VTB BANK

Consolidated Financial Statements
and Auditors' Report

For the years ended 31 December 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of VTB Bank:

We have audited the accompanying consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheets as at 31 December 2008 and 2007 and the consolidated statements of income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit

27 April 2009

(expressed in millions of US dollars)

	Note	2008	2007
Assets			
Cash and short-term funds	6	14,162	5,160
Mandatory cash balances with central banks		259	825
Financial assets at fair value through profit or loss	7	5,813	10,436
Financial assets pledged under repurchase agreements and loaned financial assets	8	1,513	2,212
Due from other banks	9	10,482	9,733
Loans and advances to customers	10	86,984	58,549
Financial assets available-for-sale	11	812	858
Investments in associates	12, 40	153	167
Investment securities held-to-maturity	13	703	5
Premises and equipment	14	2,070	1,997
Investment property	15	148	168
Intangible assets	16	385	480
Deferred tax asset	31	316	215
Other assets	17	2,048	1,804
Total assets		**125,848**	**92,609**
Liabilities			
Due to other banks	18	13,231	14,794
Customer deposits	19	37,503	37,098
Other borrowed funds	20	28,888	5,176
Debt securities issued	21	19,063	16,489
Deferred tax liability	31	188	149
Other liabilities	23	5,924	1,231
Total liabilities before subordinated debt		**104,797**	**74,937**
Subordinated debt	22	7,704	1,171
Total liabilities		**112,501**	**76,108**
Equity			
Share capital	24	3,084	3,084
Share premium	24	8,792	8,792
Treasury shares		(15)	(21)
Unrealized gain / (loss) on financial assets available-for-sale and cash flow hedge		(3)	109
Premises revaluation reserve		568	587
Currency translation difference		(1,853)	663
Retained earnings		2,682	2,993
Equity attributable to shareholders of the parent		**13,255**	**16,207**
Minority interest		92	294
Total equity		**13,347**	**16,501**
Total liabilities and equity		**125,848**	**92,609**

Approved for issue and signed on 27 April 2009.

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

N.V. Tsekhomsky
Chief Financial Officer – Member of the Management Board

(expressed in millions of US dollars, except earnings per share data)

	Note	2008	2007
Interest income	25	9,809	5,387
Interest expense	25	(5,242)	(2,831)
Net interest income		**4,567**	**2,556**
Provision charge for impairment	30	(2,482)	(526)
Net interest income after provision for impairment		**2,085**	**2,030**
Gains less losses arising from financial instruments at fair value through profit or loss	26	87	138
Gains less losses arising from extinguishment of liability	21, 22	349	–
Gains less losses / (losses net of gains) from available-for-sale financial assets	8,11	(46)	116
Gains less losses / (losses net of gains) arising from dealing in foreign currencies		(2,416)	547
Foreign exchange translation gains less losses		2,547	108
Fee and commission income	27	779	637
Fee and commission expense	27	(123)	(80)
Share in income of associates		6	18
Recovery of / (provision charge for) impairment of other assets and credit related commitments	30	(58)	2
Income arising from non-banking activities		127	95
Other operating income	28	175	121
Net non-interest income		**1,427**	**1,702**
Operating income		**3,512**	**3,732**
Staff costs and administrative expenses	29	(2,711)	(1,948)
Expenses arising from non-banking activities		(58)	(63)
Profit from disposal of subsidiaries and associates	39	–	98
Profit before taxation		**743**	**1,819**
Income tax expense	31	(531)	(305)
Net profit		**212**	**1,514**
Net profit attributable to:			
Shareholders of the parent		**218**	**1,480**
Minority interest		**(6)**	**34**
Basic and diluted earnings per share (expressed in USD per share)	32	**0.000032**	**0.000241**

(expressed in millions of US dollars)

	Note	2008	2007
Cash flows from operating activities			
Interest received		9,450	5,246
Interest paid		(4,791)	(2,622)
Income received / (losses incurred) on operations with financial instruments at fair value through profit or loss		(353)	286
Income received / (losses incurred) on dealing in foreign currency		(1,186)	474
Fees and commissions received		745	637
Fees and commissions paid		(110)	(96)
Income arising from non-banking activities and other operating income received		206	110
Staff costs, administrative expenses and expenses arising from non-banking activities paid		(2,404)	(1,790)
Income tax paid		(599)	(476)
Cash flows from operating activities before changes in operating assets and liabilities		**958**	**1,769**
Net decrease (increase) in operating assets			
Net decrease (increase) in mandatory cash balances with central banks		505	(125)
Net decrease in restricted cash		29	38
Net decrease (increase) in financial assets at fair value through profit or loss		4,612	(5,521)
Net increase in due from other banks		(876)	(2,617)
Net increase in loans and advances to customers		(35,412)	(28,231)
Net increase in other assets		(414)	(914)
Net (decrease) increase in operating liabilities			
Net (decrease) increase in due to other banks		(1,083)	6,805
Net increase in customer deposits		6,557	15,566
Net increase in promissory notes and certificates of deposits issued		2,835	2
Net increase in other liabilities		291	266
Net cash used in operating activities		**(21,998)**	**(12,962)**
Cash flows from (used in) investing activities			
Dividends received		53	38
Proceeds from sale or maturities of financial assets available-for-sale		1,035	2,409
Purchase of financial assets available-for-sale		(588)	(256)
Purchase of subsidiaries, net of cash acquired		(7)	(11)
Purchase of minority interest in subsidiaries		(326)	(309)
Purchase of associates and contribution to associates		(16)	(10)
Disposal of associates		–	45
Disposal of subsidiaries, net of cash disposed		–	109
Proceeds from maturities of investment securities held-to-maturity		–	8
Purchase of investment securities held-to-maturity		(316)	(2)
Purchase of premises and equipment		(448)	(343)
Proceeds from sale of premises and equipment		97	73
Purchase of intangible assets		(33)	(15)
Proceeds from sale of intangible assets		1	–
Purchase of investment property		–	(19)
Proceeds from disposal of investment property		–	61
Net cash (used in) from investing activities		**(548)**	**1,778**

(expressed in millions of US dollars)

	Note	2008	2007
Cash flows from financing activities			
Dividends paid		(382)	(135)
Proceeds from other borrowings		25,723	1,547
Repayment of other borrowings		(1,928)	(660)
Proceeds from syndicated loans		1,654	453
Repayment of syndicated loans		(1,044)	(831)
Proceeds from issuance of RUR-denominated bonds		1,089	501
Repayment of RUR-denominated bonds		(294)	–
Buy-back of RUR-denominated bonds		(10)	–
Proceeds from issuance of eurobonds		3,603	5,628
Repayment of eurobonds		(2,818)	(1,495)
Buy-back of Eurobonds		(768)	–
Repayment of SSD debentures (Shuldscheindarlehen)		–	(227)
Proceeds from share issue, less transaction costs		–	7,842
Proceeds from subordinated debt		7,418	–
Repayment of subordinated debt		(15)	–
Buy-back of subordinated debt		(145)	–
Purchase of treasury shares		–	(21)
Sale of treasury shares		5	–
Net cash from financing activities		**32,088**	**12,602**
Effect of exchange rate changes on cash and cash equivalents		**(512)**	199
Net increase in cash and cash equivalents		**9,030**	**1,617**
Cash and cash equivalents at beginning of the year	6	5,096	3,479
Cash and cash equivalents at the end of the year	**6**	**14,126**	**5,096**

(expressed in millions of US dollars)

	Attributable to shareholders of the parent									
	Share capital	Share premium	Treasury shares	Unrealized gain / (loss) on financial assets available-for-sale and cash flow hedge	Premises revaluation reserve	Currency translation difference	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2007	**2,500**	**1,513**	**–**	**154**	**341**	**352**	**1,744**	**6,604**	**388**	**6,992**
Unrealized gain on financial assets available-for-sale, net of tax (Note 11)	–	–	–	16	–	–	–	**16**	(1)	**15**
Transferred to profit or loss on sale, net of tax (Note 11)	–	–	–	(112)	–	–	–	**(112)**	–	**(112)**
Unrealized gains less losses on cash flow hedge, net of tax (Note 34)	–	–	–	51	–	–	–	**51**	–	**51**
Premises revaluation, net of tax (Note 14)	–	–	–	–	264	–	–	**264**	9	**273**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(15)	–	15	**–**	–	**–**
Effect of translation	–	–	–	–	–	324	–	**324**	28	**352**
Total income recognized directly in equity	**–**	**–**	**–**	**(45)**	**249**	**324**	**15**	**543**	**36**	**579**
Net profit	**–**	**–**	**–**	**–**	**–**	**–**	**1,480**	**1,480**	**34**	**1,514**
Total income and expense for the period	**–**	**–**	**–**	**(45)**	**249**	**324**	**1,495**	**2,023**	**70**	**2,093**
Dividends declared (Note 33)	–	–	–	–	–	–	(133)	**(133)**	(2)	**(135)**
Share issue (Note 24)	584	7,279	–	–	–	–	–	**7,863**	–	**7,863**
Treasury shares	–	–	(21)	–	–	–	–	**(21)**	–	**(21)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	**–**	25	**25**
Increase in share capital of subsidiaries	–	–	–	–	–	–	26	**26**	(26)	**–**
Acquisition of minority interests	–	–	–	–	–	–	(146)	**(146)**	(165)	**(311)**
Change in ownership share in associates (not recognized in associate's profit or loss)	–	–	–	–	–	–	4	**4**	–	**4**
Establishment of subsidiaries	–	–	–	–	–	–	–	**–**	6	**6**
Disposal of subsidiaries (Note 39)	–	–	–	–	(3)	(13)	3	**(13)**	(2)	**(15)**
Balance at 31 December 2007	**3,084**	**8,792**	**(21)**	**109**	**587**	**663**	**2,993**	**16,207**	**294**	**16,501**

(expressed in millions of US dollars)

	Attributable to shareholders of the parent									
	Share capital	**Share premium**	**Treasury shares**	**Unrealized gain / (loss) on financial assets available-for-sale and cash flow hedge**	**Premises revaluation reserve**	**Currency translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2008	**3,084**	**8,792**	**(21)**	**109**	**587**	**663**	**2,993**	**16,207**	**294**	**16,501**
Unrealized loss on financial assets available-for-sale, net of tax (Note 11)	–	–	–	(110)	–	–	–	**(110)**	(4)	**(114)**
Transferred to profit or loss on sale or impairment on financial assets available-for-sale, net of tax (Note 11)	–	–	–	35	–	–	–	**35**	–	**35**
Unrealized gains less losses on cash flow hedge, net of tax (Note 34)	–	–	–	8	–	–	–	**8**	–	**8**
Transferred to profit or loss realized gain on cash flow hedges, net of tax (Note 34)	–	–	–	(42)	–	–	–	**(42)**	–	**(42)**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(43)	–	42	(1)	–	**(1)**
Adjustment of deferred income tax liability due to change in applicable income tax rate (Note 31)	–	–	–	(3)	24	–	–	**21**	–	**21**
Actuarial gains less losses arising from difference between pension plan assets and obligations	–	–	–	–	–	–	(13)	**(13)**	(1)	**(14)**
Changes in associates' equity (not recognized in profit or loss)	–	–	–	–	–	(34)	–	**(34)**	–	**(34)**
Effect of translation	–	–	–	–	–	(2,482)	–	**(2,482)**	(16)	**(2,498)**
Total income recognized directly in equity	**–**	**–**	**–**	**(112)**	**(19)**	**(2,516)**	**29**	**(2,618)**	**(21)**	**(2,639)**
Net profit	**–**	**–**	**–**	**–**	**–**	**–**	**218**	**218**	**(6)**	**212**
Total income and expense for the period	**–**	**–**	**–**	**(112)**	**(19)**	**(2,516)**	**247**	**(2,400)**	**(27)**	**(2,427)**
Dividends declared (Note 33)	–	–	–	–	–	–	(382)	**(382)**	(26)	**(408)**
Treasury shares	–		6	–	–	–	(1)	**5**	–	**5**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	2	**2**
Increase in share capital of subsidiaries	–	–	–	–	–	–	2	**2**	(2)	–
Acquisition of minority interests	–	–	–	–	–	–	(177)	**(177)**	(149)	**(326)**
Balance at 31 December 2008	**3,084**	**8,792**	**(15)**	**(3)**	**568**	**(1,853)**	**2,682**	**13,255**	**92**	**13,347**

1. Principal Activities

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

VTB Bank, also known as Vneshtorgbank (the "Bank", "Vneshtorgbank", or "VTB"), was formed as Russia's foreign trade bank under the laws of the Russian Federation on 17 October 1990. In 1998, following several reorganizations, VTB was reorganized into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. Simultaneously, the names of some of VTB's subsidiaries were changed as presented in Note 40. In March 2007, the Bank for Foreign Trade was renamed into "VTB Bank" (Open Joint-Stock Company).

On January 2, 1991, VTB received a general banking license (number 1000) from the Central Bank of Russia ("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 Service for Financial Markets. 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 "Agency for Deposits Insurance". The main retail subsidiary bank - VTB 24, CJSC is also a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance" since 22 February 2005. OJSC "Bank VTB North-West" (former OJSC "Industry & Construction Bank"), a subsidiary acquired at the end of 2005, is also a member of the obligatory deposit insurance system since 11 January 2005. Under the State deposit insurance scheme, the State Corporation "Agency for Deposits Insurance" guaranteed repayment of individual deposits up to 100 thousand Russian Roubles ("RUR") (approximately USD 4 thousand) per individual in case of the withdrawal of a license of a bank or a CBR imposed moratorium on payments in full amount and for individual deposits exceeding RUR 100 thousand a 90% payment is guaranteed. From 25 March 2007 the maximum total amount of guaranteed payment was increased up to RUR 400 thousand (approximately USD 17 thousand). From 1 October 2008 the maximum total amount of guaranteed payment was increased up to RUR 700 thousand (approximately USD 24 thousand) with a 100% compensation of deposited amount.

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

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

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group's operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through VTB as a parent and 2 subsidiary banks with its network of 115 full service branches, including 55 branches of VTB, 34 branches of bank VTB 24 and 26 branches of OJSC "Bank VTB North-West'', located in major Russian regions. The Group operates outside Russia through 11 bank subsidiaries, located in the Commonwealth of Independent States ("CIS") (Armenia, Georgia, Ukraine, Belarus), Europe (Austria, Cyprus, Switzerland, Germany, France and Great Britain), Africa (Angola) and through 4 representative offices located in Italy, China, Kyrgyz Republic and Republic of Kazakhstan and through 2 VTB branches in China and India and VTB Europe Singapore branch. The Group has established a new 100%-owned subsidiary in Kazakhstan, which will start its operations in 2009 upon obtaining a banking licence.

VTB's majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 77.47% of VTB's issued and outstanding shares at 31 December 2008 (31 December 2007: 77.47%).

The number of employees of the Group at 31 December 2008 was 41,992 (31 December 2007: 35,945).

Unless otherwise noted herein, all amounts are expressed in millions of US dollars.

2. Operating Environment of the Group

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

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

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

3. Basis of Preparation

General

These consolidated financial statements 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 consolidated financial statements are based on those accounting books and records, as adjusted and reclassified to comply with IFRS.

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

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

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

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

3. Basis of Preparation (continued)

General (continued)

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

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

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for IAS 39 and IFRS 7 amendment, described below.

Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial instruments: Disclosures" – "Reclassification of Financial Assets"

The amendments to IAS 39 and IFRS 7 were issued on 13 October 2008 and allowed the reclassification from the category of non-derivative financial assets held for trading:

- to loans and advances to customers or to due from other banks in case these financial assets meet the definition of loans and receivables under IAS 39, or
- to investment securities held-to-maturity or to available-for-sale financial assets in case of change in intention "in rare circumstances".

The amendments also allowed transfer of certain financial assets from the available-for-sale category to loans and receivables category in case these financial assets meet the definition of loans and receivables under IAS 39.

The effective date of those amendments is 1 July 2008. Any reclassification made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made. The disclosures about reclassifications made are presented below.

Certain new interpretations became effective for the Group from 1 January 2008:

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007) Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This Interpretation has no impact on the Group.

IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008) – IFRIC Interpretation 12 was issued in November 2006. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. This Interpretation has no impact on the Group.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective for annual periods beginning on or after 1 January 2008) – IFRIC Interpretation 14 was issued in July 2007. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits. This Interpretation has no impact on the Group.

Reclassifications

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

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Reclassifications (continued)

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

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

The Group also identified debt instruments previously booked as held for trading, which are traded in active markets and for which the Group has the positive intention and ability to hold them to maturity. These debt instruments were reclassified to investment securities held-to-maturity upon occurrence of "rare circumstances", i.e. 1 September 2008.

The following tables show carrying values and fair values of the reclassified debt securities, which are not pledged under repurchase agreements (see Note 6), at each reclassification date.

	1 July 2008	31 December 2008	
	Fair value	Carrying value	Fair value
Financial assets held for trading reclassified to due from other banks	369	314	315
Financial assets held for trading reclassified to loans and advances to customers	608	522	436
Financial assets available-for-sale reclassified to due from other banks	62	61	66
Financial assets available-for-sale reclassified to loans and advances to customers	74	73	72
Total financial assets reclassified on 1 July 2008	**1,113**	**970**	**889**

	1 September 2008	31 December 2008	
	Fair value	Carrying value	Fair value
Financial assets held for trading reclassified to loans and advances to customers	59	51	42
Financial assets held for trading reclassified to investment securities held-to-maturity	540	462	437
Total financial assets reclassified on 1 September 2008	**599**	**513**	**479**

	Other dates	31 December 2008	
	Fair value	Carrying value	Fair value
Financial assets held for trading reclassified to due from other banks	81	78	58
Financial assets held for trading reclassified to loans and advances to customers	152	137	114
Financial assets available-for-sale reclassified to due from other banks	10	10	10
Financial assets available-for-sale reclassified to loans and advances to customers	3	3	3
Total financial assets reclassified on other dates	**246**	**228**	**185**

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Reclassifications (continued)

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

	1 July 2008	31 December 2008	
	Fair value	Carrying value	Fair value
Financial assets held for trading reclassified to due from other banks	377	322	324
Financial assets held for trading reclassified to loans and advances to customers	64	58	53
Financial assets available-for-sale reclassified to loans and advances to customers	24	22	18
Total financial assets reclassified on 1 July 2008	**465**	**402**	**395**

	1 September 2008	31 December 2008	
	Fair value	Carrying value	Fair value
Financial assets held for trading reclassified to due from other banks	31	27	27
Financial assets held for trading reclassified to loans and advances to customers	30	25	23
Financial assets held for trading reclassified to investment securities held-to-maturity	729	625	616
Total financial assets reclassified on 1 September 2008	**790**	**677**	**666**

The fair value gain or loss on financial assets, which are not pledged under repurchase agreements, recognized in profit or loss or other equity components up to the date of reclassification, income or loss recognized after reclassification, and fair value gain or loss that would have been recognized if the assets had not been reclassified, were as follows:

	Fair value gain / (loss) recognized up to the date of reclassification				
	2008	From purchase date till 31 December 2007	Interest income recognized after reclassification	Provision charge recognized after reclassification	(Loss) / gain, that would have been recognized if the assets had not been reclassified
Financial assets held for trading reclassified to due from other banks	(3)	1	18	(8)	11
Financial assets held for trading reclassified to loans and advances to customers	(35)	7	39	(20)	(118)
Financial assets held for trading reclassified to investment securities held-to-maturity	18	(19)	22	(2)	(25)
Financial assets available-for-sale reclassified to due from other banks	–	(1)	3	–	5
Financial assets available-for-sale reclassified to loans and advances to customers	(8)	(4)	3	–	(1)
Total financial assets not pledged reclassified	**(28)**	**(16)**	**85**	**(30)**	**(128)**

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Reclassifications (continued)

The fair value gain or loss on financial assets, pledged under repurchase agreements, recognized in profit or loss or other equity components up to the date of reclassification, income or loss recognized after reclassification, and fair value gain or loss that would have been recognized if the assets had not been reclassified, were as follows:

	Fair value gain / (loss) recognized up to the date of reclassification				
	2008	From purchase date till 31 December 2007	Interest income recognized after reclassification	Provision charge recognized after reclassification	(Loss) / gain, that would have been recognized if the assets had not been reclassified
Financial assets held for trading reclassified to due from other banks	1	–	2	–	2
Financial assets held for trading reclassified to loans and advances to customers	(3)	(1)	–	–	(7)
Financial assets held for trading reclassified to investment securities held-to-maturity	1	(2)	16	–	(9)
Financial assets available-for-sale reclassified to due from other banks	–	–	–	–	1
Financial assets available-for-sale reclassified to loans and advances to customers	(2)	–	1	(1)	(4)
Total financial assets pledged reclassified	**(3)**	**(3)**	**19**	**(1)**	**(17)**

Estimated amounts of present values of cash flows, the Group expects to recover as at the date of reclassification of financial assets were the following:

	Financial assets not pledged under repurchase agreements			Financial assets pledged under repurchase agreements	
	Reclassification date 1 July 2008	Reclassification date 1 September 2008	Other reclassification dates	Reclassification date 1 July 2008	Other reclassification dates
Financial assets held for trading reclassified to due from other banks	369	59	81	377	31
Financial assets held for trading reclassified to loans and advances to customers	608	–	152	64	30
Financial assets held for trading reclassified to investment securities held-to-maturity	–	540	–	–	729
Financial assets available-for-sale reclassified to due from other banks	62	–	10	–	–
Financial assets available-for-sale reclassified to loans and advances to customers	74	–	3	24	–
Total financial assets reclassified	**1,113**	**599**	**246**	**465**	**790**

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Reclassifications (continued)

As of the reclassification date, effective interest rates on financial assets were as follows:

	Financial assets not pledged under repurchase agreements		Financial assets pledged under repurchase agreements	
	Maximum effective interest rate	Minimum effective interest rate	Maximum effective interest rate	Minimum effective interest rate
Financial assets held for trading reclassified to due from other banks	19.72%	2.44%	9.69%	6.44%
Financial assets held for trading reclassified to loans and advances to customers	24.25%	6.74%	10.80%	5.61%
Financial assets held for trading reclassified to investment securities held-to-maturity	17.69%	6.53%	11.68%	11.61%
Financial assets available-for-sale reclassified to due from other banks	16.78%	6.72%	–	–
Financial assets available-for-sale reclassified to loans and advances to customers	10.70%	3.00%	8.72%	4.78%

IFRSs (IASs) and IFRIC interpretations not yet effective

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

IAS 1 "Presentation of Financial Statements" (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income, which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate statement of income and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IFRS 8 "Operating segments" (effective for periods beginning on or after 1 January 2009) – The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organization for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's financial statements.

IAS 27 "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. This approach on recording the change in ownership interest matches the current Accounting policies of the Group. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The changes introduced by IAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

3. Basis of Preparation (continued)

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

IFRS 3 "Business Combinations" (revised January 2008; effective for business combinations, for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The changes introduced by IFRS 3 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

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

IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – "Puttable Financial Instruments" (effective for annual periods beginning on or after 1 January 2009) – Amendment was issued in February 2008 and requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The revised IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

IFRS 1 and IAS 27 Amendment "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" (revised in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's future consolidated financial statements.

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

IFRS 2 "Share-based Payments" Amendment "Vesting Conditions and Cancellations" (issued in January 2008, effective for periods beginning on or after 1 January 2009). Amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes and, therefore, does not expect any implications on its accounting for share-based payments.

3. Basis of Preparation (continued)

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets, which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements except:

- IAS 40 “Investment Property” (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is brought within the scope of the revised IAS 40. Where the fair value model is applied, such property is measured at fair value. Where the fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date, at which the fair value becomes reliably measurable. The Group will amend its accounting policies accordingly and will apply the amendment prospectively from 1 January 2009.

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

IFRS 7 Amendments “Improving Disclosures about Financial Instruments” (issued in March 2009, effective for periods beginning on or after 1 January 2009 with early application permitted). These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments, to which an entity is exposed. The Group is currently assessing the impact of the amendments on its future consolidated financial statements.

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

IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. The Group is currently assessing the impact of the interpretation on its future consolidated financial statements.

3. Basis of Preparation (continued)

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

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

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

IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances, in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

4. Summary of Principal Accounting Policies

Subsidiaries

Subsidiaries, which are those entities, in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date, on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Identifiable assets acquired and liabilities assumed, including contingent liabilities are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented as a separate component within the Group's equity except for the minority interests in mutual funds under the Group's control, which are accounted for within Group's liabilities.

4. Summary of Principal Accounting Policies (continued)

Subsidiaries (continued)

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 to retained earnings.

Investments in associates

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

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

Financial assets

Financial assets in the scope of IAS 32 and IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition and subsequently can reclassify financial assets in certain cases as described below.

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

Financial assets at fair value through profit or loss

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

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

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

4. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

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

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

Loans and receivables

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

Held-to-maturity investments

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

Held-to-maturity investments of acquired subsidiaries are initially recorded in the consolidated balance sheet 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 as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired. However, interest calculated using the effective interest method is recognized in the statement of income.

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

4. 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.

Securitization of financial assets

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

Financial liabilities

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

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

Financial liabilities are classified as financial liabilities at fair value through profit and loss if they are acquired for the purpose of closing 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 and loss. Gains or losses on financial liabilities at fair value through profit and loss are recognized in the statement of income.

4. Summary of Principal Accounting Policies (continued)

Financial liabilities (continued)

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 statement of income.

Offsetting

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

Cash and cash equivalents

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

Mandatory cash balances with central banks

Mandatory cash balances with the CBR and other central banks are carried at amortized cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the

Group's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement cash flows.

Due from other banks

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

Repurchase and reverse repurchase agreements and lending of financial instruments

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities or other financial assets sold under sale and repurchase agreements are not derecognized. The financial assets are not reclassified in the balance sheet 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. 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 consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the financial assets, in which case they are reclassified and presented separately. Financial assets borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from financial instruments through profit or loss. The obligation to return the financial assets is recorded at fair value through profit or loss in other borrowed funds.

4. Summary of Principal Accounting Policies (continued)

Derivative financial instruments

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

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

Hedge accounting

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

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

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

Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the statement of income 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 statement of income 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 statement of income.

4. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

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 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 statement of income in “Gains less losses arising from financial instruments at fair value through profit or loss”.

When the hedged cash flow affects the statement of income, the gain or loss on the hedging instrument is “recycled” in the corresponding income or expense line of the statement of income. 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 in equity and is recognized when the hedged forecast transaction is ultimately recognized in the statement of income. 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 statement of income in “Gains less losses arising from financial instruments at fair value through profit or loss”.

Promissory notes purchased

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

Leases

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

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

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

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

4. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

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

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

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

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

Impairment of Available-for-sale financial assets

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

Investment property

Investment property is property held to earn rental income or for capital appreciation and which is not occupied by the Group.

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

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 profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented within other operating income.

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.

4. Summary of Principal Accounting Policies (continued)

Premises and equipment

Premises and equipment are stated at revalued amounts and cost, respectively, less accumulated depreciation and allowance for impairment where required. 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 consolidated statement of income. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet 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 consolidated financial statements on the date of acquisition.

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 asset premises revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses an impairment of the same asset previously recognized in the statement of income, in which case the increase is recognized in the statement of income. A revaluation deficit is recognized in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for premises and equipment.

The 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.

Premises have been revalued to market value at 31 December 2007. The revaluation was performed based on the reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

Construction in progress is carried at cost less allowance for impairment in value, 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, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to statement of income 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 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 consolidated statement of income 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 rates:

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

Estimated useful lives and residual values are reassessed annually.

4. Summary of Principal Accounting Policies (continued)

Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the investments in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any.

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

- represents the lowest level within the Group, at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

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

Other intangible assets

Other intangible assets include computer software, licenses and other identifiable intangible assets acquired in business combinations.

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

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

Core deposit intangible

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

4. Summary of Principal Accounting Policies (continued)

Due to other banks

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

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 consolidated statement of income 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 consolidated balance sheet 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 consolidated statement of income.

Other borrowed funds

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

Taxation

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

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

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

4. Summary of Principal Accounting Policies (continued)

Taxation (continued)

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

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

Provisions for liabilities and charges

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

Credit related commitments

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

Share premium

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

Dividends

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

Income and expense recognition

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

4. Summary of Principal Accounting Policies (continued)

Salary costs

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

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

Foreign currency translation

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

The consolidated financial statements are presented in USD, which historically has been the Group's presentation currency. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into USD at the rate of exchange ruling at the balance sheet date and, their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in equity relating to that particular entity is recognized in the statement of income.

At 31 December 2008, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 to RUR 29.3804 (at 31 December 2007: USD 1 to RUR 24.5462) and the principal rate of exchange used for translating balances in Euro was USD 1 to EUR 0.7090 (at 31 December 2007: USD 1 to EUR 0.6831).

Fiduciary assets

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

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, net profit or assets are ten per cent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately based on the location of operations.

5. Significant Accounting Estimates and Judgements

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

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

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

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

For the purposes of calculation of loan loss allowances as of 31 December, 2008, the Bank has updated its provisioning methodology, in particular in relation to IBNR-losses (incurred but not reported) attributable to collectively assessed portfolios with similar credit risk characteristics, by industry and by borrower creditworthiness class. Historic loss patterns as of 31 December 2008 modelled in accordance with IAS 39 were adjusted to reflect current conditions that are not represented in historical data, mainly the turbulence in the financial markets. The level of adjustment of the loan loss allowance rate on collectively assessed groups of loans varied from 0% to 4% of the loans outstanding, depending on the profile of the underlying group. If the previously applied methodology had been used, loan loss allowances as of 31 December 2008 and for the year then ended, would have been higher by USD 126 million.

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 the 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 2008 was USD 257 million (31 December 2007: USD 320 million). More details are provided in Note 16.

Taxation

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

(expressed in millions of US dollars)

5. Significant Accounting Estimates and Judgements (continued)

Taxation (continued)

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

The Group also operates in various jurisdictions and includes companies incorporated outside of Russia that are taxed at different rates and under different legislation. Tax liabilities of the Group are determined on the basis that these companies are not subject to Russian profits tax. Russian tax laws do not provide detailed rules on taxation of foreign companies. It is possible that with the evolution of these rules and changes in the approach of the Russian tax authorities, the non-taxable status of some or all of the foreign companies of the Group may be challenged in Russia.

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

Consolidation of funds

The Group consolidates mutual funds considering the following key factors:

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

Fair value estimation of unquoted shares

Details of fair value estimation of unquoted shares, classified as financial assets at fair value through profit or loss are provided in Note 7, and for financial assets available-for-sale - in Note 11.

6. Cash and Short-Term Funds

	31 December 2008	31 December 2007
Cash on hand	1,789	1,256
Cash balances with central banks (other than mandatory reserve deposits)	7,817	2,591
Correspondent accounts with other banks		
- Russian Federation	2,685	557
- Other countries	1,871	756
Total cash and short-term funds	**14,162**	**5,160**
Less: restricted cash	(36)	(64)
Total cash and cash equivalents	**14,126**	**5,096**

(expressed in millions of US dollars)

6. Cash and Short-Term Funds (continued)

Restricted cash balances represent the balances on escrow accounts in the amount of USD 3 million (31 December 2007: USD 19 million) comprising USD 2 million in freely convertible currencies and USD 1 million in non-freely convertible currencies (31 December 2007: USD 18 million and USD 1 million, accordingly), and other balances in non-freely convertible currencies in the amount of USD 33 million (31 December 2007: USD 45 million). Restricted cash balances were collateralized by amounts due to customers and banks in the amount of USD 33 million (31 December 2007: USD 50 million). For the purposes of the consolidated statement of cash flows, restricted cash is not included in cash and cash equivalents.

7. Financial Assets at Fair Value Through Profit or Loss

	31 December 2008	**31 December 2007**
Financial assets held for trading	4,854	9,112
Financial assets designated as at fair value through profit or loss	959	1,324
Total financial assets at fair value through profit or loss	**5,813**	**10,436**

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

At 31 December 2008 trading equity securities of USD 1,273 million and designated as at fair value through profit or loss equity securities of USD 226 million were valued based on valuation models by using the weighted average of the market approach, discounted cash flow method and other market methods. The assumptions related to projections of discounted cash flows in the models up to 2018 are the following:

- WACC in the range between 13% and 18.44%;
- Capital expenditure in average is modeled to nonlinearly increase up to 20% by the terminal period;
- Raw materials cost fluctuations are expected to the maximum of 70% up to the terminal period;
- Gross revenues growth is expected to be 150% on average. Distribution function is nonlinear;
- Net revenues growth is expected to 280% on average.

Such equities mainly included equities of energy sector in the amount of USD 962 million, equities of metal companies of USD 332 million, equities of construction companies of USD 106 million and equities of chemical companies of USD 77 million.

If the Group had used other reasonably possible alternative assumptions, the fair value of the above equity securities valued based on valuation models, would have been in the range from USD 1,411 million to USD 1,725 million.

(expressed in millions of US dollars)

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

Financial assets held for trading

	31 December 2008	31 December 2007
Debt securities denominated in USD		
Bonds and eurobonds of foreign companies and banks	207	385
Eurobonds of Russian companies and banks	20	263
Eurobonds of the Russian Federation	–	59
Russian MinFin bonds (OVGVZ)	–	5
Debt securities denominated in RUR		
Bonds of Russian companies and banks	440	3,536
Russian municipal bonds	130	740
Russian Federal loan bonds (OFZ)	43	1,358
Promissory notes of Russian companies and banks	39	354
Eurobonds of foreign companies and banks	–	37
Debt securities denominated in other currencies		
Bonds of foreign governments	22	20
Eurobonds of Russian companies and banks	–	17
Bonds of foreign companies and banks	–	8
Equity securities	1,552	1,771
Balances arising from derivative financial instruments (Note 34)	2,401	559
Total financial assets held for trading	**4,854**	**9,112**

Equity securities at 31 December 2007 include USD 503 million representing structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities (recorded within derivative instruments).

Debt securities of Russian companies and banks at 31 December 2007 mostly represent securities issued by Russian oil and gas companies, energy, telecommunication and manufacturing companies, banks.

The significant decrease in financial assets held for trading in the third quarter of 2008 partly resulted from application of amendments to IAS 39 allowing reclassification from this category (see Note 3).

Derivatives at 31 December 2007 include instruments used as cash flow hedges amounting to USD 104 million (Note 34). As of 31 December 2008 such instruments are included into other assets (Note 17).

Financial assets designated as at fair value through profit or loss

	31 December 2008	31 December 2007
Bonds of Russian companies and banks	373	415
Bonds of foreign companies and banks	271	354
Equity securities	249	384
Bonds of foreign governments	55	61
Investments in mutual funds	6	98
Russian municipal bonds	5	10
Eurobonds of the Russian Federation	–	1
Balances arising from derivative financial instruments (Note 34)	–	1
Total financial assets designated as at fair value through profit or loss	**959**	**1,324**

(expressed in millions of US dollars)

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

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

Equity securities in the amount of USD 226 million at 31 December 2008 (31 December 2007: USD 384 million) and balances arising from derivative financial instruments represent structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities (recorded within derivative instruments). These equity securities are issued by Russian energy companies. Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives) relating to these transactions are accounted within "Other liabilities" in the amount of USD 79 million (31 December 2007: USD 3 million). Refer to Note 23.

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

	31 December 2008	31 December 2007
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Bonds of Russian companies and banks	126	84
Russian Federal loan bonds (OFZ)	–	290
Promissory notes of Russian companies and banks	–	245
Equity securities	–	226
Russian municipal bonds	–	32
Total Financial assets held for trading	*126*	*877*
Financial assets designated as at fair value through profit or loss		
Eurobonds of Russian companies and banks	70	121
Bonds of foreign governments	66	103
Bonds of foreign companies and banks	–	58
Eurobonds of Russian Federation and MinFin Bonds	–	29
Russian municipal bonds	–	5
Total Financial assets designated as at fair value through profit or loss	*136*	*316*
Total Financial assets at fair value through profit or loss	***262***	***1,193***
Financial assets available-for-sale		
Bonds of foreign companies and banks	158	490
Bonds of foreign governments	14	326
Bonds of Russian companies and banks	–	30
Russian municipal bonds	–	10
Total Financial assets available-for-sale	***172***	***856***
Investment securities held-to-maturity		
Bonds of Russian companies and banks	625	–
Total Investment securities held-to-maturity	***625***	***–***
Financial assets classified as loans and advances to customers	***105***	***–***
Financial assets classified as due from other banks	***349***	***–***
Loaned financial assets classified as loans and advances to customers	***–***	***163***
Total financial assets pledged under repurchase agreements and loaned financial assets	**1,513**	**2,212**

Equity securities at 31 December 2007 within "Financial assets held for trading" mostly represent structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities (recorded within derivative instruments). These equity securities are issued by Russian energy and mining companies.

(expressed in millions of US dollars)

9. Due from Other Banks

	31 December 2008	31 December 2007
Current term placements with other banks	10,282	9,070
Reverse sale and repurchase agreements with other banks	200	676
Overdue placements	23	–
Total gross due from other banks	**10,505**	**9,746**
Less: Allowance for impairment (Note 30)	(23)	(13)
Total due from other banks	**10,482**	**9,733**

At 31 December 2008 the Bank received collateral of securities under reverse sale and repurchase agreements with other banks with a fair value of USD 360 million (31 December 2007: USD 857 million).

10. Loans and Advances to Customers

	31 December 2008	31 December 2007
Current loans and advances	86,030	57,547
Reverse sale and repurchase agreements with customers	1,993	1,640
Renegotiated loans and advances	555	136
Overdue loans and advances	1,630	698
Total gross loans and advances to customers	**90,208**	**60,021**
Less: Allowance for impairment (Note 30)	(3,224)	(1,472)
Total loans and advances to customers	**86,984**	**58,549**

For the purposes of the above table, the amount of overdue loans and advances includes overdue portions of loans where the payment of either principal or interest is overdue by one day or more, and not the entire outstanding amount of the loans.

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

	31 December 2008	31 December 2007
Loans to legal entities		
Project finance	10,389	3,657
Finance leases	3,884	2,547
Current activity financing	53,672	39,924
Reverse sale and repurchase agreements	1,974	1,484
Other	7,115	4,727
Total loans to legal entities	**77,034**	**52,339**
Loans to individuals		
Mortgages	6,488	3,661
Car loans	1,382	774
Reverse sale and repurchase agreements	19	156
Consumer loans and other	5,285	3,091
Total loans to individuals	**13,174**	**7,682**
Less: Allowance for impairment (Note 30)	(3,224)	(1,472)
Total loans and advances to customers	**86,984**	**58,549**

(expressed in millions of US dollars)

10. Loans and Advances to Customers (continued)

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

At 31 December 2008, included in current loans are finance lease receivables of USD 3,273 million (31 December 2007: USD 1,926 million), equal to the net investment in lease.

The finance lease receivables were as follows:

	31 December 2008	31 December 2007
Gross investment in leases	4,588	2,679
Less: Unearned finance lease income	(1,315)	(753)
Net investment in leases before allowance	**3,273**	**1,926**
Less: allowance for uncollectible finance lease receivables	(25)	(6)
Net investment in leases	**3,248**	**1,920**

At 31 December 2008, the Group had two borrowers in the transport sector with an aggregated net investment in lease of USD 1,225 million (31 December 2007: one borrower of USD 804 million) representing leasing of rolling-stock.

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

	31 December 2008	31 December 2007
Within 1 year	698	603
From 1 to 5 years	2,756	1,724
More than 5 years	1,134	352
Minimum lease payments receivable	**4,588**	**2,679**

Net investments in leases were as following:

	31 December 2008	31 December 2007
Within 1 year	485	432
From 1 to 5 years	1,980	1,236
More than 5 years	783	252
Net investment in leases	**3,248**	**1,920**

(expressed in millions of US dollars)

10. Loans and Advances to Customers (continued)

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

	31 December 2008		31 December 2007	
	Amount	**%**	**Amount**	**%**
Finance	16,767	19	12,020	20
Individuals	13,174	15	7,682	13
Building construction	12,793	14	5,170	8
Trade and commerce	8,612	10	7,142	12
Metals	6,681	7	2,476	4
Manufacturing	6,678	7	5,316	9
Transport	4,994	5	2,992	5
Oil and Gas	4,942	5	3,778	6
Government bodies	3,014	3	2,891	5
Food and agriculture	2,555	3	2,175	4
Chemical	2,435	3	1,057	2
Coal mining	2,360	3	1,712	3
Energy	2,135	2	2,508	4
Telecommunications and media	629	1	560	1
Aircraft	601	1	756	1
Other	1,838	2	1,786	3
Total gross loans and advances to customers	**90,208**	**100**	**60,021**	**100**

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

At 31 December 2008, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises USD 18,615 million, or 21% of the gross loan portfolio (31 December 2007: USD 12,565 million, or 21%).

At 31 December 2008 and 2007, outstanding loans issued under reverse repurchase agreements do not contain any significant concentrations.

At 31 December 2008 the Bank received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of USD 3,312 million (31 December 2007: USD 2,076 million).

The total amount of pledged loans is USD 3,525 million (31 December 2007: USD 1,333 million). The loans are pledged against the funds accounted within "Other borrowed funds" – "Other borrowings" and "Due from other banks" captions in Liabilities.

During 2008 interest income on impaired loans, recognized by the Group amounted to USD 166 million (2007: USD 94 million).

In December 2008, VTB 24 securitized part of its portfolio of mortgage loans. For details of the transaction refer to Note 21.

(expressed in millions of US dollars)

11. Financial Assets Available-for-Sale

	31 December 2008	31 December 2007
Equity investments	405	244
Bonds of foreign companies and banks	322	120
Bonds of foreign governments	38	46
Russian municipal bonds	20	3
Eurobonds of Russian companies and banks	18	65
CJSC "Alrosa" shares	–	346
Russian MinFin bonds (OVGVZ)	–	24
Promissory notes of Russian companies and banks	9	10
Total financial assets available-for-sale	**812**	**858**

In December 2007, the Group sold EADS shares classified as financial assets available-for-sale to a related state-owned party and transferred upon the sale the realized gain of USD 150 million, net of tax, from equity to the statement of income.

VTB acquired CJSC "Alrosa" shares (10.63% of share capital) in the second quarter of 2006. These shares are unquoted. The estimated fair value of CJSC "Alrosa" shares at 31 December 2007 was calculated by using the weighted average of the market approach, discounted cash flow method and an other method based on discounted cash flows. For this other method based on discounted cash flows a discount of 30% for minority stake and a 20% discount for liquidity was used. At 31 December 2007, the Group had unrealized gains on CJSC "Alrosa" shares of USD 40 million, net of tax, including unrealized foreign exchange gain, accounted within equity (31 December 2006: USD 20 million). A 100 b.p. change in the discount rate would result in USD 2 million change in fair value of CJSC "Alrosa" shares.

In 2008 the Group sold CJSC "Alrosa" shares to a state-owned party and transferred upon the sale the realized gain of USD 51 million (USD 47 million, net of tax), from a separate caption within equity to the statement of income.

During 2007, the Group recognized a loss of USD 46 million mainly attributable to US mortgage related instruments held by the Group, resulting from the recent disruptions in the global credit markets, which represented over 80% of the portfolio of securities, which were classified as impaired as of 31 December 2007.

At 31 December 2008, equity investments of USD 315 million valued based on valuation models mainly include investments in shares of a telecommunication company of USD 60 million, the fair value of which was calculated by using the market approach; investments into construction companies of USD 9 million, whose fair value was calculated taking into account share in net assets; investments in shares of financial institutions and investment funds of USD 194 million, whose fair value was calculated using the weighted average of discounted cash flow method and share in net assets, and a transport entity of USD 40 million, whose fair value was calculated taking into account share in net assets.

During 2008, the Group recognized a negative revaluation of USD 151 million before tax. Related impairment in the amount of USD 116 before tax million was transferred to the statement of income.

12. Investments in Associates

			31 December 2008		31 December 2007	
	Country of registration	Industry	Amount	Equity controlled	Amount	Equity controlled
"Eurofinance Mosnarbank", OJSC	Russia	Banking	128	34.83%	152	34.83%
"Vietnam-Russia Joint Venture Bank"	Vietnam	Banking	25	49.00%	15	49.00%
"Interbank Trading House", Ltd	Russia	Commerce	–	50.00%	–	50.00%
Total investments in associates			**153**		**167**	

(expressed in millions of US dollars)

12. Investments in Associates (continued)

In March 2007 the equity investment in Halladale PLC, held through VTB Bank (Europe)'s wholly owned subsidiary VTB Europe Strategic Investments, was sold to the third party for USD 44 million. The Group recognized gains arising from the transaction in the amount of USD 18 million.

During the second quarter of 2007 the share capital of Vietnam-Russia Joint Venture Bank was increased. VTB contributed to the capital USD 9.8 million retaining a 49% ownership.

In December 2007, VTB sold East-West United Bank S.A. to a third party for EUR 31 million.

In December 2007, "Bank VTB North-West", OJSC sold "Management Company ICB", Ltd to a third party for USD 4 million.

In March 2008, the share capital of Vietnam-Russia Joint Venture Bank was increased. VTB contributed to the capital USD 15.9 million retaining a 49% ownership.

The following table illustrates summarized aggregated financial information of the associates:

	31 December 2008	31 December 2007
Assets	2,196	2,524
Liabilities	1,835	2,109
Net assets	361	415
Revenue	227	290
Net profit	–	67

The unrecognized share of losses of associates for 2008 and cumulatively at 31 December 2008 was USD 3 million and USD 24 million, respectively (31 December 2007: USD nil and USD 20 million, respectively).

13. Investment Securities Held-to-Maturity

	31 December 2008	31 December 2007
Bonds of Russian companies and banks	504	–
Bonds of foreign companies and banks	96	2
Eurobonds of Russian companies and banks	84	–
Promissory notes Russian companies and banks	55	–
Bonds of foreign governments	8	3
Total gross investment securities held-to-maturity	**747**	**5**
Less: Allowance for impairment (Note 30)	(44)	–
Total investment securities held-to-maturity	**703**	**5**

Bonds issued by Russian companies and banks mostly represent securities issued by Russian banks.

The increase in investment securities held-to-maturity is mainly a result of reclassification of securities under the amendment to IAS 39 and IFRS 7 "Reclassification of Financial assets". For details of reclassification refer to Note 3.

(expressed in millions of US dollars)

14. Premises and Equipment

The movements in property and equipment were as follows:

	Premises	Equipment	Construction in progress	Total
Net book amount at 31 December 2007	**1,630**	**273**	**94**	**1,997**
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2008	**1,630**	**498**	**94**	**2,222**
Acquisitions of subsidiaries	–	–	1	**1**
Additions	91	194	440	**725**
Transfer	60	19	(79)	**–**
Disposals	(106)	(17)	–	**(123)**
Translation difference	(263)	(121)	(84)	**(468)**
Closing balance at 31 December 2008	**1,412**	**573**	**372**	**2,357**
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2008	**–**	**225**	**–**	**225**
Depreciation charge	48	94	–	**142**
Disposals	(6)	(21)	–	**(27)**
Translation difference	(13)	(40)	–	**(53)**
Closing balance at 31 December 2008	**29**	**258**	**–**	**287**
Net book amount at 31 December 2008	**1,383**	**315**	**372**	**2,070**

Net book amount at 31 December 2006	**1,130**	**226**	**66**	**1,422**
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2007	**1,130**	**388**	**66**	**1,584**
Acquisitions of subsidiaries	7	3	1	**11**
Disposal of subsidiaries	(12)	(8)	–	**(20)**
Additions	65	114	164	**343**
Transfer	91	29	(120)	**–**
Disposals	(21)	(54)	(18)	**(93)**
Revaluation	330	–	–	**330**
Translation difference	40	26	1	**67**
Closing balance at 31 December 2007	**1,630**	**498**	**94**	**2,222**
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2007	–	162	–	**162**
Disposal of subsidiaries	–	(6)	–	**(6)**
Depreciation charge	31	77	–	**108**
Disposals	(2)	(22)	–	**(24)**
Revaluation	(30)	–	–	**(30)**
Translation difference	1	14	–	**15**
Closing balance at 31 December 2007	**–**	**225**	**–**	**225**
Net book amount at 31 December 2007	**1,630**	**273**	**94**	**1,997**

(expressed in millions of US dollars)

14. Premises and Equipment (continued)

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

Premises of the Group are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2007. The Group engaged an independent appraiser to determine the fair value of its premises. Fair value was determined by reference to market-based evidence. The net revaluation surplus amounted to USD 360 million, including minority interest of USD 9 million, was posted to premises revaluation reserve within the shareholders' equity net of deferred income tax in the amount of USD 87 million. If the premises were measured using the cost model, the carrying amounts would be as follows:

	31 December 2008	31 December 2007
Cost	796	850
Accumulated depreciation and impairment	66	49
Net carrying amount	**730**	**801**

As of 31 December 2008, the Group assessed the market value of its premises and concluded that the market value is not materially different from their carrying value.

15. Investment Property

	2008	2007
Investment property as at 1 January	**168**	**178**
Acquisitions	–	19
Revaluation	4	16
Disposals	–	(59)
Translation effect	(24)	14
Investment property as at 31 December	**148**	**168**

In 2007, the Group revalued all of its investment property and increased its fair value by USD 16 million. The valuation was carried out by an independent firm of valuers, mainly on the basis of market prices.

At 31 December 2008, included in investment property are buildings and business-centers held for operating leasing located in Ekaterinburg and Ukraine, a distribution warehouse and land for development and resale located in St. Petersburg and Moscow regions.

(expressed in millions of US dollars)

16. Intangible Assets

The movements in intangible assets were as follows:

	Goodwill	Core deposit intangible	Computer software	Total
Net book amount at 31 December 2007	**320**	**129**	**31**	**480**
COST				
Opening balance at 1 January 2008	**335**	**204**	**59**	**598**
Additions	–	–	33	**33**
Acquisition through business combinations	–	–	11	**11**
Disposals	–	–	(2)	**(2)**
Translation difference	(56)	(35)	(10)	**(101)**
Closing balance at 31 December 2008	**279**	**169**	**91**	**539**
ACCUMULATED AMORTIZATION AND IMPAIRMENT				
Opening balance at 1 January 2008	**15**	**75**	**28**	**118**
Amortization charge	–	38	14	**52**
Disposals	–	–	(1)	**(1)**
Impairment	9	–	–	9
Translation difference	(2)	(17)	(5)	**(24)**
Closing balance at 31 December 2008	**22**	**96**	**36**	**154**
Net book amount at 31 December 2008	**257**	**73**	**55**	**385**

	Goodwill	Core deposit intangible	Computer software	Total
Net book amount at 31 December 2006	**294**	**140**	**21**	**455**
COST				
Opening balance at 1 January 2007	**308**	**174**	**41**	**523**
Additions	–	–	15	**15**
Acquisition through business combinations	5	17	2	**24**
Disposals	–	–	(1)	**(1)**
Translation difference	22	13	2	**37**
Closing balance at 31 December 2007	**335**	**204**	**59**	**598**
ACCUMULATED AMORTIZATION AND IMPAIRMENT				
Opening balance at 1 January 2007	**14**	**34**	**20**	**68**
Amortization charge	–	40	6	**46**
Disposals	–	–	(1)	**(1)**
Translation difference	1	1	3	**5**
Closing balance at 31 December 2007	**15**	**75**	**28**	**118**
Net book amount at 31 December 2007	**320**	**129**	**31**	**480**

(expressed in millions of US dollars)

16. Intangible Assets (continued)

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

	31 December 2008			31 December 2007		
	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total
"Bank VTB 24", CJSC	70	–	**70**	84	–	**84**
"VTB Bank North-West", OJSC	177	60	**237**	213	109	**322**
"VTB Bank (Armenia)" CJSC	5	–	**5**	5	–	**5**
"Obyedinennaya Depositarnaya companya", CJSC	3	12	**15**	3	16	**19**
"VTB Asset Management", CJSC	2	–	**2**	2	–	**2**
"VTB Bank", OJSC (former "Mriya", merged with Vneshtorgbank (Ukraine))	–	1	**1**	13	4	**17**
Net book amount	**257**	**73**	**330**	**320**	**129**	**449**

The recoverable amount of "Bank VTB 24", CJSC at 31 December 2008 was based on the fair value, less costs to sell, of the cash-generating unit, which amounted to USD 2,799 million.

The recoverable amount of Bank VTB North-West at 31 December 2008 was based on the market quotes of the latest market transactions of its shares, which amounted to USD 1,931 million (31 December 2007: USD 2,311 million).

In 2008, goodwill of USD 13 million allocated to "VTB Bank", OJSC (former "Mriya", merged with Vneshtorgbank (Ukraine)), was written-off based on the estimation of the recoverability of that cash-generating unit determined on a value in use calculation using cash flow projections based on financial budgets covering a five-year period.

As of 31 December 2007, the recoverable amount of "Bank VTB 24", CJSC has been determined based on a value in use calculation using pretax cash flow projections (adjusted for depreciation) based on financial budgets approved by management covering a four-year period. The discount rate applied to cash flow projections is 10%. The following describes each key assumption on which management has based its cash flow projections for "Bank VTB 24", CJSC to undertake impairment testing of goodwill:

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

(expressed in millions of US dollars)

17. Other Assets

	31 December 2008	31 December 2007
Equipment purchased for subsequent leasing	443	139
Amounts in course of settlement	302	33
Advances issued to leasing equipment suppliers	297	694
Taxes recoverable	274	245
Trade debtors and prepayments	179	181
Positive replacement value of derivatives (fair value hedges) (Note 34)	150	–
Positive replacement value of derivatives (cash flow hedges) (Note 34)	89	–
Deferred expenses	82	94
Precious metals	71	13
Leasehold for development and sale	47	63
Put option premium receivable	–	6
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs	–	269
Other assets	114	67
Total other assets	**2,048**	**1,804**

At 31 December 2008 and 2007, equipment purchased for subsequent leasing and advances issued to leasing equipment suppliers represent operations of VTB Leasing.

At 31 December 2007, rights of claim to construct and receive the title of ownership of premises under investment contracts contained a prepayment of USD 251 million under a construction contract. Under this contract the developer was obliged to construct an office at the Moscow International Business Center “Moscow City” and transfer the title of ownership on this office to VTB after the construction is completed. In 2008, the construction was completed and the title of ownership was transferred to VTB Bank. As a result of title transfer this item was excluded from “Other assets” and moved to “Premises and equipment – Construction in progress” caption. This transfer was not reflected in the statement of cash flows as a non-cash movement.

18. Due to Other Banks

	31 December 2008	31 December 2007
Term loans and deposits	8,987	9,546
Correspondent accounts and overnight deposits of other banks	3,963	3,224
Sale and repurchase agreements with other banks	281	2,024
Total due to other banks	**13,231**	**14,794**

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of USD 307 million (31 December 2007: USD 2,048 million) and those reclassified to loans and advances to customers with amortized cost of USD 35 million (see Note 8).

(expressed in millions of US dollars)

19. Customer Deposits

	31 December 2008	31 December 2007
Government bodies		
Current/settlement deposits	509	933
Term deposits	1,027	2,011
Other legal entities		
Current/settlement deposits	8,719	8,701
Term deposits	15,196	14,769
Individuals		
Current/settlement deposits	2,886	2,974
Term deposits	9,166	7,709
Sale and repurchase agreements	–	1
Total customer deposits	**37,503**	**37,098**

Included in customer deposits at 31 December 2008 are:

- Restricted deposits amounting to USD 4 million (31 December 2007: USD 21 million), where matching deposits were placed by the Group in escrow accounts (see Note 6).
- Deposits of USD 307 million (31 December 2007: USD 385 million) were held as collateral against irrevocable commitments under import letters of credit and guarantees (see Note 34).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2008		31 December 2007	
	Amount	%	Amount	%
Individuals	12,052	32	10,683	29
Finance	6,292	17	4,079	11
Energy	3,763	10	6,417	17
Oil and gas	2,273	6	1,259	3
Trade and commerce	2,054	5	1,929	5
Manufacturing	1,862	5	1,323	4
Building construction	1,687	5	1,520	4
Government bodies	1,536	4	2,944	8
Telecommunications and media	1,397	4	835	2
Chemical	882	2	484	1
Metals	856	2	3,103	9
Transport	541	1	412	1
Food and agriculture	283	1	372	1
Aircraft	228	1	348	1
Coal mining	189	1	103	–
Other	1,608	4	1,287	4
Total customer deposits	**37,503**	**100**	**37,098**	**100**

20. Other Borrowed Funds

	31 December 2008	31 December 2007
Syndicated loans	2,901	2,489
Other borrowings	25,987	2,687
Total other borrowed funds	**28,888**	**5,176**

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

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

(expressed in millions of US dollars)

20. Other Borrowed Funds (continued)

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

In March 2007, VTB Bank (Austria) AG received two syndicated loans in the amount of USD 50 million each, maturing in February 2010 at a floating interest rate of LIBOR+0.35%. In May 2007, VTB Bank (Austria) AG received a syndicated loan in the amount of USD 180 million with maturity in February 2010 at a floating interest rate of LIBOR+0.35%.

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

In January 2007, VTB Capital Plc. (former VTB Bank (Europe)) fully repaid a syndicated loan in the total contractual amount of USD 140 million. In February 2007, VTB fully repaid a syndicated loan in the total contractual amount of USD 300 million. During the first quarter of 2007, VTB Bank (France) fully repaid a syndicated loan in the total contractual amount of USD 150 million.

Within other borrowings are funds attracted through sale and repurchase agreements in the amount of USD 1,019 million at 31 December 2008 (31 December 2007: nil).

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss with a total fair value of USD 127 million; due from banks, loans and advances to customers and investment securities held-to-maturity reclassified under amendment to IAS 39 with amortized cost of USD 349 million, USD 70 million and USD 625 million, respectively (see Note 8).

Other borrowed funds increased significantly in 2008 due to placement of funds of the CBR in the Russian banks of the Group: VTB, VTB24 and VTB North-West, within the programme of government support of the Russian banking system launched in the second half of 2008. The programme provides a number of CBR facilities to banking institutions of the Russian Federation, including unsecured loans, repo transactions and loans collateralized by corporate debt and guarantees. The amount of CBR funds received by the Group under this programme as of 31 December 2008 was USD 20,815 million (as of 31 December 2007 the programme had not been launched).

21. Debt Securities Issued

	31 December 2008	31 December 2007
Bonds	13,916	14,394
Promissory notes	5,131	2,082
Deposit certificates	16	13
Total debt securities issued	**19,063**	**16,489**

In March 2007, VTB issued EUR 1,000 million (or USD 1,317 million) Eurobonds Series 11 with a floating rate of EURIBOR+0.6% maturing in March 2009.

In March 2007, VTB issued GBP 300 million (or USD 577 million) Eurobonds Series 12 with a fixed rate of 6.332% maturing in March 2010.

In April 2007, VTB Bank Europe issued USD 500 million Floating Rate Notes due in April 2009 at LIBOR+0.625%.

In July 2007, VTB repaid its Eurobonds Series 3 issue under its USD 10 billion in the amount of USD 300 million.

21. Debt Securities Issued (continued)

In September 2007, VTB redeemed Series 8 USD denominated Eurobonds with face value of USD 1,000 million.

In October 2007, VTB issued USD 1,200 million Series 1 Eurobonds with a fixed rate of 6.609% maturing in 2012 and Series 2 USD 800 million Eurobonds with a floating rate of LIBOR+1.7% maturing in 2009.

In October 2007, VTB 24 issued RUR 6 billion domestic bonds maturing in October 2011 with a coupon rate of 8.2% p.a. paid semi-annually with 1-year put option.

In November 2007, VTB-Leasing Finance, LLC issued RUR 8 billion domestic bonds maturing in July 2014 with a coupon rate of 8.2% p.a. paid quarterly and 1-year put option.

In December 2007, VTB issued RUR 30 billion Series 3 bonds (or USD 1,234 million) with a rate of 7.25% maturing in December 2008.

In February 2008, VTB 24 issued RUR 10 billion (USD 405 million) domestic bonds maturing in February 2013 with a coupon rate of 7.7% p.a. paid semi-annually and 1-year put option embedded.

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

In June 2008, VTB issued EUR 1,000 million (or USD 1,576 million) Eurobonds at a fixed rate of 8.25% maturing in June 2011.

In June 2008, VTB 24 issued RUR 6 billion (USD 250 million) domestic bonds maturing in May 2013 with coupon rate of 8.18% p.a. paid semi-annually and 1-year put option embedded.

In July 2008, VTB-Leasing Finance, LLC issued RUR 10 billion (USD 430 million) domestic bonds with a partial principal redemption from July 2009 finally maturing in July 2015 with a coupon rate of 8.9% p.a. paid quarterly and 1-year put option embedded.

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

In November 2008, VTB prolonged RUR 30 billion Series 3 bonds (or USD 1,188 million) until November 2012. The coupon rate increased to 12% p.a. Also the bondholders received an annual put option, executable in November.

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

In December 2008, VTB 24 issued two tranches of Mortgage-backed notes for USD 150 million each with maturity in March 2041 and coupon rate of 7.5% p.a. These securities were collateralized with a portfolio of USD 476 million mortgage loans to individuals secured by residential properties (the loans were not derecognized). These securities were issued through a special purpose entity. At 31 December 2008, VTB 24 was the sole holder of the notes, thus these notes were eliminated in these consolidated financial statements.

VTB Group members from time to time seek to retire all or part of any of their issued and outstanding debt through open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, depend on prevailing market conditions, VTB's liquidity requirements, contractual restrictions and other factors. The notional amount of Eurobonds bought-back (excluding subordinated debt) by VTB Group during the fourth quarter of 2008 amounted to USD 1,043 million, which resulted in the recognition of a gain on the extinguishment of debt of USD 281 million.

Promissory notes represent notes primarily issued by VTB in the local market, which primarily act as an alternative to customer/bank deposits. At 31 December 2008 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to June 2015 (31 December 2007: from demand to June 2015).

(expressed in millions of US dollars)

22. Subordinated Debt

On 4 February 2005, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued USD 750 million of Eurobonds (with a call option for early repayment on the fifth anniversary of such date) due February 2015, the proceeds of which financed a subordinated loan to VTB. The Eurobonds bear interest at 6.315% per annum payable semi-annually, with an interest rate step-up in 2010. The notional amount of Eurobonds bought-back by VTB Group during the fourth quarter of 2008 amounted to USD 150 million, which resulted in the recognition of a gain on the extinguishment of debt of USD 46 million. As of 31 December 2008 the carrying amount of this subordinated debt was USD 615 million (31 December 2007: USD 768 million).

On 29 September 2005, OJSC "Industry & Construction Bank" (further renamed to OJSC "Bank VTB North-West") issued USD 400 million subordinated Eurobonds due September 2015 with early redemption option (1 October 2010; price 100; type call). The Eurobonds bear interest at 6.2% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxembourg) for the purpose of financing a subordinated loan to the Bank. The notional amount of Eurobonds bought-back by VTB Group during the fourth quarter of 2008 amounted to USD 65 million, which resulted in the recognition of a gain on the extinguishment of debt of USD 27 million. As of 31 December 2008, the carrying amount of this subordinated debt was USD 324 million (31 December 2007: USD 388 million).

In October and November 2008, VTB received 2 subordinated loans of RUR 100 billion each (USD 3,715 million and USD 3,703 million respectively) with a rate of 8% maturing in December 2019 from Vnesheconombank. In accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" the Group discounted these loans using appropriate market rate adjusted for loan premium. As of 31 December 2008 the carrying amount of this subordinated debt was USD 5,960 million and deferred income was USD 805 million. The deferred income is accounted within subordinated debt and is eligible for setting-off against the losses on initial recognition of the loans extended by the Group at preferential interest rates to support operations of Russian companies.

23. Other Liabilities

	31 December 2008	**31 December 2007**
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives (Note 34))	4,089	424
Financial liabilities at fair value through profit or loss – fair value hedges	733	–
Payable to employees	277	118
Trade creditors and prepayments received	148	112
Amounts in course of settlement	123	75
Minority interests in consolidated mutual funds	118	123
Liabilities to pay taxes	108	93
Obligation to delivery securities	66	–
Provisions for credit related commitments and legal claims (Note 30)	54	2
Liabilities on pension plans	52	59
Deferred income	48	40
Provisions on insurance payments	39	29
Advances received from lessees	26	74
Dividends payable	6	7
Initial recognition of credit related commitments	–	14
Other liabilities	37	61
Total other liabilities	**5,924**	**1,231**

(expressed in millions of US dollars)

24. Share Capital and Reserves

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

	31 December 2008		31 December 2007	
	Number of shares	**Nominal amount**	**Number of shares**	**Nominal amount**
Ordinary shares	6,724,138,509,019	3,084	6,724,138,509,019	3,084
Total share capital	**6,724,138,509,019**	**3,084**	**6,724,138,509,019**	**3,084**

Contributions to the Bank's share capital were originally made in RUR, foreign currency and gold bullion. All ordinary shares rank equally and carry one vote. The nominal value of all ordinary shares was RUR 0.01. At 31 December 2008 and 31 December 2007 the Bank also had 5,000,000,000,000 authorized ordinary shares with a par value of RUR 0.01 each, which are currently not issued.

In May 2007, VTB completed the Initial Public Offering (IPO) of its shares among Russian and foreign investors. On 24 May 2007, the Central Bank of Russia registered the issuance of 1,513,026,109,019 additional ordinary shares by VTB (22.5% of VTB number of shares after the increase) with a nominal value of RUR 0.01 each. Out of the total number of shares, the number of shares placed in the form of GDRs amounted to 983,387,340,000. Each GDR is equivalent to 2,000 shares. The offer price per share was RUR 0.136 (USD 0.00528). Issued shares are freely traded at Moscow Interbank Currency Exchange (MICEX) and Russian Trading System (RTS) and global depositary receipts (GDRs) issued on VTB's shares are freely traded at London Stock Exchange (LSE). The total amount of IPO proceeds was USD 7,977 million. The Bank incurred specific IPO-related expenses for the amount of USD 114 million, net of tax, which were posted directly to equity as a reduction of share premium. As a result, net equity increase related to the IPO process amounted to USD 7,863 million, less transaction costs, net of tax.

In 2007 the Bank issued 1,513,026,109,019 additional shares (refer to paragraph above). During 2007 3,617,914,376 treasury shares were purchased by Bank's subsidiaries, which are accounted within equity as separate caption "Treasury shares". During 2008 733,402,609 treasury shares were sold by Bank's subsidiaries, which were accounted within equity as separate caption "Treasury shares". As a result, the number of the outstanding shares at 31 December 2008 amounted to 6,721,253,997,252 (31 December 2007: 6,720,520,594,643).

At 31 December 2008 and 2007 the reserves included both distributable and non-distributable reserves.

Unrealized gain on financial assets available-for-sale and cash flow hedge includes reserves for accounting for both changes in fair values of available-for-sale financial instruments and the effective portion of unrealized gains and losses on cash flow hedges.

(expressed in millions of US dollars)

25. Interest Income and Expense

	2008	2007
Interest income		
Financial assets at fair value through profit or loss	**471**	**493**
Loans and advances to customers	8,665	4,314
Due from other banks	564	503
Securities	109	77
Financial assets not at fair value through profit or loss	**9,338**	**4,894**
Total interest income	**9,809**	**5,387**
Interest expense		
Customer deposits	(2,608)	(1,260)
Debt securities issued	(1,308)	(788)
Due to banks and other borrowed funds	(1,147)	(707)
Subordinated debt	(179)	(76)
Total interest expense	**(5,242)**	**(2,831)**
Net interest income	**4,567**	**2,556**

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

	2008	2007
Gains less losses arising from trading financial instruments	176	231
Losses less gains arising from financial instruments designated at fair value through profit or loss	(89)	(93)
Total gains less losses arising from financial instruments at fair value through profit or loss	**87**	**138**

27. Fee and Commission Income and Expense

	2008	2007
Commission on settlement transactions	419	311
Commission on guarantees issued and trading finance	145	66
Commission on cash transactions	98	107
Commission on operations with securities	66	41
Depositary appointment fee	–	57
Other	51	55
Total fee and commission income	**779**	**637**
Commission on settlement transactions	(61)	(38)
Commission on cash transactions	(29)	(17)
Other	(33)	(25)
Total fee and commission expense	**(123)**	**(80)**
Net fee and commission income	**656**	**557**

(expressed in millions of US dollars)

28. Other Operating Income

	2008	2007
Dividends received	62	38
Income arising from disposal of property	22	4
Income arising from operating leasing	17	18
Fines and penalties received	17	16
Investment property revaluation	9	16
Other	48	29
Total other operating income	**175**	**121**

29. Staff Costs and Administrative Expenses

	2008	2007
Staff costs	1,350	867
Defined contribution pension expense	112	93
Depreciation and other expenses related to premises and equipment	309	238
Leasing and rent expenses	187	113
Advertising expenses	140	128
Taxes other than on income	133	123
Professional services	96	68
Post and telecommunication expenses	66	47
Payments to deposit insurance system	58	54
Impairment and amortization of intangibles, except for amortization of core deposit intangible	52	6
Security expenses	49	41
Amortization of core deposit intangible	38	40
Charity	29	25
Insurance	14	8
Transport expenses	17	7
Other	61	90
Total staff costs and administrative expenses	**2,711**	**1,948**

30. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks by classes for 2008 and 2007 were as follows:

	Russia	OECD	Other	Total
31 December 2006	**–**	**–**	**8**	**8**
Provision for loan impairment during the period	2	1	2	**5**
31 December 2007	**2**	**1**	**10**	**13**
Provision for loan impairment during the period	23	–	–	**23**
Write-offs	–	–	(7)	**(7)**
Currency translation difference	(4)	(1)	(1)	**(6)**
31 December 2008	**21**	**–**	**2**	**23**

(expressed in millions of US dollars)

30. Allowances for Impairment and Provisions (continued)

The movements in allowances for impairment of loans and advances to legal entities by class for 2008 and 2007 were as follows:

	Project finance	Finance leases	Current activity financing	Reverse sale and repurchase agreements with legal entities	Other	Total
31 December 2006	**72**	**5**	**721**	**1**	**98**	**897**
Provision for loan impairment during the period	28	22	313	–	18	**381**
Write-offs	–	–	(14)	–	(7)	**(21)**
Recoveries of amounts written-off in previous period	–	–	3	–	–	**3**
Currency translation difference	1	–	15	–	1	**17**
Disposal of subsidiaries (Note 39)	–	–	(9)	–	–	**(9)**
31 December 2007	**101**	**27**	**1,029**	**1**	**110**	**1,268**
Provision for loan impairment during the period	377	37	1,293	5	309	**2,021**
Write-offs	–	–	(64)	–	(35)	**(99)**
Recoveries of amounts written-off in previous period	–	–	1	–	–	**1**
Currency translation difference	(69)	(9)	(326)	(1)	(56)	**(461)**
31 December 2008	**409**	**55**	**1,933**	**5**	**328**	**2,730**

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

	Mortgages	Car loans	Consumer loans and other	Total
31 December 2006	**25**	**3**	**48**	**76**
Provision for loan impairment during the period	(12)	18	134	**140**
Write-offs	–	–	(14)	**(14)**
Currency translation difference	–	–	2	**2**
31 December 2007	**13**	**21**	**170**	**204**
Provision for loan impairment during the period	27	75	289	**391**
Write-offs	–	–	(16)	**(16)**
Recoveries of amounts written-off in previous period	–	–	1	**1**
Currency translation difference	(6)	(15)	(65)	**(86)**
31 December 2008	**34**	**81**	**379**	**494**

(expressed in millions of US dollars)

30. Allowances for Impairment and Provisions (continued)

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

	Other assets	Investment securities held-to-maturity	Credit related commit-ments	Legal claims	Total
31 December 2006	**–**	**–**	**3**	**–**	**3**
Reversal of provision for impairment during the period	–	–	(2)	–	**(2)**
Write-offs	(2)	–	–	–	**(2)**
Recoveries of amounts written-off in previous periods	2	–	–	–	**2**
Currency translation difference	–	–	1	–	**1**
31 December 2007	**–**	**–**	**2**	–	**2**
Provision for impairment during the period	1	47	53	4	**105**
Write-offs	(1)	–	–	–	**(1)**
Recoveries of amounts written-off in previous periods	1	–	–	–	**1**
Currency translation difference	(1)	(3)	(5)	–	**(9)**
31 December 2008	**–**	**44**	**50**	**4**	**98**

Allowances for impairment of assets are deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and credit-related commitments are recorded in liabilities. In accordance with Russian legislation, loans may only be written off with the approval of the Supervisory Council and, in certain cases, with the respective decision of the Court.

31. Income Tax Expense

Income tax expense comprises the following:

	2008	2007
Current tax charge	579	487
Deferred taxation movement due to the origination and reversal of temporary differences	(48)	(182)
Income tax expense for the year	**531**	**305**

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries' income ranges from 10% to 32% in 2008 (2007: 10% to 40%).

	2008	2007
IFRS profit before taxation	**743**	**1,819**
Theoretical tax charge at the applicable statutory rate of each company within the Group	166	468
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	137	46
- Change in unrecognized deferred taxes	125	(13)
- Income recorded in tax books only	41	3
- Effect of change in tax rates	30	3
- Tax losses utilized	(15)	(21)
- Income, which is exempt from taxation	(7)	(20)
- Income taxed at different rates	4	(23)
- Other non-temporary differences	1	(1)
- Translation effect	7	(125)
- Other	42	(12)
Income tax expense for the year	**531**	**305**

(expressed in millions of US dollars)

31. Income Tax Expense (continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 32% (2007: from 10% to 40%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

		Origination and reversal of temporary differences		Effect of business combination (Note 39)		Origination and reversal of temporary differences		
	2006	In the statement of income	Directly in equity		2007	In the statement of income	Directly in equity	2008
Tax effect of deductible temporary differences:								
Allowances for impairment and provisions for other losses	**100**	55	–	–	**155**	79	–	**234**
Tax losses carried forward	**104**	17	–	–	**121**	207	(18)	**310**
Fair value measurement of derivatives	–	11	–	–	**11**	154	11	**176**
Accrued expenses	**35**	84	–	–	**119**	12	–	**131**
Other	**37**	(18)	4	–	**23**	17	(2)	**38**
Gross deferred tax assets	**276**	149	4	–	**429**	469	(9)	**889**
Unrecognized deferred tax assets	**(14)**	13	–	–	**(1)**	(125)	–	**(126)**
Gross deferred tax asset	**262**	**162**	**4**	**–**	**428**	**344**	**(9)**	**763**
Tax effect of taxable temporary differences:								
Fair value measurement of securities	**(32)**	4	16	–	**(12)**	(282)	(21)	**(315)**
Property and equipment	**(188)**	13	(87)	–	**(262)**	60	44	**(158)**
Intangible assets	**(33)**	4	–	–	**(29)**	17	–	**(12)**
Net investment in lease	**(4)**	(26)	–	–	**(30)**	(72)	–	**(102)**
Valuation of advances from customers	**(6)**	1	–	–	**(5)**	(8)	–	**(13)**
Other	**(31)**	24	(19)	2	**(24)**	(11)	–	**(35)**
Gross deferred tax liability	**(294)**	**20**	**(90)**	**2**	**(362)**	**(296)**	**23**	**(635)**
Deferred tax asset, net	**93**	**147**	**(25)**	**–**	**215**	**95**	**6**	**316**
Deferred tax liability, net	**(125)**	**35**	**(61)**	**2**	**(149)**	**(47)**	**8**	**(188)**

31. Income Tax Expense (continued)

In November 2008, the Russian government issued an amendment to the Tax Code relating to change of the corporate income tax rate from 24% to 20% effective from 1 January 2009. This change was accounted in the consolidated financial statements as at 31 December 2008. The effect of change of tax rate amounts to USD 30 million expense for deferred tax recognized in the statement of income and USD 21 million of benefit from the decrease for deferred tax liability recognized through the statement of changes in shareholders' equity.

At 31 December 2008, VTB Bank (Austria), VTB Bank (Deutschland), VTB Bank (Europe) and VTB Capital (Russia) had unused tax losses of USD 591 million (2007: USD 363 million) for which no deferred tax asset was recognized due to uncertainty that these entities would anticipate to have sufficient future taxable profits against which unused tax losses could be utilized. Losses of VTB Bank (Austria), VTB Bank (Deutschland), and VTB Bank (Europe) do not expire. Tax losses of VTB Capital (Russia) can be utilized during the next 10 years in accordance with the Russian Tax Code requirements.

Deferred tax assets recognized for VTB Capital plc and VTB Austria as of 31 December 2008 were limited by future taxable income from core business based on 3-year and 6-year budgets of these subsidiaries, respectively.

In 2008 the Group had significant non-deductible expenses that influenced the increase in effective tax rate. The substantial change in unrecognized deferred taxes, change in tax rates and income recognized only in tax accounting also contributed to the increase in effective tax rate.

At 31 December 2008, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability has not been recognized amounted to USD 393 million (31 December 2007: USD 232 million).

32. Basic and Diluted Earnings per Share

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

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

	2008	2007
Net profit attributable to shareholders of the parent *(in millions of US dollars)*	218	1,480
Weighted average number of ordinary shares in issue	6,720,906,862,392	6,128,966,714,489
Basic and diluted earnings per share (expressed in USD per share)	**0.000032**	**0.000241**

33. Dividends

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

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

33. Dividends (continued)

The amount of dividends to be declared and paid is decided at the VTB’s annual shareholders’ meeting on the basis of VTB’s net profit for the previous fiscal year determined in accordance with Russian Accounting Legislation on a stand-alone basis. On 20 June 2007 VTB’s shareholders’ meeting approved dividends of RUR 3.4 billion (USD 133 million at the exchange rate of RUR 25.9268 per USD 1.00) for 2006 (RUR 0.00066 per share or USD 0.000026 per share), which were paid on 14 August 2007. On 26 June 2008, VTB’s annual shareholders’ meeting declared dividends of RUR 9 billion (USD 382 million at the exchange rate of RUR 23.6113 per USD 1.00) for 2007 (RUR 0.00134 per share or USD 0.000057 per share). Dividends declared by VTB in June 2008, were paid in August 2008.

On 29 June 2007, OJSC “Bank VTB North-West” declared dividends of RUR 176 million (USD 6.8 million at the exchange rate of RUR 25.8162 per USD 1.00) for 2006, resulting in reduction of minority interest by USD 2 million. The dividends were paid on 6 August 2007. On 27 June 2008, the annual shareholders' meeting of OJSC "Bank VTB North-West" declared dividends of RUR 4.6 billion (USD 195 million at the exchange rate of RUR 23.5245 per USD 1.00) for 2007 (RUR 3.65 per share or USD 0.15 per share). The dividends were paid in June and July of 2008. Dividends paid to minority were USD 26.0 million.

34. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. At the reporting date the Group had several unresolved legal claims. Management is of the opinion that there would be no material outflow of resources and accordingly no provision has been made in these consolidated financial statements.

As of 31 December 2008, a USD 14 million compensation claim filed against VTB's subsidiary bank with respect to the arrest, upon the subsidiary bank’s application, of the collateral to a loan issued by the subsidiary bank in previous periods, was pending in the Court. The subsidiary bank has been advised by its attorney that it is possible, but not probable, that the compensation claim will succeed, therefore no provision for the claim has been made.

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

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

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

(expressed in millions of US dollars)

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

Outstanding credit related commitments are as follows:

	31 December 2008	31 December 2007
Guarantees issued	7,459	7,056
Undrawn credit lines	5,770	7,054
Import letters of credit	1,686	1,930
Commitments to extend credit	3,816	4,304
Less: allowance for losses on credit related commitments (Note 30)	(50)	(2)
Total credit related commitments	**18,681**	**20,342**

The Bank received export letters of credit for further advising to its customers. The total amount of received letters of credit as of 31 December 2008 was USD 2,934 million (31 December 2007: USD 2,630 million). Commitments under import letters of credit and guarantees are collateralized by customer deposits of USD 307 million (31 December 2007: USD 385 million).

At 31 December 2007, included in guarantees issued is a guarantee of USD 2,724 million or 39% of the guarantees issued, which acts as additional collateral for a transaction between third parties whereby credit risk is fully collateralized by the shares of a major oil and gas Russian company.

At 31 December 2008, included in guarantees issued are guarantees issued for a related company (Russian entity) of USD 923 million or 12% of the guarantees issued. At 31 December 2007, included in guarantees issued are guarantees issued for a related company (Russian entity) of USD 684 million or 10% of the guarantees issued.

Movements in the allowance for losses on credit related commitments are disclosed in Note 30.

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

Remaining contractual maturity	2008	2007
Not later than 1 year	76	58
Later than 1 year but not later than 5 years	242	183
Later than 5 years	248	338
Total operating lease commitments	**566**	**579**

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 notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent, to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The notional or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2008.

(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2008:

	Notional amount	Negative fair value	Positive fair value
Derivatives held for trading			
Foreign exchange and precious metals contracts			
Forwards	29,393	(2,613)	1,573
Futures	135	–	3
Swaps	9,897	(583)	663
Options			
written put	624	(47)	10
purchased put	1,426	(6)	17
written call	1,967	(216)	1
purchased call	291	–	68
Contracts with securities			
Forward sale of equity securities	198	(79)	1
Futures on sale of equity securities	8	–	–
Sale of Credit Default Swaps	452	(93)	–
Purchase of Credit Default Swaps	787	(22)	5
Options			
written call	69	(276)	–
Interest rate contracts			
Interest rate Swaps	4,581	(87)	53
Other basic assets contracts			
Interest rate Futures			
sell	973	(4)	–
buy	1,279	(1)	4
Commodities swap	13	(2)	3
Derivatives held as fair value hedges			
Interest rate swaps	8,146	(733)	150
Derivatives held as cash flow hedges			
Interest rate swaps	788	–	89
Embedded derivatives on structured instruments			
Embedded derivatives on securities instruments	89	(60)	–
Total derivatives	**61,116**	**(4,822)**	**2,640**

(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2007:

	Notional amount	Negative fair value	Positive fair value
Derivatives held for trading			
Foreign exchange and precious metals contracts			
Forwards	17,042	(113)	257
Futures	3,043	(40)	12
Swaps	5,262	(44)	43
Options			
written put	479	(26)	–
purchased put	499	–	30
written call	441	(6)	–
purchased call	369	–	4
Contracts with securities			
Forward sale of debt securities	19	–	–
Forward purchase of debt securities	154	(1)	–
Forward sale of equity securities	1,419	(117)	20
Forward purchase of equity securities	323	(6)	27
Sale of Credit Default Swaps	431	(11)	–
Purchase of Credit Default Swaps	978	(14)	–
Options			
written put	570	(21)	–
purchased put	306	–	3
purchased call	613	–	36
Interest rate contracts			
Sale of Forward Rate Agreements	210	–	1
Purchase of Forward Rate Agreements	210	(2)	–
Interest rate Swaps	1,306	(23)	23
Derivatives held as cash flow hedges			
Interest rate swaps	1,715	–	104
Total derivatives	**35,389**	**(424)**	**560**

Cash flow hedges

The Group is exposed to variability in future variable interest cash flows on its loan portfolio. The Group uses interest rate swaps (IRSs) as cash flow hedges of risks of change in the benchmark interest rates relating to these cash flows. The cash flows are expected to occur and affect future interest received until 30 June 2015.

The fair value of IRSs used as cash flow hedges was accounted within “Other assets” for positive items, which amounted to USD 89 million (31 December 2007: USD 104 million was accounted within “Financial assets at fair value through profit or loss”).

The Group recognized a cumulative effect of USD 58 million crediting the cash flow hedge reserve, net of taxes, at 31 December 2008 (31 December 2007: USD 51 million), which was accounted within “Unrealized gain on financial assets available-for-sale and cash flow hedge” caption in equity.

In 2008 the Group recognized a gain of USD 42 million (net of tax) in the statement of income as certain hedged items related to cash flow hedges are no longer highly probable.

During 2008 the Group recognized a gain in the amount of USD 50 million within Gains less losses arising from financial instruments at fair value through profit or loss and an interest income in the amount of USD 1 million due to ineffectiveness of certain cash flow hedges.

Fair value hedges

Fair value hedges are used by the Group to protect it against the changes in the fair value of financial assets and financial liabilities due to movements in interest rates. The financial instruments hedged for interest rate risk include loans and debt securities issued. For 2008, the Group recognized a net loss of USD 424 million (2007: nil), representing the loss on the hedging instruments, which remained effective as at 31 December 2008. The total gain on hedged items attributable to the hedged risk amounted to USD 477 million (2007: nil).

(expressed in millions of US dollars)

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

Fair value hedges (continued)

In December 2008 one fair value hedge became ineffective, which led to recognition of loss of USD 54 million in the statement of income. Total gain on hedged item attributable to the hedged risk remaining within Loans and advances to customers amounted to USD 103 million as at 31 December 2008.

Purchase commitments. As of 31 December 2008 the Group had USD 299 million of outstanding commitments for the purchase of precious metals (31 December 2007: USD 206 million). 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.

35. Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is geographical segments. Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. VTB has predominantly one business segment, commercial banking, therefore no business segment disclosure is presented. Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, is set out below for the year ended 31 December 2008.

Revenues disclosed in the note include the following: interest income, fee and commission income, other operating income, income arising from non-banking activities, gains less losses from financial assets available-for-sale, gains less losses from financial assets at fair value through profit or loss, gains less losses from dealing in foreign currencies and share in income of associates.

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

	Russia	Other CIS	Europe and other	Total before intersegment eliminations	Inter-segment	Total
Revenues from:						
External customers	9,670	714	941	**11,325**	–	**11,325**
Other segments	495	–	94	**589**	(589)	**–**
Effect of intersegment buy-back of bonds issued					92	**92**
Total revenues	**10,165**	**714**	**1,035**	**11,914**	**(497)**	**11,417**
Segment results (profit before taxation)	961	(87)	(223)	**651**	92	**743**
Income tax expense						**(531)**
Net profit						**212**
Segment assets as of 31 December 2008 less income tax assets	**106,897**	**5,854**	**25,287**	**138,038**	**(12,584)**	**125,454**
Income tax assets	224	22	148	**394**		**394**
Segment assets as of 31 December 2008	**107,121**	**5,876**	**25,435**	**138,432**	**(12,584)**	**125,848**
Segment liabilities as of 31 December 2008 less income tax liabilities	**96,517**	**5,031**	**23,368**	**124,916**	**(12,676)**	**112,240**
Income tax liabilities	232	25	4	**261**		**261**
Segment liabilities as of 31 December 2008	**96,749**	**5,056**	**23,372**	**125,177**	**(12,676)**	**112,501**
Other segment items						
Share in income of associates	3	–	3	**6**		**6**
Capital expenditure	610	71	77	**758**		**758**
Depreciation and amortization charge	158	19	17	**194**		**194**
Other non-cash income (expenses)						
Provision charge for impairment	(2,042)	(237)	(203)	**(2,482)**		**(2,482)**
Provision charge for impairment of other assets and credit related commitments	(46)	(9)	(3)	**(58)**		**(58)**
Interest income	8,634	600	1,163	**10,397**	(588)	**9,809**
Interest expense	(4,717)	(351)	(762)	**(5,830)**	588	**(5,242)**
Net interest income	**3,917**	**249**	**401**	**4,567**	**–**	**4,567**

(expressed in millions of US dollars)

35. Analysis by Segment (continued)

The segment information as of 31 December 2007:

	Russia	Other CIS	Europe and other	Total before intersegment eliminations	Inter-segment	Total
Revenues from:						
External customers	5,967	311	891	**7,169**	–	**7,169**
Other segments	183	–	28	**211**	(211)	**–**
Total revenues	**6,150**	**311**	**919**	**7,380**	**(211)**	**7,169**
Segment results (profit before taxation)	1,743	36	40	1,819	–	**1,819**
Income tax expense						**(305)**
Net profit						**1,514**
Segment assets as of 31 December 2007 less income tax assets	**79,451**	**3,993**	**15,892**	**99,336**	**(6,978)**	**92,358**
Income tax assets	120	5	126	251		**251**
Segment assets as of 31 December 2007	**79,571**	**3,998**	**16,018**	**99,587**	**(6,978)**	**92,609**
Segment liabilities as of 31 December 2007 less income tax liabilities	**65,535**	**3,622**	**13,728**	**82,885**	**(6,978)**	**75,907**
Income tax liabilities	173	13	15	201		**201**
Segment liabilities as of 31 December 2007	**65,708**	**3,635**	**13,743**	**83,086**	**(6,978)**	**76,108**
Other segment items						
Share in income of associates	3	–	15	18	–	**18**
Profit from disposal of subsidiaries and associates	79	–	19	98	–	**98**
Capital expenditure	266	66	27	359	(1)	**358**
Depreciation and amortization charge	133	10	11	154	–	**154**
Other non-cash income (expenses)						
Provision charge for impairment	(454)	(53)	(19)	(526)	–	**(526)**
Interest income	4,404	267	926	5,597	(210)	**5,387**
Interest expense	(2,292)	(117)	(632)	(3,041)	210	**(2,831)**
Net interest income	**2,112**	**150**	**294**	**2,556**	**–**	**2,556**

36. Financial Risk Management

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

The Management Board of VTB has overall responsibility for risk management at VTB. In each subsidiary bank of the Group, risks are managed by the appropriate authorities, predominantly management boards. The organization structure of subsidiary banks includes a Chief Risk Officer and Risk division responsible for risk management.

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

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

36. Financial Risk Management (continued)

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

The tasks set for the RMC include:

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

The RD consists of the following sub-divisions:

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

The Consolidated risk analysis division is responsible for risk management on a Group-wide basis including unification of credit risk policies and procedures, risk management systems enhancement, Group data consolidation, and implementation of Basel II.

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

The ALCO establishes major targeted parameters for VTB's balance sheet for the purposes of asset and liability management and monitors VTB's compliance with these targets with the assistance of VTB's Risk Department. The ALCO, the CC, the RD and the Treasury carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) 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 significant accounting policies in Note 4 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized.

The following tables disclose the carrying amounts of financial assets and liabilities by category as defined in IAS 39 and by balance sheet line.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

As at 31 December 2008:

	Held for trading	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial assets and liabilities measured at amortized cost	Derivatives designated as cash flow and fair value hedging instruments	Total
Financial assets								
Cash and short-term funds	–	–	–	–	–	14,162	–	**14,162**
Mandatory cash balances with central banks	–	–	–	–	–	259	–	**259**
Financial assets at fair value through profit or loss	4,854	959	–	–	–	–	–	**5,813**
Financial assets pledged under repurchase agreements and loaned financial assets	126	136	625	454	172	–	–	**1,513**
Due from other banks	–	–	–	10,482	–	–	–	**10,482**
Loans and advances to customers	–	–	–	86,984	–	–	–	**86,984**
Financial assets available-for-sale	–	–	–	–	812	–	–	**812**
Investment securities held-to-maturity	–	–	703	–	–	–	–	**703**
Other assets	–	–	–	–	–	481	239	**720**
Total financial assets	**4,980**	**1,095**	**1,328**	**97,920**	**984**	**14,902**	**239**	**121,448**
Financial liabilities								
Due to other banks	–	–	–	–	–	13,231	–	**13,231**
Customer deposits	–	–	–	–	–	37,503	–	**37,503**
Other borrowed funds	–	–	–	–	–	28,888	–	**28,888**
Debt securities issued	–	–	–	–	–	19,063	–	**19,063**
Subordinated debt	–	–	–	–	–	6,899	–	**6,899**
Other liabilities	4,089	–	–	–	–	909	733	**5,731**
Total financial liabilities	**4,089**	**–**	**–**	**–**	**–**	**106,493**	**733**	**111,315**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

As at 31 December 2007:

	Held for trading	Designated at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial assets and liabilities measured at amortized cost	Derivatives designated as cash flow hedging instruments	Total
Financial assets								
Cash and short-term funds	–	–	–	–	–	5,160	–	**5,160**
Mandatory cash balances with central banks	–	–	–	–	–	825	–	**825**
Financial assets at fair value through profit or loss	9,008	1,324	–	–	–	–	104	**10,436**
Financial assets pledged under repurchase agreements and loaned financial assets	877	316	–	163	856	–	–	**2,212**
Due from other banks	–	–	–	9,733	–	–	–	**9,733**
Loans and advances to customers	–	–	–	58,549	–	–	–	**58,549**
Financial assets available-for-sale	–	–	–	–	858	–	–	**858**
Investment securities held-to-maturity	–	–	5	–	–	–	–	**5**
Other assets	–	–	–	–	–	214	–	**214**
Total financial assets	**9,885**	**1,640**	**5**	**68,445**	**1,714**	**6,199**	**104**	**87,992**
Financial liabilities								
Due to other banks	–	–	–	–	–	14,794	–	**14,794**
Customer deposits	–	–	–	–	–	37,098	–	**37,098**
Other borrowed funds	–	–	–	–	–	5,176	–	**5,176**
Debt securities issued	–	–	–	–	–	16,489	–	**16,489**
Subordinated debt	–	–	–	–	–	1,171	–	**1,171**
Other liabilities	424	–	–	–	–	613	–	**1,037**
Total financial liabilities	**424**	**–**	**–**	**–**	**–**	**75,341**	**–**	**75,765**

Credit risk

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

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

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

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

36. Financial Risk Management (continued)

Credit risk (continued)

Consolidated credit risk management comprises the following functions:

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

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

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

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

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

- basic elements of the Group's credit strategy for 2008-2010 (as a whole and in respect of corporate and retail business lines, transactions with financial institutions and treasury operations),
- roles and responsibilities of different committees, departments of VTB and subsidiaries in the area of lending activities and credit risk management,
- internal control in the above-mentioned areas,
- non-performing loan management,
- principles of pricing (interest rate and commission) policies.

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

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

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

VTB monitors credit policies, procedures and performance of its subsidiaries through VTB's representatives on the Supervisory Councils (Boards of Directors) of Group companies. Periodic inspections of subsidiaries' credit processes and portfolios are carried out by VTB's Internal Control Division (jointly with internal control / audit units of subsidiaries). A standard audit procedure includes consideration of the completeness and adequacy of local credit risk manuals and lending guidelines. VTB's Internal Control Division prepares subsequent recommendations.

36. Financial Risk Management (continued)

Credit risk (continued)

Control over large credit exposures and exposures to Group-wide customers is conducted primarily with a view to ensure that exposures to an individual counterparty or group of related counterparties, to industrial sectors and geographic areas do not become excessive in relation to the Group's capital base and regulatory requirements.

The methods used in the Group to control credit risk concentrations and exposures include setting limits (quantitative and other restrictions).

In order to avoid excessive risk concentration within the Group, consolidated credit limits are to be established, while sub-limits are to be assigned to individual Group companies. Local limits are set at Group company level. The consolidated risk limits constitute the maximum permissible volume of credit operations conducted in the corresponding time period by Group companies participating in the consolidation scheme. The consolidated risk limits are indicative in nature. The recommendations on consolidated risk limits are issued on a Group-wide basis. Group companies should regard these recommendations as an orienting point for setting local limits.

The consolidated risk limits are approved on a centralized basis in respect of common individual counterparties / groups of related counterparties (large-scale corporate clients and financial institutions), countries, industrial sectors. Limits on financial institutions include Settlement and Position (Pre-Settlement) limits.

During 2008 the following documents were approved at VTB Group level:

- "Regulation on credit risk control within the VTB Group for operations with banks and non-bank credit institutions";
- "Regulation on credit risk control within the VTB Group for operations with large-scale corporate clients";
- "Regulation on industry sector and country risk management within the VTB Group".

These documents define the methods, risk limit systems, segregation of functions between the divisions of the Parent Bank and the subsidiary banks/companies in the frame of consolidated risk control procedures.

The Group banks use internal credit rating classification systems based on uniform Group-wide standards. These systems may imply certain deviations from the standard counterparty rating procedure due to the level of development (sophistication) of national markets. At the same time, these systems should be able to provide comparable estimations of individual entities' credit exposures in order to ensure efficient credit risk management at the Group level.

In each Group company, risks are managed by the appropriate authorities, predominantly management boards. The organization structure of subsidiary banks includes a Chief Risk Officer and a Risk division responsible for credit risk management.

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

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

- VTB Group Management Committee ("GMC");
- VTB Group Credit Committee of the GMC ("GCC");
- Risk Management Commission of the GMC ("RMC").

GCC is a permanently acting collegial working body of the GMC. Its key tasks are as follows:

- setting/amending consolidated limits for the credit risk assumed by the Group;
- consideration of some individual operations and large-scale transactions of Group companies.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Credit risk (continued)

In the Parent Bank the Risk Department ("RD") is responsible for risk management on a Group-wide basis including credit risk management systems enhancement, Group data consolidation and implementation of Basel II.

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

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

Credit risk monitoring at the Group level is based on regular reports submitted by subsidiaries to the RD and covering credit risk exposures on the consolidated basis. The RD reports to the GMC.

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

	31 December 2008	31 December 2007
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**12,373**	**3,904**
Debt securities	**4,299**	**10,267**
Financial assets held for trading	**928**	**7,330**
debt securities of Russian banks and companies	499	4,170
debt securities of foreign banks and companies	234	978
debt securities of Russian government and municipal authorities	173	2,162
debt securities of foreign government and municipal authorities	22	20
Financial assets designated at fair value through profit or loss	**704**	**841**
debt securities of Russian banks and companies	373	415
debt securities of foreign banks and companies	271	354
debt securities of Russian government and municipal authorities	5	11
debt securities of foreign government and municipal authorities	55	61
Financial assets pledged under repurchase agreements and loaned financial assets – held for trading	**126**	**651**
debt securities of Russian banks and companies	126	329
debt securities of Russian government and municipal authorities	–	322
Financial assets pledged under repurchase agreements and loaned financial assets – designated at fair value through profit or loss	**136**	**316**
debt securities of Russian banks and companies	70	121
debt securities of foreign banks and companies	–	58
debt securities of Russian government and municipal authorities	–	34
debt securities of foreign government and municipal authorities	66	103
Financial assets pledged under repurchase agreements and loaned financial assets – available-for-sale	**172**	**856**
debt securities of Russian banks and companies	–	30
debt securities of foreign banks and companies	158	490
debt securities of Russian government and municipal authorities	–	10
debt securities of foreign government and municipal authorities	14	326
Financial assets pledged under repurchase agreements and loaned financial assets – classified due from other banks	**349**	–
Financial assets pledged under repurchase agreements and loaned financial assets – classified as loans and advances to customers	**105**	–
Financial assets pledged under repurchase agreements and loaned financial assets – classified as investment securities held-to-maturity	**625**	–

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Credit risk (continued)

	31 December 2008	31 December 2007
Financial assets available-for-sale	**407**	**268**
debt securities of Russian banks and companies	27	75
debt securities of foreign banks and companies	322	120
debt securities of Russian government and municipal authorities	20	27
debt securities of foreign government and municipal authorities	38	46
Investment securities held-to-maturity	**747**	**5**
debt securities of Russian banks and companies	643	–
debt securities of foreign banks and companies	96	5
debt securities of foreign government and municipal authorities	8	–
Unquoted promissory notes of Russian companies and banks	**–**	**163**
Due from other banks	**10,505**	**9,746**
Russia	3,325	3,858
OECD	6,958	5,339
Other	222	549
Loans and advances to customers	**90,208**	**60,021**
Loans to legal entities	**77,034**	**52,339**
Project finance	10,389	3,657
Financial lease	3,884	2,547
Currency activity financing	53,672	39,924
Reverse sale and repurchase agreements	1,974	1,484
Other	7,115	4,727
Loans to individuals	**13,174**	**7,682**
Mortgages	6,488	3,661
Car loans	1,382	774
Reverse sale and repurchase agreements	19	156
Consumer loans and other	5,285	3,091
Other assets	**720**	**1,277**
Total balance sheet exposure	**118,105**	**85,378**
Off-balance sheet exposure		
Guarantees issued	7,459	7,056
Undrawn credit lines	5,770	7,054
Import letters of credit	1,686	1,930
Commitments to extend credit	3,816	4,304
Exposure arising from credit default swaps		
- sale of Credit Default Swaps	452	431
- purchase of Credit Default Swaps	787	978
Total off-balance sheet exposure	**19,970**	**21,753**
Total maximum exposure to credit risk	**138,075**	**107,131**

Total credit risk exposure

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Credit quality by class of due from banks

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

	Not impaired	
	Individually assessed	Collectively assessed
Russia	3,138	187
OECD	3,981	2,977
Other countries	150	72
Total due from other banks (gross) neither past due nor impaired	**7,269**	**3,236**

Credit quality of due from banks (gross), which are neither past due nor impaired at 31 December 2007 is presented in the table below:

	Not impaired	
	Individually assessed	Collectively assessed
Russia	2,818	1,040
OECD	4,065	1,274
Other countries	444	97
Total due from other banks (gross) neither past due nor impaired	**7,327**	**2,411**

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

Credit quality by class of loans and advances to customers

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

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

	Not impaired			Impaired		
	Pass	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
Loans to legal entities	**52,204**	**8,271**	**4,712**	**856**	**1,629**	**67,672**
Project finance	7,821	461	1,564	70	179	10,095
Financial lease	2,384	89	67	17	29	2,586
Currency activity financing	34,898	7,268	2,848	555	1,151	46,720
Reverse sale and repurchase agreements	1,712	–	–	–	–	1,712
Other	5,389	453	233	214	270	6,559
Loans to individuals	**145**	**23**	**18**	**36**	**28**	**250**
Mortgages	61	2	17	24	1	105
Car loans	–	–	–	–	2	2
Consumer loans and other	84	21	1	12	25	143
Total loans and advances to customers individually assessed	**52,349**	**8,294**	**4,730**	**892**	**1,657**	**67,922**

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

	Not impaired			Impaired		
	Pass	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
Loans to legal entities	**7,323**	**1,743**	**131**	**101**	**64**	**9,362**
Project finance	280	14	–	–	–	294
Financial lease	1,202	61	35	–	–	1,298
Currency activity financing	5,301	1,464	68	61	58	6,952
Reverse sale and repurchase agreements	262	–	–	–	–	262
Other	278	204	28	40	6	556
Loans to individuals	**6,562**	**1,753**	**4,441**	**27**	**141**	**12,924**
Mortgages	6,341	10	16	16	–	6,383
Car loans	114	1,245	3	–	18	1,380
Reverse sale and repurchase agreements	19	–	–	–	–	19
Consumer loans and other	88	498	4,422	11	123	5,142
Total loans and advances to customers collectively assessed	**13,885**	**3,496**	**4,572**	**128**	**205**	**22,286**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

The table below shows credit quality by class of loans and advances to customers at 31 December 2007, individually assessed.

	Not impaired			Impaired		
	Pass	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
Loans to legal entities	**31,456**	**1,320**	**23**	**251**	**597**	**33,647**
Project finance	1,985	1,320	23	97	3	**3,428**
Financial lease	312	–	–	–	2	**314**
Currency activity financing	24,728	–	–	148	546	**25,422**
Reverse sale and repurchase agreements	885	–	–	–	–	**885**
Other	3,546	–	–	6	46	**3,598**
Loans to individuals	**61**	**–**	**–**	**7**	**9**	**77**
Mortgages	10	–	–	4	–	**14**
Car loans	–	–	–	–	3	**3**
Consumer loans and other	51	–	–	3	6	**60**
Total loans and advances to customers individually assessed	**31,517**	**1,320**	**23**	**258**	**606**	**33,724**

The table below shows credit quality by class of loans and advances to customers at 31 December 2007, collectively assessed.

	Not impaired			Impaired		
	Pass	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
Loans to legal entities	**6,249**	**11,102**	**1,296**	**–**	**45**	**18,692**
Project finance	–	–	229	–	–	**229**
Financial lease	2,177	56	–	–	–	**2,233**
Currency activity financing	3,063	10,357	1,038	–	44	**14,502**
Reverse sale and repurchase agreements	599	–	–	–	–	**599**
Other	410	689	29	–	1	**1,129**
Loans to individuals	**5,742**	**1,502**	**186**	**–**	**175**	**7,605**
Mortgages	3,510	107	20	–	10	**3,647**
Car loans	379	369	9	–	14	**771**
Reverse sale and repurchase agreements	156	–	–	–	–	**156**
Consumer loans and other	1,697	1,026	157	–	151	**3,031**
Total loans and advances to customers collectively assessed	**11,991**	**12,604**	**1,482**	**–**	**220**	**26,297**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

Analysis of loans and advances to customers individually impaired by industry at 31 December 2008 and 2007 is presented in the table below.

	31 December 2008	31 December 2007
Trade and commerce	655	151
Food and agriculture	561	88
Building construction	432	83
Manufacturing	256	159
Chemical	115	111
Transport	65	21
Individuals	64	16
Metals	61	64
Finance	33	31
Coal mining	33	31
Telecommunications and media	26	1
Energy	25	9
Oil and gas	10	2
Government bodies	–	8
Other	213	89
Total loans and advances to customers individually impaired	**2,549**	**864**

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

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**971**	**32**	**114**	**121**	**47**	**205**	**1,490**
Project finance	–	–	1	–	–	3	**4**
Financial lease	893	7	86	30	35	14	**1,065**
Currency activity financing	72	18	23	90	11	148	**362**
Other	6	7	4	1	1	40	**59**
Loans to individuals	**444**	**120**	**94**	**81**	**86**	**128**	**953**
Mortgages	210	49	43	20	14	39	**375**
Car loans	44	9	6	7	7	12	**85**
Consumer loans and other	190	62	45	54	65	77	**493**
Total loans and advances to customers past due but not impaired	**1,415**	**152**	**208**	**202**	**133**	**333**	**2,443**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

Ageing analysis of past due, but not impaired loans and advances to customers by class at 31 December 2007 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	**22**	**5**	**2**	**–**	**2**	**1**	**32**
Project finance	1	1	–	–	–	–	**2**
Currency activity financing	13	4	2	–	2	–	**21**
Other	8	–	–	–	–	1	**9**
Loans to individuals	**135**	**47**	**28**	**–**	**–**	**–**	**210**
Mortgages	49	19	8	–	–	–	**76**
Car loans	13	4	2	–	–	–	**19**
Consumer loans and other	73	24	18	–	–	–	**115**
Total commercial loans and advances to customers past due but not impaired	**157**	**52**	**30**	**–**	**2**	**1**	**242**

The table below shows the carrying amount for renegotiated (rescheduled) loans and advances to customers, by class.

	31 December 2008			31 December 2007		
	Gross	Allowance	Net	Gross	Allowance	Net
Loans to legal entities	**504**	**(186)**	**318**	**136**	**(16)**	**120**
Project finance	95	(37)	58	34	(3)	**31**
Currency activity financing	325	(114)	211	102	(13)	**89**
Other	84	(35)	49	–	–	**–**
Loans to individuals	**51**	**(10)**	**41**	**–**	**–**	**–**
Mortgages	51	(10)	41	–	–	**–**
Total renegotiated loans and advances to customers	**555**	**(196)**	**359**	**136**	**(16)**	**120**

Collateral and other credit enhancements

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

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

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

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Collateral repossessed

From time to time, in the normal course of business, the Group repossesses collateral received in the course of reverse repo transactions. The amount of such collateral repossessed by the Group in 2008 was insignificant. During 2007 the Group took no possession of significant collateral items from its counterparties.

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2008 the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	OECD	Other countries	Total
Assets				
Cash and short-term funds	11,898	1,941	323	**14,162**
Mandatory cash balances with central banks	91	21	147	**259**
Financial assets at fair value through profit or loss	3,038	2,548	227	**5,813**
Financial assets pledged under repurchase agreements and loaned financial assets	1,276	223	14	**1,513**
Due from other banks	3,304	6,958	220	**10,482**
Loans and advances to customers	65,037	850	21,097	**86,984**
Financial assets available-for-sale	345	346	121	**812**
Investments in associates	128	–	25	**153**
Investment securities held-to-maturity	599	101	3	**703**
Premises and equipment	1,668	148	254	**2,070**
Investment property	147	–	1	**148**
Intangible assets	355	20	10	**385**
Deferred tax asset	167	126	23	**316**
Other assets	1,291	476	281	**2,048**
Total assets	**89,344**	**13,758**	**22,746**	**125,848**
Liabilities				
Due to other banks	6,603	5,662	966	**13,231**
Customer deposits	32,546	1,073	3,884	**37,503**
Other borrowed funds	23,903	4,476	509	**28,888**
Debt securities issued	7,386	11,627	50	**19,063**
Deferred tax liability	166	–	22	**188**
Other liabilities	989	4,730	205	**5,924**
Subordinated debt	6,765	939	–	**7,704**
Total liabilities	**78,358**	**28,507**	**5,636**	**112,501**
Net balance sheet position	**10,986**	**(14,749)**	**17,110**	**13,347**
Net off-balance sheet position – Credit Related Commitments	**16,391**	**571**	**1,719**	**18,681**
Net off-balance sheet position – derivatives	**9,322**	**50,682**	**1,112**	**61,116**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Geographical concentration (continued)

As at 31 December 2007 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	4,107	730	323	**5,160**
Mandatory cash balances with central banks	720	31	74	**825**
Financial assets at fair value through profit or loss	8,657	754	1,025	**10,436**
Financial assets pledged under repurchase agreements and loaned financial assets	1,236	539	437	**2,212**
Due from other banks	3,858	5,339	536	**9,733**
Loans and advances to customers	44,964	1,011	12,574	**58,549**
Financial assets available-for-sale	550	62	246	**858**
Investments in associates	152	–	15	**167**
Investment securities held-to-maturity	–	5	–	**5**
Premises and equipment	1,552	230	215	**1,997**
Investment property	167	–	1	**168**
Intangible assets	442	12	26	**480**
Deferred tax asset	89	123	3	**215**
Other assets	1,041	112	651	**1,804**
Total assets	**67,535**	**8,948**	**16,126**	**92,609**
Liabilities				
Due to other banks	6,404	7,497	893	**14,794**
Customer deposits	32,951	1,408	2,739	**37,098**
Other borrowed funds	1,448	3,524	204	**5,176**
Debt securities issued	3,669	12,436	384	**16,489**
Deferred tax liability	134	2	13	**149**
Other liabilities	659	489	83	**1,231**
Subordinated debt	–	1,156	15	**1,171**
Total liabilities	**45,265**	**26,512**	**4,331**	**76,108**
Net balance sheet position	**22,270**	**(17,564)**	**11,795**	**16,501**
Net off-balance sheet position – Credit Related Commitments	**14,624**	**3,302**	**2,416**	**20,342**
Net off-balance sheet position – derivatives	**6,826**	**26,873**	**1,690**	**35,389**

Market risk

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest Rate Risk Exposure and Sensitivity analysis

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

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

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

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Correspondent accounts with other banks	6,124	–	–	–	–	–	–	**6,124**
Corporate loans and advances to customers	3,750	9,634	5,180	16,154	14,380	6,459	7,423	**62,980**
Retail loans and advances to customers	180	405	427	895	3,385	2,508	4,630	**12,430**
Due from other banks	8,458	1,837	440	61	54	25	23	**10,898**
Reverse sale and repurchase agreements	860			1,090				**1,950**
Fixed income (quick assets)	58	591	365	451	1,356	1,264	383	**4,468**
Fixed income (non liquid or held-to-maturity financial assets)	221	281	103	1,676	413	408	503	**3,605**
Foreign exchange swaps	24,996	3,629	3,217	1,448	468	100		**33,858**
Interest rate derivative financial instruments	2,872	6,224	1,218	1,582	3,471	408	158	**15,933**
Other interest earning assets	65	130	166	331	1,207	900	948	**3,747**
Total Assets	**47,584**	**22,731**	**11,116**	**23,688**	**24,734**	**12,072**	**14,068**	**155,993**
Liabilities								
Correspondent accounts and overnight deposits	3,396	–	–	–	–	–	–	**3,396**
Current/settlement deposits	9,909	–	–	–	–	–	–	**9,909**
Term deposits of legal entities and government bodies	5,196	4,858	2,123	3,397	436	13	39	**16,062**
Term deposits of individuals	1,164	663	1,099	2,253	4,948	146	5	**10,278**
Due to other banks	4,936	11,001	13,210	2,295	947	161	6,840	**39,390**
Reverse sale and repurchase agreements	599	18				63		**680**
Promissory notes issued	278	1,069	517	1,390	1,635	11	0	**4,900**
Bonds issued	1,500	3,631	2,039	2,123	4,016	3,846	894	**18,049**
Foreign exchange swaps	26,060	3,248	3,570	1,566	450	252		**35,146**
Interest rate derivative financial instruments	1,463	4,162	90	1,203	3,155	1,836	3,635	**15,544**
Other interest bearing liabilities	24	34	64	108	316	197	98	**841**
Total Liabilities	**54,525**	**28,684**	**22,712**	**14,335**	**15,903**	**6,525**	**11,511**	**154,195**
Net repricing gap	**(6,941)**	**(5,953)**	**(11,596)**	**9,353**	**8,831**	**5,547**	**2,557**	**1,798**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest Rate Risk Exposure and Sensitivity analysis (continued)

As at 31 December 2007 the Group has the following interest rate exposures. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Correspondent accounts with other banks	1,867	–	–	–	–	–	–	**1,867**
Corporate loans and advances to customers	4,327	7,111	6,801	9,252	11,674	3,757	3,913	**46,835**
Retail loans and advances to customers	318	706	201	291	1,656	3,226	3,812	**10,210**
Due from other banks	7,307	393	294	111	347	53	223	**8,728**
Reverse sale and repurchase agreements	1,639	75	–	237	1	–	–	**1,952**
Fixed income (quick assets)	554	2,404	63	409	333	22	23	**3,808**
Fixed income (non liquid or held-to-maturity financial assets)	156	1,029	350	1,222	869	859	902	**5,387**
Foreign exchange swaps	14,457	4,730	1,016	98	80	–	–	**20,381**
Interest rate derivative financial instruments	40	279	210	250	1,778	366	750	**3,673**
Other interest earning assets	12	115	14	–	–	–	–	**141**
Total Assets	**30,677**	**16,842**	**8,949**	**11,870**	**16,738**	**8,283**	**9,623**	**102,982**
Liabilities								
Correspondent accounts and overnight deposits	4,711	–	–	–	–	–	–	**4,711**
Current/settlement deposits	9,234	151	308	513	–	–	–	**10,206**
Term deposits of legal entities and government bodies	2,746	5,432	5,388	1,833	1,091	62	67	**16,619**
Term deposits of individuals	1,399	762	1,153	2,184	3,151	24	–	**8,673**
Due to other banks	4,271	1,506	2,637	707	1,113	361	11	**10,606**
Reverse sale and repurchase agreements	1,542	20	19	–	4	–	31	**1,616**
Promissory notes issued	278	134	220	104	861	26	–	**1,623**
Bonds issued	574	2,916	1,503	5,583	2,079	2,652	1,400	**16,707**
Foreign exchange swaps	14,439	4,619	1,007	99	80	–	–	**20,244**
Interest rate derivative financial instruments	1,040	1,244	330	850	209	–	–	**3,673**
Other interest bearing liabilities	27	29	19	7	–	–	–	**82**
Total Liabilities	**40,261**	**16,813**	**12,584**	**11,880**	**8,588**	**3,125**	**1,509**	**94,760**
Net repricing gap	**(9,584)**	**29**	**(3,635)**	**(10)**	**8,150**	**5,158**	**8,114**	**8,222**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

The Group's interest rate sensitivity analysis

The interest rate sensitivities set out in the tables below represent an effect on the historical net interest income for a 1 year period in case of a 100 b.p. parallel shift in all yield curves. The calculations are based upon the Group's actual interest rate risk exposures on the relevant reporting dates.

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

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	300	(120)	(300)	120
USD	100	(9)	(100)	9
EUR	50	8	(50)	(8)
GBP	70	(0)	(70)	0
Other	50	(12)	(50)	12
Total		**(133)**		**133**

Interest rate sensitivity analysis as at 31 December 2007 as an effect on Net interest income is the following.

Currency	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUR	100	(13)	(100)	13
USD	100	(90)	(100)	90
EUR	100	(11)	(100)	11
GBP	100	(1)	(100)	1
Other	100	(5)	(100)	5
Total		**(120)**		**120**

The total interest rate sensitivity of USD 133 million as at 31 December 2008 is attributable to assets and liabilities sensitive to possible changes of interest rates except current/settlement customer accounts. Management considers sensitivity of these accounts to fluctuations of interest rates in the financial market as low, based on historical performance and competitive environment. The Group uses, and has access to, a number of market instruments, including IRS, to manage its interest rate sensitivity and repricing gaps.

The total interest rate sensitivity indicator of USD 120 million as at 31 December 2007 includes USD 96 million attributable to current/settlement customer accounts. Management considers sensitivity of these liabilities to fluctuations of interest rates in the financial market as low, based on historical performance and competitive environment. Therefore, Management views this as a factor significantly mitigating the overall interest rate sensitivity of the Group.

Currency risk and VaR analysis

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

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

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

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

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

As at 31 December 2008 and 2007, 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).

Currency	Open positions	
	31 December 2008	**31 December 2007**
USD	(704)	(384)
EUR	578	(617)
GBP	(93)	9
CHF	(24)	(16)
JPY	4	(3)
UAH	277	204
AMD	65	64
BYR	36	33
KZT	–	28
ZAR	–	27
CYP	–	14
THB	–	11
AUD	7	(9)
AOA	8	8
NAD	–	3
GEL	47	–
Other	5	2
Total	**206**	**(626)**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

As at 31 December 2008 and 2007, the Group had the following VaR for its foreign currency positions:

	31 December 2008	31 December 2007
Open currency position	206	(626)
Value at Risk	14	4

The VaR figures above take into account all currencies with exposures over USD 1 million.

Price risk

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

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

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

The VaR model used by the Group is based on historical simulation approach. The Group's VaR methodology does not consider the effect of diversification of the instruments in the Group's portfolio. As well, when calculating VaR the following financial instruments were applied:

- Trading securities portfolio positions (including derivatives) of the Group as of the relevant reporting dates, including:
    - Instruments with historical data on market quotes during at least 100 trading days within the last 12 months;
    - Instruments with historical data on market quotes during less then 100 trading days within the last 12 months. For such instruments the average VaR for the similar instrument type in VTB's portfolio was used (debt securities denominated in RUR, debt securities denominated in foreign currencies, equity securities issued by Russian companies, equity securities issued by foreign companies, etc.);
- Options on securities for which delta-equivalent positions were used;
- Financial instruments calculation of fair value, which is based upon internal models of the RD with the use of comprehensive historical data for risk-factors.

Assumptions and parameters of VaR:

- 99 % confidence level;
- 1 day holding period.

Instruments without historical data on market quotes were not included in the VaR evaluation and specifically reviewed in the sensitivity analysis presented below.

As at 31 December 2008 and 2007 the Group had the following VaRs for the securities portfolio:

Financial assets at fair value through profit or loss

	31 December 2008	31 December 2007
	VaR	VaR
Debt securities	104	105
Equity securities	328	83
Credit default swaps	61	9
Total	**493**	**197**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Price risk (continued)

Financial assets available-for-sale

	31 December 2008 VaR	31 December 2007 VaR
Equity securities	7	2
Debt securities	9	4
Total	**16**	**6**

Investment securities held-to-maturity

	31 December 2008 VaR	31 December 2007 VaR
Debt securities	138	–
Total	**138**	**–**

For instruments without market quotes but giving, in VTB's view, rise to price risk, the sensitivity analysis to the following market variables is presented:

- For debt securities – 12-month volatility of the yield curve of similar instruments in the currency of each security denomination (or expert assumption if data not available);
- For equity securities – 12-month volatility of the main equity index in the country of the issuer (or expert assumption if data not available).

Market value sensitivity figures on debt financial assets were as follows as at 31 December 2008:

Currency	Interest rate increase, basis points	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
AMD	2,500	–	(3)
BYR	1,000	(1)	–
CHF	500	(1)	–
EUR	500	(1)	(1)
RUR	1,094	(57)	(47)
SGD	143	–	–
UAH	3,238	(2)	–
USD	736	(17)	(16)
Total		**(79)**	**(67)**

Currency	Interest rate decrease, basis points	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
AMD	2,500	–	1
BYR	1,000	1	–
CHF	500	–	–
EUR	500	(2)	2
RUR	1,094	20	20
SGD	143	–	–
UAH	3,238	–	–
USD	736	9	16
Total		**28**	**39**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Price risk (continued)

Market value sensitivity figures on equity financial assets were as follows as at 31 December 2008:

Currency	Interest rate decrease, basis points	Index change	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
Armenia	*expert est.*	(55%)	–	–
Belarus	*expert est.*	(55%)	–	–
Switzerland	SMI Index	(35%)	(1)	–
EU	SX5E Index	(39%)	–	(23)
Great Britain	UKX Index	(38%)	–	–
Georgia	*expert est.*	(55%)	–	–
Kazakhstan	KZKAK Index	(55%)	–	–
Russia	INDEXCF Index*	(65%)	(70)	(131)
Sweden	SAX Index	(38%)	–	–
Singapore	*expert est.*	(43%)	–	–
Ukraine	PFTS Index	(44%)	–	–
USA	NYA Index	(43%)	(2)	(49)
Total			**(73)**	**(203)**

At 31 December 2007, market value sensitivity of debt financial assets was as follows:

Currency	Interest rate increase, basis points	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
AMD	240	–	–
BYR	100	–	–
CHF	30	–	–
EUR	30	(9)	–
RUR	80	(3)	–
UAH	100	–	–
USD	60	(22)	(5)
Total		**(34)**	**(5)**

Currency	Interest rate decrease, basis points	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
AMD	240	–	–
BYR	100	–	–
CHF	30	–	–
EUR	30	9	–
RUR	80	3	–
UAH	100	–	–
USD	60	22	5
Total		**34**	**5**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

At 31 December 2007, market value sensitivity of equity financial assets was as follows:

Index	Index Change	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
RTSI$ Index	28%	12	78
Alrosa			75
PFTS Index	22%	–	–
BVLX Index	14%	–	16
Total		**12**	**94**

Liquidity risk and contractual maturity analysis

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

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

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

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

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

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

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

Medium-term liquidity needs in the first half of 2008 were managed through repurchase transactions and borrowed funds in the form of syndicated loans and customer deposits. The breakdown of capital markets and a global financial crisis at the end of 2008 made VTB Group medium-term funding possible mostly through the support offered by CBR in the form of repo agreements, collateral-free loans borrowed at auctions and in the form of collateralized loans (against corporate loans or securities).

At the end of 2008 VTB Bank borrowed two subordinated loans that allowed to raise long-term liquidity of the Group.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
Rouble positions						
Opening balance	–	–	5,442	5,442	–	5,442
Up to 1 month	3,428	(6,345)	(2,917)	2,525	5,474	7,999
From 1 to 3 months	4,822	(10,235)	(5,413)	(2,888)	6,693	3,805
From 3 months to 1 year	21,572	(24,692)	(3,120)	(6,008)	9,200	3,192
From 1 to 3 years	14,883	(5,420)	9,463	3,455	9,473	12,928
More than 3 years	14,061	(12,406)	1,655	5,110	9,615	14,725
Other currency positions						
Opening balance	–	–	7,501	7,501	–	7,501
Up to 1 month	6,301	(6,336)	(35)	7,466	(5,942)	1,524
From 1 to 3 months	2,569	(7,053)	(4,484)	2,982	(7,322)	(4,340)
From 3 months to 1 year	13,737	(9,942)	3,795	6,777	(10,357)	(3,580)
From 1 to 3 years	13,154	(9,975)	3,179	9,956	(10,682)	(726)
More than 3 years	19,582	(11,475)	8,107	18,063	(10,872)	7,191
Total						
Opening balance	–	–	12,943	12,943	–	12,943
Up to 1 month	9,729	(12,681)	(2,952)	9,991	(468)	9,523
From 1 to 3 months	7,391	(17,288)	(9,897)	94	(629)	(535)
From 3 months to 1 year	35,309	(34,634)	675	769	(1,157)	(388)
From 1 to 3 years	28,037	(15,395)	12,642	13,411	(1,209)	12,202
More than 3 years	33,643	(23,881)	9,762	23,173	(1,257)	21,916

As of 31 December, 2008 negative cumulative liquidity gaps in the 1 to 3 months time bucket (USD 535 million) and in the 3 months to 1 year pool (USD 387 million) are due to the active role of the Group in anti-crisis measures taken by authorities of the Russian Federation to ensure financial support to the economy through the main national banks. Collateral-free loans from the CBR remain the main source of the Bank's funding under current circumstances. The maximum term of such borrowing is limited by 6 months whereas corporate loans usually exceed 1 year.

Although the contractual maturity of CBR funding does not exceed 6 months and 1 year as stated above, the Bank views this source as longer term, as the experience of the fourth quarter 2008 and the first quarter 2009 demonstrates that CBR funding was effectively rolled. The collateral-free borrowing limit set by the CBR for the Russian banks of the Group, VTB, VTB24 and VTB North-West, as of 31 December 2008, was based on their RAS regulatory capital multiplied by 1.5 and constituted USD 26 billion. Repo and collateralized borrowing capacity is limited by eligible collateral in the form of debt and securities and the discount rates applied by the CBR (from zero for Russian sovereign debt to 50%).

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

Currency mismatches in the structure of liquidity gaps (positive in Russian Roubles and negative in other currencies) are managed via foreign currency swap transactions (FX swaps).

As at 31 December 2007, VTB Group had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
Rouble positions						
Opening balance	–	–	2,092	2,092	–	2,092
Up to 1 month	4,344	(4,948)	(604)	1,488	3,816	5,304
From 1 to 3 months	3,347	(4,753)	(1,406)	82	8,150	8,232
From 3 months to 1 year	12,138	(11,719)	419	501	8,519	9,020
From 1 to 3 years	8,545	(5,065)	3,480	3,981	8,519	12,500
More than 3 years	11,822	(271)	11,551	15,532	8,519	24,051
Other currency positions						
Opening balance	–	–	1,527	1,527	–	1,527
Up to 1 month	6,890	(6,728)	162	1,689	(3,795)	(2,106)
From 1 to 3 months	2,666	(3,736)	(1,070)	619	(8,017)	(7,398)
From 3 months to 1 year	9,353	(9,166)	187	806	(8,376)	(7,570)
From 1 to 3 years	14,076	(9,386)	4,690	5,496	(8,376)	(2,880)
More than 3 years	13,503	(7,327)	6,176	11,672	(8,376)	3,296
Total						
Opening balance	–	–	3,619	3,619	–	3,619
Up to 1 month	11,234	(11,676)	(442)	3,177	21	3,198
From 1 to 3 months	6,013	(8,489)	(2,476)	701	133	834
From 3 months to 1 year	21,491	(20,885)	606	1,307	143	1,450
From 1 to 3 years	22,621	(14,451)	8,170	9,477	143	9,620
More than 3 years	25,325	(7,598)	17,727	27,204	143	27,347

A negative liquidity non-cumulative gap in the 1 to 3 months basket (USD 2,476 million) at 31 December, 2007 is due to a significant outflow of customer deposits maturing in that period. The gap is bridged by arranging new borrowings (including renewal of existing deposits and attraction of new deposits). Moreover, the total cumulative gap in that time basket, as well as in all other time baskets, is positive. Currency mismatches in the structure of liquidity gaps (positive in Russian Roubles and negative in other currencies) are managed via foreign currency swap transactions (FX swaps).

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The following table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognized loan commitments vary significantly from this analysis.

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

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Non-derivative liabilities							
Due to other banks	5,895	1,984	855	2,817	2,947	–	**14,498**
Customer deposits	17,583	5,592	3,474	6,346	5,790	–	**38,785**
Other borrowed funds	4,323	8,006	13,221	1,087	3,668	–	**30,305**
Debt securities issued	326	1,320	3,688	5,644	10,881	–	**21,859**
Subordinated debt	–	158	136	298	13,474	–	**14,066**
Other liabilities	276	160	68	13	117	275	**909**
Derivative liabilities							
Negative fair value	580	479	997	1,044	1,722	–	**4,822**
Derivative financial instruments – gross settled							
Positive fair value of derivatives							
(Inflow)	(3,361)	(736)	(945)	(1,412)	(2,176)	–	**(8,630)**
Outflow	3,278	668	918	1,313	1,985	–	**8,162**
Negative fair value of derivatives							
(Inflow)	(5,499)	(649)	(1,484)	(1,297)	(1,998)	–	**(10,927)**
Outflow	5,637	712	1,604	1,420	2,533	–	**11,906**
Derivative financial instruments – net settled							
(Inflow)	(281)	(293)	(432)	(742)	(424)	–	**(2,172)**
Outflow	442	416	877	921	1,187	–	**3,843**
Credit related commitments	1,793	1,664	4,509	2,922	7,843	–	**18,731**
Total	**39,553**	**20,680**	**29,350**	**22,781**	**50,425**	**275**	**163,064**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows cash flows payable under financial liabilities at 31 December 2007 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Non-derivative liabilities							
Due to other banks	8,336	1,473	1,427	1,654	3,893	–	**16,783**
Customer deposits	15,847	6,554	6,977	4,702	4,791	–	**38,871**
Other borrowed funds	17	1,755	386	498	2,845	–	**5,501**
Debt securities issued	338	417	469	4,751	14,560	–	**20,535**
Subordinated debt	–	36	–	36	1,572	–	**1,644**
Other liabilities	30	29	60	105	158	231	**613**
Derivative liabilities							
Negative fair value	84	62	86	59	133	–	**424**
Derivative financial instruments – gross settled							
Positive fair value of derivatives							
(Inflow)	(4,659)	(2,265)	(293)	(321)	(595)	–	**(8,133)**
Outflow	4,546	2,193	285	295	461	–	**7,780**
Negative fair value of derivatives							
Inflow	(2,334)	(1,670)	(591)	(614)	(2,617)	–	**(7,826)**
Outflow	2,403	1,724	600	650	2,748	–	**8,125**
Derivative financial instruments – net settled							
Inflow	(49)	(42)	(53)	(42)	(21)	–	**(207)**
Outflow	16	9	77	23	–	–	**125**
Credit related commitments	1,511	1,579	3,076	4,554	9,746	–	**20,466**
Total	**33,044**	**15,769**	**13,357**	**17,268**	**40,774**	**231**	**120,443**

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

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

	Less than 1 year	More than 1 year	Overdue, maturity undefined	Total
Assets				
Cash and short-term funds	14,162	–	–	**14,162**
Mandatory cash balances with central banks	178	81	–	**259**
Financial assets at fair value through profit or loss	5,002	556	255	**5,813**
Financial assets pledged under repurchase agreements and loaned financial assets	732	781	–	**1,513**
Due from other banks	8,314	2,149	19	**10,482**
Loans and advances to customers	36,826	49,628	530	**86,984**
Financial assets available-for-sale	235	172	405	**812**
Investments in associates	–	–	153	**153**
Investment securities held-to-maturity	118	585	–	**703**
Premises and equipment	–	–	2,070	**2,070**
Investment property	–	–	148	**148**
Intangible assets	–	–	385	**385**
Deferred tax asset	–	–	316	**316**
Other assets	670	1,016	362	**2,048**
Total assets	**66,237**	**54,968**	**4,643**	**125,848**
Liabilities				
Due to other banks	10,705	2,526	–	**13,231**
Customer deposits	32,089	5,414	–	**37,503**
Other borrowed funds	25,405	3,483	–	**28,888**
Debt securities issued	9,016	10,047	–	**19,063**
Deferred tax liability	–	–	188	**188**
Other liabilities	3,724	1,866	334	**5,924**
Subordinated debt	29	7,675	–	**7,704**
Total liabilities	**80,968**	**31,011**	**522**	**112,501**
Net total gap	**(14,731)**	**23,957**	**4,121**	**13,347**
Cumulative total gap	**(14,731)**	**9,226**	**13,347**	

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows assets and liabilities at 31 December 2007 by their remaining contractual maturity.

	Less than 1 year	More than 1 year	Overdue, maturity undefined	Total
Assets				
Cash and short-term funds	5,160	–	–	**5,160**
Mandatory cash balances with central banks	740	85	–	**825**
Financial assets at fair value through profit or loss	9,246	708	482	**10,436**
Financial assets pledged under repurchase agreements and loaned financial assets	1,450	762	–	**2,212**
Due from other banks	9,155	578	–	**9,733**
Loans and advances to customers	24,629	33,743	177	**58,549**
Financial assets available-for-sale	43	225	590	**858**
Investments in associates	–	–	167	**167**
Investment securities held-to-maturity	–	5	–	**5**
Premises and equipment	–	–	1,997	**1,997**
Investment property	–	–	168	**168**
Intangible assets	–	–	480	**480**
Deferred tax asset	–	–	215	**215**
Other assets	1,263	495	46	**1,804**
Total assets	**51,686**	**36,601**	**4,322**	**92,609**
Liabilities				
Due to other banks	12,264	2,530	–	**14,794**
Customer deposits	33,047	4,051	–	**37,098**
Other borrowed funds	2,538	2,638	–	**5,176**
Debt securities issued	5,224	11,265	–	**16,489**
Deferred tax liability	–	–	149	**149**
Other liabilities	842	159	230	**1,231**
Subordinated debt	8	1,163	–	**1,171**
Total liabilities	**53,923**	**21,806**	**379**	**76,108**
Net total gap	**(2,237)**	**14,795**	**3,943**	**16,501**
Cumulative total gap	**(2,237)**	**12,558**	**16,501**	

(expressed in millions of US dollars)

37. Fair Values of Financial Instruments

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

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

Financial instruments carried at fair value. Financial assets at fair value through profit or loss and financial assets available-for-sale are carried on the balance sheet at their fair value. The fair value of these assets was determined by Management on the basis of market quotations. For details of fair value estimation of unquoted shares refer to Notes 5, 7 and 11.

Due from other bank and cash and cash equivalents. Management has estimated that at 31 December 2008 and 2007 the fair value of due from other banks and cash and cash equivalents was not materially different from their respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans and advances to customers. Management has estimated that at 31 December 2008 and 2007 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. Management has estimated that at 31 December 2008 and 2007 the fair values of borrowings were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

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

	31 December 2008		31 December 2007	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets				
Cash and short-term funds	14,162	14,157	5,160	5,160
Financial assets at fair value through profit or loss	5,813	5,813	10,436	10,436
Financial assets pledged under repurchase agreements and loaned financial assets	1,513	1,489	2,212	2,212
Due from other banks	10,482	10,486	9,733	9,736
Russia	3,304	3,307	3,858	3,859
OECD	6,958	6,958	5,339	5,340
Other	220	221	536	537
Loans and advances to customers	86,984	86,614	58,549	58,554
Loans to legal entities	74,304	74,034	51,071	51,072
Loans to individuals	12,680	12,580	7,478	7,482
Financial assets available-for-sale	812	812	858	858
Investment securities held-to-maturity	703	605	5	5
Financial liabilities				
Due to other banks	13,231	13,323	14,794	14,830
Customer deposits	37,503	37,258	37,098	36,790
Deposits of legal entities	25,451	25,687	26,415	26,430
Deposits of individuals	12,052	11,571	10,683	10,360
Other borrowed funds	28,888	29,317	5,176	5,180
Debt securities issued	19,063	16,571	16,489	16,371
Subordinated debt	6,899	6,707	1,171	1,173

(expressed in millions of US dollars)

37. Fair Values of Financial Instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices, those involving valuation techniques where all the model inputs are observable in the market, and those where the valuation techniques involves the use of non-market observable inputs.

The table below shows an analysis of financial instruments recorded at fair value as at 31 December 2008:

	Quoted price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Derivative financial instruments	*87*	*2,526*	*27*	***2,640***
Financial assets at fair value through profit or loss				
Financial assets held for trading	672	333	1,448	**2,453**
Financial assets designated as at fair value through profit or loss	176	526	257	**959**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	126	–	–	**126**
Financial assets designated as at fair value through profit or loss	–	136	–	**136**
Financial assets available-for-sale	–	172	–	**172**
Financial assets available-for-sale	137	389	286	**812**
Financial liabilities				
Derivative financial instruments	*(58)*	*(4,318)*	*(446)*	***(4,822)***

The table below shows an analysis of financial instruments recorded at fair value as at 31 December 2007:

	Quoted price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Derivative financial instruments	*340*	*175*	*45*	***560***
Financial assets at fair value through profit or loss				
Financial assets held for trading	8,226	2	325	**8,553**
Financial assets designated as at fair value through profit or loss	1,245	–	78	**1,323**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	877	–	–	**877**
Financial assets designated as at fair value through profit or loss	221	–	95	**316**
Financial assets available-for-sale	856	–	–	**856**
Financial assets available-for-sale	209	19	630	**858**
Financial liabilities				
Derivative financial instruments	*(260)*	*(58)*	*(106)*	***(424)***

The Group recognized the following gains and losses from the financial assets measured through valuation techniques with non-market observable inputs: USD 38 million loss within gains less losses on financial assets available-for sale and USD 302 million loss within gains less losses arising from financial assets at fair value through profit or loss in 2008 (31 December 2007: USD 46 million loss within gains less losses on financial assets available-for sale and USD 42 million loss within gains less losses arising from financial assets at fair value through profit or loss").

(expressed in millions of US dollars)

38. Related Party Transactions

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

Transactions and balances with related parties comprise transactions and balances with directly and indirectly state-owned entities and associates and are stated in the table below:

Balance sheets

	31 December 2008		31 December 2007	
	State-owned entities	**Associates**	**State-owned entities**	**Associates**
Assets				
Cash and short-term funds	10,114	–	2,809	–
Mandatory cash balances with central banks	91	–	720	–
Financial assets at fair value through profit or loss	1,361	–	6,120	–
Financial assets pledged under repurchase agreements and loaned financial assets	491	–	904	–
Due from other banks	1,571	70	1,959	69
Loans and advances to customers	18,658	86	11,889	65
Allowance for loan impairment	(154)	(56)	(125)	(29)
Financial assets available-for-sale	127	9	430	9
Investment securities held-to-maturity	78	–	–	–
Liabilities				
Due to other banks	1,796	41	2,679	13
Customer deposits	7,836	54	10,210	2
Other borrowed funds	24,932	–	1,413	–
Subordinated debt	6,765	–	–	–
Credit Related Commitments				
Guarantees issued	2,319	1	1,944	–
Undrawn credit lines	355	–	692	–
Import letters of credit	69	–	163	–
Commitments to extend credit	344	7	759	8

Statements of income

	2008	**2007**
Interest income		
Loans and advances to customers	1,325	690
Securities	213	238
Due from other banks	166	47
Interest expense		
Customer deposits	(1,036)	(356)
Due to other banks and other borrowed funds	(366)	(51)
Subordinated debt	(104)	–
Provision for impairment	(90)	(43)

In 2008, the Group sold CJSC "Alrosa" shares to a state-owned party and recognized the gain from available-for-sale financial assets of USD 51 million, before tax, in the statement of income.

For the period ended 31 December 2008, the total remuneration of the directors and key management personnel of the Group including pension contributions amounted to USD 106.5 million (31 December 2007: USD 60.6 million). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the directors and key management personnel amounted to USD 15.5 million (31 December 2007: USD 15.1 million).

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries

In May 2007, VTB increased its ownership percentage in Bank "Mriya", OJSC from 98.47% to 99.27% by purchasing 10,698,520 ordinary shares from minority holders for USD 570 thousand and 6,351,814 ordinary treasury shares held by "Mriya" for the nominal value of 635 thousand Ukrainian hryvnias. In May 2007, VTB increased its ownership percentage in Bank "Mriya", OJSC from 99.27% to 99.67% by purchasing part of the additional issue of 2,345,950,827 ordinary shares of Bank "Mriya", OJSC for the nominal value of 234 million Ukrainian hryvnias (USD 46 million). In May 2007, Bank "Mriya", OJSC was renamed into VTB Bank, OJSC. In October 2007, the Group finalized the merger of Vneshtorgbank (Ukraine) and "VTB Bank" (former "Mriya", OJSC) to "VTB Bank", domiciled in Ukraine, which resulted in the increase of its ownership to 99.81%.

In April 2007, VTB purchased 66,955 newly issued ordinary shares (50%+1 of the share capital) of CJSC "Slavneftebank" (currently – Bank VTB Belarus) located in Belarus with 6 branches for USD 25 million. VTB has hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of Slavneftebank as of the acquisition date. CJSC "Slavneftebank" had no material profit since the acquisition date, which was included into the Group's profit.

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

The fair values, which are not materially different from carrying values, of identifiable assets and liabilities of Slavneftebank at the acquisition date (before additional contribution to the capital from VTB) are as follows:

	30 April 2007
Assets	
Cash and short-term funds	42
Financial assets at fair value through profit or loss	15
Due from other banks	11
Loans and advances to customers	86
Premises and equipment	10
Other assets	3
Total assets	**167**
Liabilities	
Due to other banks	3
Customer deposits	138
Other liabilities	1
Total liabilities	**142**
Fair value of net assets	**25**
Acquired share	50%
Contribution to the capital paid by VTB in cash	25
Goodwill	–

In October 2007, VTB purchased additional 14.87% shares in Slavneftebank for USD 8 million, which resulted in an increase of VTB ownership in Slavneftebank to 64.87%. On 27 November 2007 the shareholders' meeting of Slavneftebank approved the renaming of CJSC "Slavneftebank" to CJSC VTB Bank (Belarus).

On 26 September 2007, VTB purchased 99.99% of CJSC "Obyedinennaya Depositarnaya companya" from a third party for USD 53 million. CJSC "Obyedinennaya Depositarnaya companya" (ODK) had zero profit since the acquisition date, which was included into the Group's profit. VTB has hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of ODK as of the acquisition date. If the acquisition of the CJSC "Obyedinennaya Depositarnaya companya" had taken place at the beginning of the year, the net profit of the Group and operating income would not have been materially different.

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

The fair values of identifiable assets and liabilities of the CJSC “Obyedinennaya Depositarnaya companya” at the acquisition date were as follows:

	26 September 2007
Assets	
Cash and short-term funds	4
Due from other banks	32
Intangible assets	18
Other assets	1
Total assets	**55**
Liabilities	
Other liabilities	5
Total liabilities	**5**
Fair value of net assets	**50**
Consideration paid	53
Goodwill	3

As CJSC “Obyedinennaya Depositarnaya companya” did not prepare IFRS financial statements before the acquisition date the carrying amounts of assets and liabilities are impracticable to be disclosed.

In December 2007, VTB obtained control (100%) over CJSC "VTB Asset Management" through the potential voting rights embedded in notes purchased by the Group. The fair values, which were not materially different from carrying values, of identifiable assets and liabilities of the CJSC "VTB Asset Management" at the acquisition date, were not disclosed due to immateriality.

In June 2007, the Group purchased 50.01% in Insurance company VTB-Rosno from a third party for USD 5 million. The purchased subsidiary’s assets and liabilities are not material, accordingly no additional disclosure of acquired assets and liabilities is provided.

In October 2007, “Insurance Company VTB-Rosno”, Ltd was renamed into "Insurance Company VTB-Insurance", Ltd.

In December 2007, the Group sold associate EWUB to a third party for EUR 31 million. The Group has recorded a gain from disposal of EWUB (before currency translation difference) in the amount of USD 1 million within “Profit from disposal of associates and subsidiaries” caption. In addition, a currency translation gain reclassified on disposal of the subsidiary to "Profit from disposal of associates and subsidiaries" caption amounts to USD 3 million.

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

On 21 September 2007, VTB sold its stake of 97.58% in "Novosibirskvneshtorgbank", CJSC to third parties, which are not related to the Group, for USD 105 million. The assets and liabilities disposed are as follows:

	21 September 2007
Assets	
Cash and short-term funds	39
Mandatory cash balances with central banks	5
Financial assets at fair value through profit or loss	121
Due from other banks	30
Loans and advances to customers	63
Premises and equipment	14
Other assets	1
Total assets	**273**
Liabilities	
Due to other banks	3
Customer deposits	223
Deferred tax liability	2
Other liabilities	1
Total liabilities	**229**
Net assets	44
Total carrying amount of net assets disposed	**44**

The Group has recorded a gain from disposal of "Novosibirskvneshtorgbank", CJSC (before currency translation difference) in the amount of USD 62 million within "Profit from disposal of associates and subsidiaries" caption. Currency translation gain reclassified on disposal of the subsidiary to "Profit from disposal of associates and subsidiaries" caption amounts to USD 8 million.

In October 2007, VTB sold 89% of VTB Broker for USD 2 million. As a result of this transaction VTB decreased its ownership in VTB Broker to 10.83%. The Group has recorded a gain from disposal of VTB Broker CJSC (before currency translation difference) in the amount of USD 2 million within "Profit from disposal of associates and subsidiaries" caption. Currency translation gain reclassified on disposal of the subsidiary to "Profit from disposal of associates and subsidiaries" caption amounts to USD 2 million.

In April 2007, VTB Bank (Europe) purchased 100 shares of VTB Bank (Deutschland), which constitute 7.69% of share capital of the issuer, for RUR 234 million (USD 9 million), which resulted in the increase of ownership in VTB Bank (Deutschland) from 81.43% to 88.48%.

In the third quarter of 2007, VTB Bank (Europe) purchased 1.54% stake in VTB Bank (Deutschland) from a third party for USD 1.6 million, which resulted in the increase of share of the Group in VTB Bank (Deutschland) to 89.90%.

In December 2007, VTB Bank (Europe) sold VTB Bank (Deutschland) and VTB Bank (France) to VTB Bank (Austria). As a result of this transfer the Group's share in these banks increased to 97.69% and 87.04%, accordingly.

If the combinations had taken place at the beginning of 2007, the total revenues would have been USD 24 million higher and the net profit would have been USD 4 million higher for the Group.

(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates

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

			Percentage of ownership	
Name	**Activity**	**Country of registration**	**31 December 2008**	**31 December 2007**
Subsidiaries:				
"VTB Bank (Austria)" AG	Banking	Austria	100.00%	100.00%
"Russian Commercial Bank (Cyprus) Limited"	Banking	Cyprus	100.00%	100.00%
"Russian Commercial Bank Ltd"	Banking	Switzerland	100.00%	100.00%
"VTB Bank", OJSC (former "Mriya", merged with Vneshtorgbank (Ukraine))	Banking	Ukraine	99.95%	99.81%
"VTB Bank (Armenia)", CJSC	Banking	Armenia	100.00%	100.00%
"VTB Bank (Georgia)", JSC	Banking	Georgia	77.57%	70.52%
"VTB Bank (Belarus), CJSC	Banking	Belarus	69.65%	64.87%
"Bank VTB 24", CJSC	Banking	Russia	100.00%	100.00%
"VTB Bank (Deutschland)" AG	Banking	Germany	100.00%	97.69%
"Bank VTB North-West", OJSC	Banking	Russia	100.00%	86.32%
"VTB Bank (France)"	Banking	France	87.04%	87.04%
"VTB Bank (Europe)", Plc.	Banking	Great Britain	95.61%	91.97%
"Bank VTB (Kazakhstan)", JSC	Finance	Kazakhstan	100.00%	–
"Banco VTB Africa S.A."	Banking	Angola	66.00%	66.00%
"VTB Capital (Namibia) (Proprietary) Limited"	Investment	Namibia	50.03%	50.03%
"VTB-Capital", CJSC	Finance	Russia	100.00%	100.00%
"VTB-Leasing", OJSC	Leasing	Russia	100.00%	100.00%
"Multicarta", Ltd	Plastic cards	Russia	100.00%	100.00%
"ITC Consultants (Cyprus)", Ltd	Finance	Cyprus	100.00%	100.00%
"VB-Service", Ltd	Commerce	Russia	100.00%	100.00%
"Almaz-Press", CJSC	Publishing	Russia	100.00%	100.00%
"Embassy Development Limited"	Finance	Jersey	100.00%	100.00%
"VTB-Development", CJSC	Development	Russia	100.00%	100.00%
"VTB Factoring", Ltd.	Finance	Russia	100.00%	–
"VTB Dolgovoi centre", CJSC	Finance	Russia	100.00%	–
"Insurance Company VTB-Insurance", Ltd	Insurance	Russia	100.00%	100.00%
"Obyedinennaya Depositarnaya companya", CJSC	Finance	Russia	100.00%	99.99%
"VTB Asset Management", CJSC	Finance	Russia	19.00%	19.00%
"VTB Europe Strategic Investments Limited"	Investment	Great Britain	95.61%	91.97%
"VTB Europe Finance", B.V.	Finance	Netherlands	95.61%	91.97%
"Nevsky Property", Ltd	Property	Cyprus	95.61%	45.99%
"Business-Finance", Ltd	Finance	Russia	100.00%	100.00%
"Sistema Leasing 24", CJSC	Finance	Russia	100.00%	100.00%
"VTB-Leasing Ukraine", Ltd	Leasing	Ukraine	100.00%	100.00%
"Capablue", Ltd	Leasing	Ireland	100.00%	100.00%
"Verulamium Finance", Ltd	Leasing	Cyprus	100.00%	100.00%
"VTB-leasing (Europe)", LLC	Leasing	Russia	100.00%	100.00%
"VTB-leasing Finance", LLC	Leasing	Russia	99.99%	99.99%
"VTB-Leasing", Ltd	Leasing	Belarus	100.00%	100.00%
"VTB-Leasing Capital" Ltd	Leasing	Ireland	100.00%	100.00%
Associates:				
"Eurofinance Mosnarbank", OJSC	Banking	Russia	34.83%	34.83%
"Vietnam-Russia Joint Venture Bank"	Banking	Vietnam	49.00%	49.00%
"Interbank Trading House", Ltd	Commerce	Russia	50.00%	50.00%

40. Consolidated Subsidiaries and Associates (continued)

During the first quarter of 2007, Bank VTB 24 repurchased its own shares from a minority shareholder, which is a related party to the Group, for USD 25 million, accordingly increasing the ownership of the Group in Bank VTB 24 to 100%.

In June 2007, “Bank VTB 24”, CJSC made an additional share issue for the total amount of RUR 25,664 million, which was fully purchased by the Group. The share issue was registered by the CBR in July 2007.

In March 2007, VTB purchased 25%+1 share in OJSC “Terminal” from a related party for USD 40 million.

In July 2007, VTB acquired 30% stake in VTB Bank (Armenia) from the third party for USD 15 million, increasing VTB’s share to 100%.

In July 2007, VTB increased its ownership share in “VTB-Invest”, CJSC from 90.00% to 100.00% by purchasing additional 265,000 ordinary shares of “VTB-Invest” for the nominal value of RUR 265 million.

In July 2007, “VTB-Capital”, CJSC issued 15,000,000 ordinary shares at a price of RUR 10 per share (par value RUR 1) for the total amount of RUR 150 million, which were fully purchased by the Bank.

On 15 November 2007, VTB24 announced an offer to purchase the remaining minority stakes in VTB North-West in accordance with the plan approved by VTB’s Supervisory Council on 16 October 2007 for further integration of the business of VTB North-West into the Group. Under the terms of the offer, VTB North-West shareholders could, within the period from 15 November 2007 to 14 December 2007, sell their shares for RUR 41.72 per share and/or swap them for VTB’s shares at an exchange ratio of VTB North-West shares to VTB shares of 1 to 361. As a result of the offer and other market transactions the Group increased the ownership in VTB North-West to 86.32% as of 31 December 2007.

In January 2008, VTB increased its investment in “VTB Bank (Armenia)”, CJSC by USD 21 million retaining a 100% ownership.

In January 2008, VTB increased its investment in “VTB-Capital”, CJSC by USD 10 million retaining a 100% ownership.

In February 2008, the minority shareholders of “VTB Bank (Georgia)”, JSC paid for the authorized share capital (21,098,492 shares, 1.00 georgian lari each), thus decreasing VTB’s share to 53.15%. In March 2008, the minority shareholders sold 21,093,914 shares to VTB for USD 16 million, increasing VTB’s share to 77.57%.

In February 2008, VTB purchased 4 shares for RUR 70,400 (USD 3 thousand) of “Obyedinennaya Depositarnaya companya”, CJSC increasing its ownership to 100%.

In March 2008, “VTB Bank (Austria)” AG purchased 30 shares of “VTB Bank (Deutschland)” AG for EUR 2,564 thousand (USD 4,034 thousand) thus increasing the Group’s share in this subsidiary to 100%.

On 14 April 2008, VTB announced an offer to purchase the remaining minority stakes in VTB North-West in accordance with the Russian legal requirements and the plan approved by VTB’s Supervisory Council on 16 October 2007 for further integration of the business of VTB North-West into the Group. Under the terms of the offer, VTB North-West shareholders could accept the offer to sell their shares for RUR 45.00 (USD 1.9 at the close offer date) per share. In the fourth quarter 2008, VTB purchased the remaining shares and became 100% shareholder of VTB North-West.

In the first quarter of 2008, CJSC “Sistema Plus”, was renamed to CJSC “Sistema Leasing 24”.

In February 2008, VTB increased its ownership in “VTB Bank” (former “Mriya”), OJSC, domiciled in Ukraine, from 99.81% to 99.90% by purchasing the major part (15,138,335,707 ordinary shares) of the additional issue of 15,150,000,002 ordinary shares of “VTB Bank”, OJSC for the nominal value of 1,514 million Ukrainian hryvnias (USD 300 million).

In June 2008, “VTB-Capital”, CJSC was renamed into “VTB-Development”, CJSC.

(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (continued)

In June 2008, the capital of "Insurance Company VTB-Insurance", Ltd was increased. VTB contributed USD 4 million.

In June 2008, VTB 24 issued 380,190 ordinary shares for RUR 717 million (USD 31 million), which were fully purchased by the Group.

In August 2008, the share capital of "VTB-Invest", CJSC was increased. VTB contributed RUR 4,560 million (USD 181 million).

In September 2008, VTB 24 issued 3,179,650 ordinary shares for RUR 6,000 million (USD 236 million), which were fully purchased by the Group.

In November 2008, "VTB-Invest", CJSC was renamed to "VTB-Capital", CJSC.

In December 2008, VTB purchased additional 4.78% share in "VTB Bank (Belarus)" CJSC for USD 15 million, which resulted in an increase of VTB ownership in "VTB Bank (Belarus)", CJSC to 69.65% during the process of increase in share capital of "VTB Bank (Belarus)" CJSC.

In December 2008, VTB contributed KZT 6,040 million (USD 50 million) to the share capital of a newly established 100%-owned "Bank VTB (Kazakhstan)", which will start its operations in 2009.

In December 2008, "VTB Bank (Europe)", Plc issued additional 250 million ordinary shares. VTB purchased all shares issued by "VTB Bank (Europe)", Plc for USD 250 million. As a result of this transaction, VTB increased its ownership in "VTB Bank (Europe)" Plc to 95.61%.

41. Capital Management and Capital Adequacy

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

Capital adequacy ratio in accordance with CBR requirements

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

As of 31 December 2008 and 2007 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum and was as follows:

	31 December 2008	**31 December 2007**
Capital	13,515	11,338
Risk-weighted assets	83,451	59,672
Capital adequacy ratio	16.2%	19.0%

In line with the guidelines set out by the Basel Capital Accord, CBR regulations envisage sub-allocation of Tier 2 instruments, which meet the definition of subordinated debt, to either upper Tier 2 capital or lower Tier 2 capital. Subordinated debt classified as lower Tier 2 capital should not exceed 50% of Tier 1 capital, and total Tier 2 capital (including upper Tier 2 and lower Tier 2 capital) should not exceed 100% of Tier 1 capital. In November 2008, the Bank issued two instruments, in the amount of RUR 100 billion each, to a related third party (state owned institution), which was classified as Tier 2 capital upon the regulator's approval and included in upper Tier 2 capital for the purposes of calculation of capital adequacy in accordance with CBR regulations.

(expressed in millions of US dollars)

41. Capital Management and Capital Adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Group is also subject to minimum capital requirements established by covenants under liabilities incurred by the Bank. The Group's international risk based capital adequacy ratio, computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, and modified as stated below, as of 31 December 2008 and 2007 was 17.3% and 16.3%, respectively. For the purposes of this calculation, the two subordinated debts issued by the Bank in November 2008, in the amount of RUR 100 billion each (see previous paragraph), were included in the full amount as disclosed in Note 22 in upper Tier 2 capital on the basis of the regulator's approval and the appropriate regulations set out by the CBR. These ratios exceeded the minimum ratio of 8% recommended by the Basel Accord.

The Group's capital adequacy ratio, computed on this basis in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2008 and 2007 was as follows:

	31 December 2008	31 December 2007
Tier 1 capital	12,522	15,594
Tier 2 capital	8,272	1,758
Less: deductions from total capital	(153)	(374)
Total capital	**20,641**	**16,978**
Risk weighted assets	119,531	104,306
Tier 1 capital ratio	10.5%	15.0%
Capital adequacy ratio	17.3%	16.3%

42. Subsequent Events

In the first quarter of 2009, a number of negative trends in the world and Russian financial markets that had emerged in the second half of 2008, continued. In view of this, the Group may book additional provisions for loan impairment in accordance with IFRS. The borrowers of the Group may have been affected by the lower liquidity situation, which could in turn impact their ability to repay the amounts due to the Group. The necessity and the amounts (if required) of such additional provisioning will be assessed by the Group in due course during the first quarter 2009 IFRS Financial Statements closing process, taking into account further market developments and the efficiency of the Group's efforts to improve the recoverability and collaterization of its loan portfolio, including Management's negotiations on additional collateral to be provided by certain borrowers.

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

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

In February 2009, Bank VTB 24 issued local bonds for RUR 8 billion with interest rate of 11.85% payable semi-annually and a 1.5-year put option embedded maturing in February 2014.

In March 2009, VTB acquired shares of VTB Georgia from minorities, increasing its share to 84.68%.

In March 2009, VTB redeemed Eurobonds in the amount of EUR 1 billion and RUR 5 billion upon maturity.

On 30 March 2009, Bank VTB 24 issued 635 703 additional ordinary shares with nominal amount of RUR 1,000 each for RUR 1,717. The total issue amounted to RUR 1,092 million (USD equivalent 33 million) and was fully purchased by the Group.

42. Subsequent Events (continued)

In April 2009, VTB redeemed Eurobonds in the amount of RUR 10 billion upon maturity.

In April 2009, VTB Bank (Europe) redeemed Eurobonds in the amount of USD 500 million upon maturity.

VTB Group members from time to time seek to retire all or part of any of its issued and outstanding debt financial issuances through open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, VTB's liquidity requirements, contractual restrictions and other factors. The notional amount of Eurobonds bought-back by VTB Group during the first quarter of 2009 amounted to USD 0.6 billion.

In March 2009, VTB-Leasing, OJSC issued 51,612 additional ordinary shares with nominal amount of RUR 31,000 each for the total amount of RUR 1,600 million (USD equivalent 47 million), which was fully purchased by the Group.

During the first quarter of 2009, Russian Commercial Bank (Cyprus) Limited issued 3,333,333 new shares of EUR 1.71 each totalling EUR 8,550,000 of nominal value. The new shares were issued to a private company, which is controlled by the key management personnel of the Group, at USD 11.71 per share for a total amount of USD 39 million. Upon finalization of the issue, the share of this company in the share capital of Russian Commercial Bank (Cyprus) Limited amounted to 40%. The valuation of Russian Commercial Bank (Cyprus) Limited for the purpose of this transaction was performed by an independent appraiser.

In the beginning of 2009 the Russian Rouble was devalued against major currencies. At 31 March 2009, the official exchange rate of the Russian Rouble to US Dollar as set by the Central Bank of Russia comprised 34.0134, which constitutes a 16% reduction in the value of the Russian Rouble to the US Dollar since 31 December 2008. Since the end of March 2009, the exchange rate of the Russian Rouble did not significantly fluctuate against USD.