/a
Finance companies and banks	1.7	Net asset value	n/a	n/a
Other economic sectors	0.2	Net asset value	n/a	n/a
Debt securities				
Finance companies and banks	5.3	Probable yield	Volatility	10%-30% / (20%)
Derivative financial instruments designated as hedging instruments				
Equity forward	7.8	Forward model	CDS spread	4.5%-6.5% / (5.5%)
			Fair value of underlying equity investment	RUR 4.7 billion – RUR 6.2 billion (RUR 6.2 billion)
Financial Assets Available-for-Sale				
Non-ferrous metals	6.3	Discounted cash flow	Weighted average cost of capital	12.4%-15.5% / (12.8%)
			Terminal growth	3%-3% / (3%)
			Cost of Debt	8.5%-8.5% / (8.5%)
Finance companies, banks and leasing companies	2.4	Net asset value	n/a	n/a
	1.2	Discounted cash flow	Weighted average cost of capital	8%-12% / (9.97%)
			Utilization Rate	97%-100% / (98.50%)
			Change in Price of Railcars	-6%-6% / (0%)
			Change in Rental Rate	-5%-5% / (0%)
	1.1	Discounted cash flow	Weighted average cost of capital	12.3%-16.3% / (14.3%)
			exit multiple	0.6%-1% / (0.8%)
Trade and commerce	2.0	Net asset value	n/a	n/a
Manufacturing	4.1	Comparative method	EV/EBITDA (defense/security systems)	6.22-10.22 / (8.22)
			EV/EBITDA (microelectronics)	7.99-11.99 / (9.99)
Real estate	0.5	Other	Real estate prices	-10%-10% / (0%)
Air transport	1.8	Market comparable companies	EV/pax, comparable airports	100-132.9 / (123.22)
Building construction	3.2	Other	n/a	n/a
Other mechanical engineering	0.5	Discounted cash flow	Weighted average cost of capital	10%-20% / (15.2%)
			Terminal growth	2%-7% / (5%)
			Cost of Debt	6%-10% / (8.3%)
Other economic sectors	1.7	Net asset value	n/a	n/a
Investments in associates and joint ventures at fair value through profit or loss				
Telecommunications	53.1	Discounted cash flow	Weighted average cost of capital	13.1%-15.1% / (14.08%)
			Terminal growth	1%-5% / (3%)
			Minutes of use additional growth	-1.5%-1.5% / (0%)
			CAGR in 2G subscribers	-4.65%-0.65%
			Long-term CAPEX/Sales ratio after 2020	5.77%-11.77%
Building construction and development	2.1	Discounted dividend flow	Weighted average cost of capital	14.4%-22.8% / (17.1%)
			Base equity risk premium	7%-8% / (7.5%)
Non-financial assets				
Land and premises	103.5	Comparative method	Trade discount	5.0%-24.2% / (7.0%)
	2.7	Discounted cash flow	Capitalisation ratio	11.5%-15.1% / (12.5%)
Investment property	160.7	Combination of comparative, discounted cash flow and cost	Trade discount	7.0%-30.0% / (13.8%)
			Capitalisation ratio	9.4%-18.0% / (16.7%)
			Rate of return on investments	7.8%-20.0% / (17.7%)
Investment property within Assets of disposal group held for sale	5.3	Discounted cash flow	Capitalisation ratio	16.0%-18.0% / (17.0%)
Non-derivative financial liabilities measured at fair value				
Non-controlling interests in consolidated mutual funds	(23.4)	Net asset value	n/a	n/a

(in billions of Russian roubles)

51. Fair value measurement (continued)

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

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

	31 December 2014		31 December 2013	
	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Non-derivative financial assets held for trading, including pledged under repurchase agreements	56.5	55.5-58.2	4.4	4.4-4.4
Trading derivative financial instruments	45.0	43.7- 45.5	0.3	0.3-0.3
Financial assets designated as at fair value through profit or loss	6.2	6.2-6.2	20.8	19.6-20.1
Investment financial assets – available-for-sale, including pledged under repurchase agreements	46.3	43.5-54.5	24.5	20.2-26.8
Investments in associates and joint ventures designated as at fair value through profit or loss	60.7	50.9-71.5	55.2	46.3-64.8
Derivative financial instruments designated as hedging instruments	–	–	7.8	7.5-9.5
Non-controlling interests in consolidated mutual funds	(2.6)	(2.6)-(2.6)	(23.4)	(23.4)-(23.4)
Non-financial assets: Land and premises	133.5	117.4-148.7	106.2	94.7-114.4
Non-financial assets: Investment property	192.3	176.4-206.1	160.7	145.8-171.2

Methods and assumptions for Level 2 financial instruments

The fair value of financial assets at fair value through profit or loss, available for sale and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment, recent transactions prices and the quotes of non-active markets if based on the Group's analysis such quotes represent the best estimate of the fair value of the financial instrument as at the reporting date. 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.

Valuation processes for level 3 fair value measurements

Level 3 valuations are reviewed on a regular basis by the Group Managing Committee who report to the management on a monthly basis. The committee considers the appropriateness of the valuation model inputs, as well as the valuation result using various valuation methods and techniques generally recognised as standard within the financial services industry. In selecting the most appropriate valuation model the committee performs back testing and considers which model's results have historically aligned most closely to actual market transactions.

In order to value Level 3 equity investments, the Group utilises comparable trading multiples. Management determines comparable public companies (peers) based on industry, size, developmental stage and strategy. Management then calculates a trading multiple for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by its earnings before interest, taxes, depreciation and amortisation (EBITDA). The trading multiple is then discounted for considerations such as illiquidity and differences between the comparable companies based on company-specific facts and circumstances.

Internal valuation of the fair value of joint-ventures and associates designated as at fair value is performed at the time of commencing the project. Internal valuations of the fair value are performed on the quarterly basis, which are reviewed by business owners of the portfolio on at least a quarterly basis to make decisions on the best timing to exit the investment according to the investment strategy.

The Level 3 debt instruments are valued at the net present value of estimated future cash flows. The Group also considers liquidity, credit and market risk factors, and adjusts the valuation model as deemed necessary.

(in billions of Russian roubles)

51. Fair value measurement (continued)

Non-financial assets and liabilities measured at fair value

Investment property. Investment property is measured at fair value reflecting market conditions at the end of the reporting period. The valuation was carried out by independent appraisers. Industry comparatives, discounted cash flow and cost methods or combination of the methods were used for revaluation. The following key non-observable assumptions (Level 3) were applied in determining the fair value of investments properties: trade discount and different discount rates in order to correct differences in location, range of areas, class and condition for comparable objects.

Land and premises. Land and premises of the Group are subject to revaluation on a regular basis. 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 basis used for valuation was industry comparatives method. The following key non-observable assumptions (Level 3) were applied in determining the fair value of land and premises: trade discount and different discount rates in order to correct differences in location, range of areas and class for comparable objects.

Assets and liabilities of disposal group held for sale. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Reclassified financial instruments, deferred taxes and investment properties held at fair value shall be remeasured in accordance with applicable IFRSs before the fair value less cost to sell of the disposal group is remeasured.

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

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

As at 31 December 2014 fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	***Significant observable inputs Level 2***	***Significant unobservable inputs Level 3***	***Total Fair value***	***Carrying amount***
Financial assets for which fair values are disclosed					
Cash and short-term funds	254.8	440.4	–	**695.2**	**695.2**
Mandatory cash balances with central banks	–	85.5	–	**85.5**	**85.5**
Financial assets, other than loans, pledged under repurchase agreements	–	–	3.3	**3.3**	**3.3**
Due from other banks, including pledged under repurchase agreements	–	791.5	–	**791.5**	**814.5**
Russia	–	*227.9*	–	*227.9*	*243.8*
OECD	–	*193.8*	–	*193.8*	*200.4*
Other countries	–	*369.8*	–	*369.8*	*370.3*
Loans and advances to customers, including pledged under repurchase agreements	–	181.9	8,171.2	**8,353.1**	**8,537.3**
Loans to legal entities	–	*181.9*	*6,421.9*	*6,603.8*	*6,748.3*
Loans to individuals	–	–	*1,749.3*	*1,749.3*	*1,789.0*
Investment securities held-to-maturity	1.0	0.2	–	**1.2**	**1.2**
Financial assets within assets of disposal groups held for sale	–	0.1	5.6	**5.7**	**5.7**
Other financial assets	–	–	82.5	**82.5**	**82.5**
Financial liabilities for which fair values are disclosed					
Due to other banks	–	724.2	–	**724.2**	**733.2**
Customer deposits	–	5,566.5	–	**5,566.5**	**5,669.4**
Deposits of legal entities	–	*3,482.0*	–	***3,482.0***	***3,520.3***
Deposits of individuals	–	*2,084.5*	–	***2,084.5***	***2,149.1***
Other borrowed funds	–	2,699.7	–	**2,699.7**	**2,729.2**
Debt securities issued	662.6	198.6	–	**861.2**	**921.4**
Subordinated debt	131.6	102.0	–	**233.6**	**265.2**
Financial liabilities within liabilities of disposal groups held for sale	–	1.7	2.7	**4.4**	**4.4**
Other financial liabilities	–	–	59.5	**59.5**	**59.5**

(in billions of Russian roubles)

51. Fair value measurement (continued)

Fair value of financial assets and liabilities not carried at fair value (continued)

As at 31 December 2013 (restated) fair values analysed by level in the fair value hierarchy and carrying value of financial assets and liabilities not measured at fair value are as follows:

	Quoted prices in active markets Level 1	*Significant observable inputs Level 2*	*Significant unobservable inputs Level 3*	*Total Fair value*	*Carrying amount*
Financial assets for which fair values are disclosed					
Cash and short-term funds	116.9	237.4	–	**354.3**	**354.3**
Mandatory cash balances with central banks	–	58.7	–	**58.7**	**58.7**
Financial assets, other than loans, pledged under repurchase agreements	–	0.1	–	**0.1**	**0.1**
Due from other banks, including pledged under repurchase agreements	–	447.8	–	**447.8**	**446.2**
Russia	–	*101.7*	–	***101.7***	***101.2***
OECD	–	*303.9*	–	***303.9***	***303.8***
Other countries	–	*42.2*	–	***42.2***	***41.2***
Loans and advances to customers, including pledged under repurchase agreements	–	304.8	5,954.8	**6,259.6**	**6,259.6**
Loans to legal entities	–	*304.8*	*4,516.9*	***4,821.7***	***4,821.7***
Loans to individuals	–	–	*1,437.9*	***1,437.9***	***1,437.9***
Investment securities held-to-maturity	0.1	0.6	–	**0.7**	**0.7**
Financial assets within assets of disposal groups held for sale	–	6.9	–	**6.9**	**6.9**
Other financial assets	–	–	66.4	**66.4**	**66.4**
Financial liabilities for which fair values are disclosed					
Due to other banks	–	637.9	–	**637.9**	**624.6**
Customer deposits	–	4,341.2	–	**4,341.2**	**4,383.4**
Deposits of legal entities	–	*2,570.8*	–	***2,570.8***	***2,590.0***
Deposits of individuals	–	*1,770.4*	–	***1,770.4***	***1,793.4***
Other borrowed funds	–	1,496.5	–	**1,496.5**	**1,485.9**
Debt securities issued	561.6	182	–	**743.6**	**738.2**
Subordinated debt	88.2	200.2	–	**288.4**	**291.0**
Financial liabilities within liabilities of disposal groups held for sale	–	13.4	–	**13.4**	**13.4**
Other financial liabilities	–	–	24.5	**24.5**	**24.5**

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

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

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

(in billions of Russian roubles)

52. Related Party Transactions

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

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

Statements of financial position

	31 December 2014		*31 December 2013 (restated)*	
	Government-related entities	*Associates and joint ventures and other*	*Government-related entities*	*Associates and joint ventures and other*
Assets				
Cash and short-term funds	152.1	34.5	135.3	0.3
Mandatory reserve deposits with central banks	68.5	–	48.7	–
Financial assets at fair value through profit or loss	195.2	–	125.0	1.9
Financial assets, other than loans, pledged under repurchase agreements	137.5	–	146.5	0.1
Due from other banks, including pledged under repurchase agreements	209.1	293.5	42.5	0.2
Loans and advances to customers, including pledged under repurchase agreements	2,177.0	110.1	1,436.9	127.4
Allowance for loan impairment	(21.3)	(6.1)	(18.5)	(6.7)
Investment financial assets	19.5	–	51.9	0.1
Investment securities held-to-maturity	1.2	–	0.4	–
Other assets	1.9	0.2	40.5	3.7
Liabilities				
Due to other banks	165.7	150.3	211.8	5.4
Customer deposits	1,684.5	43.2	1,220.4	48.8
Other borrowed funds	2,440.5	0.1	1,190.9	–
Subordinated debt	102.1	–	201.5	0.2
Other liabilities	35.9	0.7	3.3	0.5
Credit Related Commitments				
Guarantees issued	573.2	11.3	400.5	6.6
Import letters of credit	9.7	0.3	13.6	–
Undrawn credit lines	3.1	–	1.3	–
Commitments to extend credit	–	–	0.1	–

Income statements

	2014	*2013 (restated)*
Interest income		
Loans and advances to customers	148.6	108.6
Securities	23.3	23.3
Due from other banks	3.9	1.9
Interest expense		
Due to other banks and other borrowed funds	(136.1)	(55.2)
Customer deposits	(112.1)	(78.6)
Subordinated debt	(12.5)	(16.9)
Provision charge for impairment of debt financial assets	(3.5)	1.7

For the year ended 31 December 2013, the excess of fair value of acquired net asset over cost of 100% share in Avia Capital Management Ltd. purchased from one of related party amounted to RUR 6.5 billion. For the year ended 31 December 2014, the Group recognized a gain from disposal of subsidiary to a government related entity of RUR 1.2 billion (Note 54). The Group recognised the amount of RUR 99.2 billion of government grant from DIA.

For the year ended 31 December 2014, the total remuneration of the key management personnel of the Group including pension contributions amounted to RUR 5.9 billion (31 December 2013: RUR 8.8 billion). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the key management personnel as at 31 December 2014 amounted to RUR 0.3 billion (31 December 2013: RUR 0.7 billion). Compensation to key management personnel primarily consists of short term employee benefits.

(in billions of Russian roubles)

53. Consolidated Subsidiaries

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

Name	*Activity*	*Country of registration*	*Percentage of ownership 31 December 2014*	*Percentage of ownership 31 December 2013*
Subsidiaries:				
“VTB Bank (Austria)” AG	Banking	Austria	100.00%	100.00%
“RCB Bank Ltd “	Banking	Cyprus	n/a	60.00%
“VTB Bank”, PJSC (Ukraine)	Banking	Ukraine	99.98%	99.97%
“VTB Bank (Armenia)”, CJSC	Banking	Armenia	100.00%	100.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	96.81%	96.59%
“VTB Bank (Belarus)”, CJSC	Banking	Belarus	100.00%	100.00%
“Bank VTB 24”, PJSC	Banking	Russia	99.96%	99.90%
“Bank of Moscow”, OJSC	Banking	Russia	96.88%	96.39%
“Leto Bank”, OJSC	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%	51.00%
“VTB Bank (France)”, SA	Banking	France	96.22%	96.22%
“VTB-Leasing”, OJSC	Leasing	Russia	100.00%	100.00%
“VTB Capital”, Plc	Banking	Great Britain	95.54%	95.54%
“VTB-Capital”, CJSC	Finance	Russia	100.00%	100.00%
“Holding VTB Capital”, CJSC	Finance	Russia	100.00%	100.00%
“Insurance Company VTB-Insurance”, Ltd	Insurance	Russia	100.00%	100.00%
“Metropolitan Insurance Group”, OJSC	Insurance	Russia	100.00%	100.00%
“VTB Factoring”, Ltd	Factoring	Russia	100.00%	100.00%
Non-state pension fund "VTB Pension Fund", JSC	Finance	Russia	100.00%	n/a
“Hals-Development”, OJSC	Real Estate	Russia	96.44%	51.24%

During 2014 the equity capital of “Bank VTB 24”, PJSC was increased by 17,170,489,958 common shares. The newly issued shares were purchased by VTB Bank for RUR 43.9 billion that increased the percentage of ownership of Bank VTB from 99.90% to 99.96%.

In March 2014 the equity capital of VTB Bank (Georgia)”, JSC was increased by 11 million common shares. The newly issued shares were purchased by VTB Bank for RUR 0.2 billion that increased the percentage of ownership of Bank VTB from 96.59% to 96.81%.

In August 2014, the Group increased its share in “Hals-Development”, OJSC to 93.51% from 51.24% by purchasing 4,741,540 ordinary shares for RUR 7.3 billion from third party shareholders. As a result, retained earnings of the Group decreased by RUR 21.5 billion and non-controlling interests increased by RUR 14.2 billion. In September 2014 the Group made a mandatory offer to purchase the remaining 728,271 shares of “Hals-Development”, OJSC from their owners at 1,543 RUR for a share. In December 2014 as a result of the acceptance of the offer by the third party shareholders the Group obtained additional 2.93% shares in “Hals-Devlopment”, OJSC, having increased the Group’s share in the company to 96.44%.

54. Business Combinations and Disposal of Subsidiaries

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

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

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

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

(in billions of Russian roubles)

54. Business Combinations and Disposal of Subsidiaries (continued)

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

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

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

The acquisition date fair values of identifiable assets and liabilities acquired by the Group in 2014 were based on the valuation provided by the experienced independent valuation firms and were as follows:

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

If all acquisitions of the Group in 2014 had taken place at the beginning of the period, the net profit and operating income of the Group would not have been materially different.

In September 2014, the Group disposed of its shares in “Aviapark”, Ltd. for RUR 4.4 billion with no gain or loss recognised in profit or loss.

(in billions of Russian roubles)

54. Business Combinations and Disposal of Subsidiaries (continued)

In September 2014 due to current legislation requirements applicable to non-state pension funds, Non-state pension fund "VTB Pension Fund" has changed its legal form to joint stock company. The Group obtained control over VTB Pension Fund for RUR 0.2 billion and consolidated the financial statements of the Non-state pension fund "VTB Pension Fund" for the first time into the Group's consolidated financial statements for the nine months ended 30 September 2014. As a result of acquisition, the Group recognised and subsequently impaired goodwill in the amount of RUR 0.2 billion. The provisional fair value of the identified assets and liabilities as at the acquisition date were as follows:

Assets	
Cash and short-term funds	1.6
Financial assets at fair value through profit or loss	52.3
Due from other banks, including pledged under repurchase agreements	13.5
Deferred tax asset	0.1
Total assets	**67.5**
Liabilities	
Other liabilities	67.5
Total liabilities	**67.5**
Fair value of identifiable net assets of subsidiary	**–**
Goodwill:	
Consideration given	0.2
Less: fair value of identifiable net assets of subsidiary	–
Goodwill	**0.2**

Other liabilities of RUR 67.5 billion represent pension liabilities accounted under IFRS 4.

In September 2014, the Supervisory Council of VTB Bank approved an increase in the equity capital of RCB Bank Ltd., its Cyprus-based majority-owned subsidiary, through the issuance of additional common shares. The newly issued shares were acquired by a third party financial institution. The issuance was completed in November 2014. As a result, the Group's ownership interest in RCB Bank Ltd. decreased to 46.29%, and the Group recognised a gain of RUR 4.2 billion on the disposal transaction, including RUR 4.3 billion attributable to the release of the accumulated currency translation difference from equity to income on the date when control over RCB Bank Ltd. was lost. Subsequent to the completion of the transaction, the Group accounts for its remaining ownership interest in RCB Bank Ltd. as an investment in associates and joint ventures using the equity method (Note 15).

The assets and liabilities in RCB Bank Ltd. as at the date of disposal were as follows:

Assets	
Cash balances with local central banks (other than mandatory reserve deposits)	47.7
Financial assets at fair value through profit or loss	46.3
Due from other banks	4.7
Loans and advances to customers	222.0
Other assets	13.4
Total assets	**334.1**
Due to other banks	190.5
Customer deposits	105.1
Other liabilities	18.9
Total liabilities	**314.5**

(in billions of Russian roubles)

54. Business Combinations and Disposal of Subsidiaries (continued)

In October 2014 the Group sold to non-related third parties its 100% stake in “Bank Moscow-Minsk”, OJSC for USD 55.7 million (RUR 2.4 billion). The gain from disposal of subsidiary amounted to RUR 0.5 billion. Of the above loss, RUR 0.3 billion is attributable to the transfer of the currency translation difference reserve reclassified to profit at the date when control was lost.

The assets and liabilities in “Bank Moscow-Minsk”, OJSC as at the date of disposal were as follows:

Assets	
Cash balances with local central banks (other than mandatory reserve deposits)	4.0
Loans and advances to customers	9.3
Fixed assets	1.2
Other assets	0.7
Total assets	**15.2**
Due to other banks	2.2
Customer deposits	10.7
Other liabilities	0.1
Total liabilities	**13.0**

In December 2014 the Group sold to non-related third parties its 100% stake in “VTB Leasing Ukraine”, PC for RUR 1.5 million. The gain from disposal of subsidiary amounted to RUR 0.5 billion of which RUR 0.4 billion is attributable to the transfer of the currency translation difference reserve reclassified to profit at the date when control was lost.

The assets and liabilities in “VTB Leasing Ukraine”, PC as at the date of disposal were as follows:

Assets	
Cash balances with local central banks (other than mandatory reserve deposits)	0.6
Loans and advances to customers	7.1
Other assets	1.6
Total assets	**9.3**
Other borrowed funds	16.8
Deferred tax liability	0.7
Other liabilities	0.1
Total liabilities	**17.6**

In December 2014 the Group lost control over TBIH Russian Funds, LLC due to bankruptcy proceedings and recognized loss of RUR 2.1 billion.

(in billions of Russian roubles)

55. Non-controlling interests

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2014:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
"Bank of Moscow", OJSC	Banking	Russia	3.59%	9.4	2.6	0.9
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	1.4	(3.1)	–
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	2.1	0.8	–
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	49.00%	1.7	0.1	–
"Hals-Development", OJSC	Real Estate	Russia	3.56%	0.8	(1.8)	–

There are no significant restrictions on the Group's ability to access or use assets and settle liabilities of subsidiaries listed above.

The Group has defined as material a non-controlling interest in subsidiaries in which it has between 50% and 75% of the voting rights. Some subsidiaries, which net assets form the significant part of the Group's net assets, may also be included in the list even if the Group has more than 75% of voting rights. The summarised financial information of these subsidiaries was as follows at 31 December 2014:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/ (loss)	Total compre-hensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
"Bank of Moscow", OJSC	943.8	1,171.4	1,196.9	647.4	178.3	69.1	63.5	(115.8)	4.4	110.4
"Upravlyayuschaya kompaniya Dynamo", CJSC	7.4	33.6	2.4	33.0	0.6	(12.4)	(12.4)	10.4	(8.0)	–
CiTer Invest B.V.	0.8	20.6	4.2	12.9	–	1.6	1.6	0.2	(3.3)	3.3
"VTB Bank (Azerbaijan)", OJSC	2.0	18.8	5.9	11.4	1.9	0.2	–	(1.5)	(0.3)	0.1
"Hals-Development", OJSC	29.1	95.3	29.3	126.9	0.8	(4.1)	–	12.9	(10.9)	8.6

The following table provides information about subsidiaries that had material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at 31 December 2013:

Name	Activity	Country of registration	Proportion of non-controlling interest	Accumulated non-controlling interest in the subsidiary	Profit/(loss) attributable to non-controlling interest	Dividends paid to non-controlling interest for the year
"Bank of Moscow", OJSC	Banking	Russia	3.61%	8.3	1.5	0.3
"RCB Bank Ltd "	Banking	Cyprus	40.00%	5.3	1.2	1.3
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	4.5	(0.2)	–
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	1.3	(0.4)	–
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	49.00%	0.9	0.1	–
"Hals-Development", OJSC	Real Estate	Russia	48.76%	5.5	1.7	–

There are no significant restrictions on the Group's ability to access or use assets and settle liabilities of subsidiaries listed above. The summarised financial information of these subsidiaries was as follows at 31 December 2013:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Net profit/ (loss)	Total compre-hensive income	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financial activities
"Bank of Moscow", OJSC	626.5	960.8	1,033.7	322.1	131.7	37.5	37.8	36.3	11.6	(29.1)
"RCB Bank Ltd "	221.3	147.4	334.4	21.0	36.2	3.5	4.5	(14.7)	(0.1)	(3.5)
"Upravlyayuschaya kompaniya Dynamo", CJSC	0.5	34.8	0.9	16.5	0.3	(0.7)	(0.7)	2.7	(2.7)	–
CiTer Invest B.V.	2.5	10.7	1.2	9.4	0.0	(0.7)	(0.7)	0.5	(3.8)	3.2
"VTB Bank (Azerbaijan)", OJSC	0.9	7.8	2.4	4.4	0.9	0.2	0.2	(0.9)	(0.1)	1.2
"Hals-Development", OJSC	52.3	48.7	8.5	81.2	4.8	3.6	3.6	1.2	(1.8)	3.5

(in billions of Russian roubles)

56. Interests in Structured Entities

The Group issues eurobonds and subordinated Eurobonds through a number of consolidated structured entities incorporated in OECD countries.

Name	*Country of registration*
BOM Capital P.L.C	Ireland
Kuznetski Capital S.A.	Luxembourg
Northern Lights B.V.	Netherlands
Or-ICB S.A.	Luxembourg
Turgenevka ABS Finance B.V.	Netherlands
VTB Capital S.A	Luxembourg
VTB ECP Finance Limited	Ireland
VTB Eurasia Limited	Ireland

As at 31 December 2014 the Group guarantees all obligations of these entities represented by the eurobonds issued in the amount of RUR 596.3 billion and by the subordinated eurobonds issued in the amount of RUR 162.8 billion (31 December 2013: eurobonds issued in the amount of RUR 394.3 billion and subordinated Eurobonds issued in the amount of RUR 83.3 billion).

The Group issues mortgage-backed securities and purchases right of claims under mortgage through a consolidated structured entity performing its activity as mortgage agent.

Name	*Country of registration*
Russian Mortgage Backed Securities 2006-1, S.A.	Luxembourg

As at 31 December 2014 the Group guarantees all obligations of these entities represented by the bonds issued in the amount of RUR 0.5 billion (31 December 2013: RUR 0.4 billion). As at 31 December 2014 the Group reported retail mortgage loans to individuals recognised as a result of these entities consolidation in the amount of RUR 0.4 billion (31 December 2013: RUR 0.3 billion).

The Group performs some development projects through a number of consolidated structured entities.

Name	*Country of registration*
Global-Finance, CJSC	Russia
Triada Invest, CJSC	Russia
Zifaria Holdings Limited	Cyprus
Yorknew Management LTD	Cyprus

During 2014 and 2013 the Group did not provide any other financial support to the consolidated structured entities. The Group has no current obligation or intention to provide financial or other support to consolidated structured entities, or to assist the structured entities in obtaining financial support.

(in billions of Russian roubles)

57. Capital Management and Capital Adequacy

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

Capital adequacy ratio in accordance with CBR requirements

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

During 2014 and 2013 the Bank's capital adequacy ratio in accordance with CBR requirements exceeded the minimum level and as at 31 December 2014 and 2013 was as follows:

	31 December 2014	***31 December 2013***
Capital	771.1	613.2
Risk-weighted assets	6,114.0	5,216.0
Capital adequacy ratio	12.6%	11.8%

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

	31 December 2014	***31 December 2013***
Tier 1 capital		
Share capital	352.1	138.1
Share premium	433.8	433.8
Treasury shares	(6.5)	(3.6)
Perpetual loan participation notes excluding bought back	126.4	73.6
Retained earnings	169.3	262.0
Unrealized gain on financial assets available-for-sale and cash flow hedge	(18.7)	3.0
Currency translation difference	44.3	12.5
Non-controlling interests	13.1	7.6
Deducted: Goodwill	(116.3)	(120.4)
Total Tier 1 capital	***997.5***	***806.6***
Tier 2 capital		
Land and premises revaluation reserve	17.2	20.1
Subordinated debt	223.1	271.9
Total Tier 2 capital	***240.3***	***292.0***
Total capital before deductions	**1,237.8**	**1,098.6**
Deducted: Investments in the capital of other banks and financial institutions	(21.2)	(5.8)
Total capital after deductions	**1,216.6**	**1,092.8**
Risk-weighted assets		
Credit risk	9,528.4	6,735.8
Market risks	647.8	695.0
Total risk-weighted assets	**10,176.2**	***7,430.8***
Tier 1 capital ratio to total risk-weighted assets	**9.8%**	**10.9%**
Total capital ratio to total risk-weighted assets	**12.0%**	**14.7%**

58. Subsequent Events

In January 2015, VTB redeemed local bonds in total amount RUR 10.0 billion upon maturity.

In March 2015, VTB redeemed bonds under EMTN programme in total amount USD 1.25 billion (RUR 78.0 billon) upon maturity.

In January-February 2015, "VTB Capital", Plc redeemed seven notes on its EMTN programme in total amount USD 22.0 million (RUR 1.4 billion) and TRY 300.0 million (RUR 8.6 billion) on due date.

In March 2015 "Bank of Moscow", OJSC redeemed its USD 750.0 million (RUR 45.0 billion) euro bonds payable upon maturity.

In February 2015 "Bank of Moscow", OJSC acquired additional 0.5% of equity stake in "Hals-Development", OJSC for RUR 1.5 million.