VTB BANK

Consolidated Financial Statements and Auditors' Report

For the years ended 31 December 2010 and 2009

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ERNST & YOUNG

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

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

Independent auditors' report

To the Supervisory Council and Shareholders of VTB Bank:

We have audited the accompanying consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statements of financial position as at 31 December 2010 and 2009, and the consolidated income statements, consolidated statements of comprehensive income, of cash flows and of changes in shareholders' equity for the years then ended, and a summary of principal accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

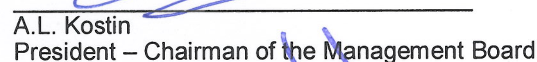
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

18 April 2011

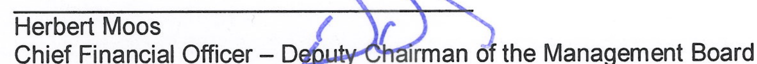
VTB Bank
Consolidated Statements of Financial Position as at 31 December
(in billions of Russian Roubles)

	Note	2010	2009
Assets			
Cash and short-term funds	7	275.5	260.2
Mandatory cash balances with central banks		26.4	23.9
Financial assets at fair value through profit or loss	8	344.6	267.9
Financial assets pledged under repurchase agreements and loaned financial assets	9	16.9	96.2
Due from other banks	10	349.9	345.6
Loans and advances to customers	11	2,785.4	2,309.9
Financial assets available-for-sale	12	55.9	24.9
Investments in associates and joint ventures	13	15.7	13.9
Investment securities held-to-maturity	14	34.2	11.7
Premises and equipment	15	113.2	65.9
Investment property	16	102.2	79.8
Intangible assets and goodwill	17	30.5	11.9
Deferred tax asset	32	37.9	31.4
Other assets	18	102.6	67.6
Total assets		**4,290.9**	**3,610.8**
Liabilities			
Due to other banks	19	397.3	287.0
Customer deposits	20	2,212.9	1,568.8
Other borrowed funds	21	185.7	470.9
Debt securities issued	22	593.1	485.7
Deferred tax liability	32	7.3	7.0
Other liabilities	24	110.9	91.2
Total liabilities before subordinated debt		**3,507.2**	**2,910.6**
Subordinated debt	23	205.5	195.3
Total liabilities		**3,712.7**	**3,105.9**
Equity			
Share capital	25	113.1	113.1
Share premium		358.5	358.5
Treasury shares		(0.3)	(0.4)
Unrealized gain on financial assets available-for-sale and cash flow hedge		4.0	3.4
Premises revaluation reserve		11.4	11.8
Currency translation difference		11.0	13.2
Retained earnings		56.6	2.7
Equity attributable to shareholders of the parent		**554.3**	**502.3**
Non-controlling interests		23.9	2.6
Total equity		**578.2**	**504.9**
Total liabilities and equity		**4,290.9**	**3,610.8**

Approved for issue and signed on 18 April 2011.



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



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

	Note	*2010*	*2009*
Interest income	26	330.5	373.7
Interest expense	26	(159.4)	(221.5)
Net interest income		**171.1**	**152.2**
Provision charge for impairment of debt financial assets	31	(51.6)	(154.7)
Net interest income / (expense) after provision for impairment		**119.5**	**(2.5)**
Gains less losses / (losses net of gains) arising from financial instruments at fair value through profit or loss	27	14.8	(21.3)
Gains less losses arising from extinguishment of liability	19, 22, 23	–	14.7
(Losses net of gains) / gains less losses from available-for-sale financial assets		(0.1)	1.1
Losses on initial recognition of financial instruments and on loans restructuring		(0.2)	(19.7)
Losses net of gains arising from dealing in foreign currencies		(7.5)	(12.4)
Foreign exchange translation gains less losses		12.1	26.6
Fee and commission income	28	28.8	25.5
Fee and commission expense	28	(4.1)	(4.5)
Share in (loss) / income of associates		(0.7)	0.3
Provision charge for impairment of other assets and credit related commitments	31	(2.2)	(1.7)
Income arising from non-banking activities		11.0	2.8
Expenses arising from non-banking activities		(7.2)	(1.1)
Other operating income	29	3.1	3.0
Net non-interest income		**47.8**	**13.3**
Operating income		**167.3**	**10.8**
Staff costs and administrative expenses	30	(95.1)	(76.4)
Impairment of goodwill	17, 40	(1.1)	(3.7)
Profit from disposal of subsidiaries and associates	40	–	1.0
Profit / (loss) before taxation		**71.1**	**(68.3)**
Income tax (expense) / recovery	32	(16.3)	8.7
Net profit / (loss)		**54.8**	**(59.6)**
Net profit / (loss) attributable to:			
Shareholders of the parent		**58.2**	**(63.4)**
Non-controlling interests		**(3.4)**	**3.8**
Basic and diluted earnings per share (expressed in Russian Roubles per share)	33	**0.00557**	**(0.00821)**

	2010	*2009*
Net profit / (loss)	**54.8**	**(59.6)**
Other comprehensive income:		
Net result on financial assets available-for-sale, net of tax	0.6	3.8
Cash flow hedges, net of tax	–	(0.4)
Revaluation of premises, net of tax	–	(1.0)
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.2)	–
Share of other comprehensive income of associates	(0.2)	–
Effect of translation, net of tax	(2.4)	0.7
Reclassification adjustment of currency translation difference due to disposal of subsidiary	–	(1.2)
Other comprehensive income, net of tax	**(2.2)**	**1.9**
Total comprehensive income	**52.6**	**(57.7)**
Total comprehensive income attributable to:		
Shareholders of the parent	**56.3**	**(61.0)**
Non-controlling interests	**(3.7)**	**3.3**

	Note	*2010*	*2009*
Cash flows from operating activities			
Interest received		302.6	324.1
Interest paid		(158.0)	(219.1)
Income received on operations with financial instruments at fair value through profit or loss		13.9	2.7
Income received from extinguishment of liability		–	7.4
Loss incurred on dealing in foreign currency		(7.6)	(37.4)
Fees and commissions received		28.3	25.7
Fees and commissions paid		(4.6)	(4.0)
Other operating income received		1.6	5.7
Staff costs, administrative expenses paid and net cash flow arising from non-banking activities		(78.3)	(65.4)
Income tax paid		(22.8)	(13.2)
Cash flows from operating activities before changes in operating assets and liabilities		**75.1**	**26.5**
Net decrease / (increase) in operating assets			
Net increase in mandatory cash balances with central banks		(0.5)	(16.1)
Net decrease / (increase) in restricted cash		0.2	(0.3)
Net decrease / (increase) in financial assets at fair value through profit or loss		42.8	(216.8)
Net decrease / (increase) in due from other banks		58.4	(17.2)
Net increase in loans and advances to customers		(289.3)	(65.4)
Net (increase) / decrease in other assets		(22.3)	9.8
Net (decrease) / increase in operating liabilities			
Net increase / (decrease) in due to other banks		79.8	(67.8)
Net increase in customer deposits		361.5	465.3
Net decrease in debt securities issued		(14.6)	(5.5)
Net increase / (decrease) in other liabilities		7.6	(10.5)
Net cash from operating activities		**298.7**	**102.0**
Cash flows (used in) / from investing activities			
Dividends received		0.8	0.2
Proceeds from sale or maturities of financial assets available-for-sale		13.3	69.2
Purchase of financial assets available-for-sale		(43.9)	(15.6)
Purchase of subsidiaries, net of cash acquired	40	8.1	(0.4)
Disposal of subsidiaries, net of cash disposed	13	0.2	(0.4)
Contributions to associates and joint ventures	13	(0.6)	(4.8)
Purchase of investment securities held-to-maturity		(0.8)	(1.4)
Proceeds from redemption of investment securities held-to-maturity		1.2	3.4
Purchase of premises and equipment		(31.3)	(11.5)
Proceeds from sale of premises and equipment		2.9	1.6
Purchase of intangible assets		(1.4)	(0.8)
Net cash (used in) / from investing activities		**(51.5)**	**39.5**

	Note	*2010*	*2009*
Cash flows used in financing activities			
Dividends paid	34	(6.1)	(4.6)
Proceeds from issuance of local bonds		36.1	35.9
Repayment of local bonds		(30.7)	(4.9)
Buy-back of local bonds		(7.3)	(6.9)
Proceeds from sale of previously bought-back local bonds		3.1	6.3
Proceeds from issuance of Eurobonds		92.4	22.2
Repayment of Eurobonds		(11.5)	(116.4)
Buy-back of Eurobonds		(4.6)	(18.0)
Proceeds from sale of previously bought-back Eurobonds		8.8	1.1
Proceeds from syndicated loans		0.6	–
Repayment of syndicated loans		(14.9)	(38.4)
Proceeds from other borrowings		275.4	1,261.8
Repayment of other borrowings		(562.6)	(1,617.3)
Buy-back of subordinated debt		(0.3)	(6.4)
Proceeds from sale of previously bought-back subordinated debt		0.9	–
Repayment of subordinated debt		(9.3)	–
Proceeds from share issue, less transaction costs		–	180.1
Share issue to minorities	40	0.3	1.5
Decrease of share capital of subsidiaries, paid to minorities		–	(0.1)
Purchase of non-controlling interests in subsidiaries	40	(0.2)	(0.2)
Net cash used in financing activities		**(229.9)**	**(304.3)**
Effect of exchange rate changes on cash and cash equivalents		**(1.7)**	**6.6**
Net increase / (decrease) in cash and cash equivalents		**15.6**	**(156.2)**
Cash and cash equivalents at the beginning of the year	7	258.8	415.0
Cash and cash equivalents at the end of the year	**7**	**274.4**	**258.8**

	Attributable to shareholders of the parent									
	Share capital	*Share premium*	*Treasury shares*	*Unrealized gain on financial assets available-for-sale and cash flow hedge*	*Premises revaluation reserve*	*Currency translation difference*	*Retained earnings*	*Total*	*Non-controlling interests*	*Total equity*
Balance at 31 December 2008	**75.7**	**215.8**	**(0.4)**	**0.1**	**14.2**	**13.1**	**70.9**	**389.4**	**2.7**	**392.1**
Share issue (Note 25)	37.4	142.7	–	–	–	–	–	**180.1**	–	**180.1**
Acquisition of subsidiaries (Note 40)	–	–	–	–	–	–	–	**–**	(2.8)	**(2.8)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	0.4	**0.4**	1.0	**1.4**
Acquisition of non-controlling interests	–	–	–	–	–	–	(0.2)	**(0.2)**	–	**(0.2)**
Total comprehensive income for the period	–	–	–	3.3	(1.0)	0.1	(63.4)	**(61.0)**	3.3	**(57.7)**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(1.4)	–	1.4	**–**	–	**–**
Dividends declared (Note 34)	–	–	–	–	–	–	(3.0)	**(3.0)**	(1.6)	**(4.6)**
Put options over non-controlling interests (Note 24)	–	–	–	–	–	–	(3.4)	**(3.4)**	–	**(3.4)**
Balance at 31 December 2009	**113.1**	**358.5**	**(0.4)**	**3.4**	**11.8**	**13.2**	**2.7**	**502.3**	**2.6**	**504.9**
Net result from treasury shares transactions	–	–	0.1	–	–	–	(0.1)	**–**	–	**–**
Acquisition of subsidiaries (Note 40)	–	–	–	–	–	–	–	**–**	23.2	**23.2**
Increase in share capital of subsidiaries (Note 40)	–	–	–	–	–	–	(1.5)	**(1.5)**	1.9	**0.4**
Acquisition of non-controlling interests	–	–	–	–	–	–	(0.1)	**(0.1)**	(0.1)	**(0.2)**
Total comprehensive income for the period	–	–	–	0.6	(0.1)	(2.2)	58.0	**56.3**	(3.7)	**52.6**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.3)	–	0.3	**–**	–	**–**
Dividends declared (Note 34)	–	–	–	–	–	–	(6.1)	**(6.1)**	–	**(6.1)**
Expiration of put options over non-controlling interests (Note 24)	–	–	–	–	–	–	3.4	**3.4**	–	**3.4**
Balance at 31 December 2010	**113.1**	**358.5**	**(0.3)**	**4.0**	**11.4**	**11.0**	**56.6**	**554.3**	**23.9**	**578.2**

1. Principal Activities

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

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

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

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Deposit Insurance Agency". All Group subsidiary banks in Russia: VTB 24, CJSC; OJSC "Bank VTB North-West" (former OJSC "Industry and Construction Bank") and TransCreditBank, JSC are also members of the obligatory deposit insurance system provided by the State Corporation "Deposit Insurance Agency". The State deposit insurance scheme implies that the State Corporation "Deposit Insurance Agency" guarantees repayment of individual deposits up to the maximum total amount of guaranteed payment of RUR 700 thousand with a 100% compensation of deposited amount from 1 October 2008.

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

A list of major subsidiaries, associates and joint ventures 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 3 subsidiary banks with its network of 124 full service branches, including 55 branches of VTB, 9 branches of VTB 24, 17 branches of VTB North-West and 43 branches of TransCreditBank, located in major Russian regions. The Group operates outside Russia through 12 bank subsidiaries, located in the Commonwealth of Independent States ("CIS") (Armenia, Ukraine, Belarus, Kazakhstan and Azerbaijan), Europe (Austria, Cyprus, Germany, France and Great Britain), Georgia, Africa (Angola) and through 2 representative offices located in Italy and China and through 2 VTB branches in China and India and 2 branches of "VTB Capital", Plc in Singapore and Dubai.

VTB's majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 85.50% of VTB's issued and outstanding shares at 31 December 2010 (31 December 2009: 85.50%).

The number of employees of the Group at 31 December 2010 was 51,781 (31 December 2009: 40,447).

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

2. Operating Environment of the Group

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

2. Operating Environment of the Group (continued)

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

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

3. Basis of Preparation

General

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

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

Historically, for the purpose of preparation of IFRS financial statements, the Management of the Bank used the United States Dollar (USD) as the functional currency. Starting from 1 January 2008 the Bank changed its functional currency from USD to the Russian Rouble (RUR). Starting from 1 January 2009 the Management of the Group has decided to use Russian Roubles as the presentation currency and translated the comparative data for the purpose of these financial statements at the applicable exchange rates in accordance with International Accounting Standard 21 *The Effects of Changes in Foreign Exchange Rates.*

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

4. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for certain new standards and interpretations, which became effective for the Group from 1 January 2010, as described below:

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

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

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

4. Changes in Accounting Policies (continued)

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

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

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

Improvements to International Financial Reporting Standards (issued in April 2009) – The second omnibus of amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16, effective for annual periods beginning on or after 1 July 2009; and amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39, effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The amendments did not have any material effect on the Group's financial statements.

IFRSs (IASs) and IFRIC interpretations not yet effective

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

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

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

4. Changes in Accounting Policies (continued)

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

IFRS 7 Financial Instruments: Disclosures – Amendment: Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011). – The Amendment was issued in October 2010. It requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect the amendments to have any material effect on its financial statements.

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

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

IAS 12 Income Taxes – Amendments: Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012). – The Amendment was issued in December 2010. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis The Group evaluates the impact of the adoption of this amendment.

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

- Financial assets are required to be classified into one of the two measurement categories: those to be measured subsequently at fair value, or those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses in other comprehensive income rather than in profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

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

4. Changes in Accounting Policies (continued)

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

Improvements to International Financial Reporting Standards (issued in May 2010) – The third omnibus of amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 effective for annual periods beginning on or after 1 January 2011. The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity with regard to a reconciliation between the carrying amount at the beginning and the end of the period for each component of equity either in the statement of changes in equity or in the notes to the financial statements; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements.

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

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

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

5. Summary of Principal Accounting Policies

Subsidiaries

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

5. Summary of Principal Accounting Policies (continued)

Subsidiaries (continued)

Acquisition of subsidiaries

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

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

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

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

Increases in ownership interests in subsidiaries

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

Investments in associates and joint ventures

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

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

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

Venture Capital Investments

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

5. Summary of Principal Accounting Policies (continued)

Financial assets

Initial recognition of financial assets

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

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

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

Classification and reclassification of financial assets

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

Financial assets at fair value through profit or loss:

(a) Financial assets held for trading

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

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

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

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

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

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

5. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Loans and receivables

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

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

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

Held-to-maturity investments

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

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

Available-for-sale financial assets

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

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

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

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

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

5. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

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

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

Restructuring of financial assets

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

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

The Group discloses the carrying amount of the “Renegotiated loans and advances”, which would meet the criterion of being past due (overdue) or impaired unless the terms of these loans are renegotiated.

Securitization of financial assets

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

5. Summary of Principal Accounting Policies (continued)

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

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

Offsetting

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

Cash and cash equivalents

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

Mandatory cash balances with central banks

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

Due from other banks

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

Repurchase and reverse repurchase agreements and lending of financial instruments

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

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

5. Summary of Principal Accounting Policies (continued)

Repurchase and reverse repurchase agreements and lending of financial instruments (continued)

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

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

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

Derivative financial instruments

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

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

Hedge accounting

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

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

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

Fair value hedges

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

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

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

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

Regular way transactions

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

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

Promissory notes purchased

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

Leases

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

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

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

5. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

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

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

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

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

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

Impairment of Available-for-sale financial assets

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

Investment property

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

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

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

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

5. 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. Land is stated at revalued amounts. Land has indefinite term of usage and, therefore, is not depreciable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognized in the income statement. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

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

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

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

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

At 31 December 2010 the Group has not performed revaluation of land and premises as the fair value of these assets did not differ materially from their carrying amounts.

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

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

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

Depreciation

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

5. Summary of Principal Accounting Policies (continued)

Goodwill

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

(a) the aggregate of:

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

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

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

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

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

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

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

Impairment of goodwill is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms 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.

Intangible assets

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

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

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

5. Summary of Principal Accounting Policies (continued)

Intangible assets (continued)

Core deposit intangible

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

Due to other banks

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

Customer deposits

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

Debt securities issued

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

Other borrowed funds

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

Taxation

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

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.

5. Summary of Principal Accounting Policies (continued)

Taxation (continued)

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

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

Provisions for liabilities and charges

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

Credit related commitments

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

Share premium

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

Dividends

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

Income and expense recognition

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

Staff costs and related contributions

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

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

5. Summary of Principal Accounting Policies (continued)

Foreign currency translation

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

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

At 31 December 2010, the principal rate of exchange used for translating balances in RUR to USD was USD 1 to RUR 30.4769 (at 31 December 2009: USD 1 to RUR 30.2442) and the principal rate of exchange used for translating balances in Euro (EUR) was EUR 1 to RUR 40.3331 (at 31 December 2009: EUR 1 to RUR 43.3883).

Fiduciary assets

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

Segment reporting

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

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

6. Significant Accounting Estimates and Judgements

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

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

6. Significant Accounting Estimates and Judgements (continued)

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

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

For the purposes of calculation of loan loss allowances at 31 December 2010 and 2009, the Bank applied the internally approved formalized provisioning methodology for individual assessment of loans and in relation to IBNR (incurred but not reported) losses attributable to collectively assessed portfolios with no signs of individual impairment with similar credit risk characteristics, by industry and by borrower creditworthiness class.

Historic loss patterns as at 31 December 2009 modeled in accordance with IAS 39 were adjusted to reflect current conditions. The IBNR-loss model used by the Bank resulted in lower loss concentrations in certain homogeneous loan portfolios due to the improvements in the analyzed industries during the fourth quarter of 2009. Taking into account the short period of improvements and that these improvements may not be indicative of the fundamental improvements in the quality of loan portfolios the Bank applied the collective loan loss provisioning rates at the same level as at 30 September 2009 in respect of loan portfolios with signs of improvement. If the previously applied methodology had been used, allowances for impairment of loans and advances as at 31 December 2009 and for the year then ended, would have been lower by RUR 4.6 billion.

During 2010 the above-mentioned improvements in the quality of loan portfolios for certain industries were not confirmed, thus proving the applied conservative approach to collective provision rates and as at 31 December 2010 the Bank made no adjustment to historic loss patterns and used the provisioning rates for loan portfolios in accordance the IBNR-loss model's results at the end of the forth quarter of 2010.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use or fair value less cost to sell of the cash-generating units, to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RUR 19.9 billion (31 December 2009: RUR 7.9 billion) (Note 17).

Taxation

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

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

6. Significant Accounting Estimates and Judgements (continued)

Taxation (continued)

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 for each fund:

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

Fair value estimation of unquoted shares

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

7. Cash and Short-Term Funds

	31 December 2010	*31 December 2009*
Cash on hand	70.1	52.3
Cash balances with central banks (other than mandatory reserve deposits)	105.9	115.6
Correspondent accounts with other banks		
- Russian Federation	18.4	21.5
- Other countries	81.1	70.8
Total cash and short-term funds	**275.5**	**260.2**
Less: restricted cash	(1.1)	(1.4)
Total cash and cash equivalents	**274.4**	**258.8**

Restricted cash balances represent the balances in the amount of RUR 1.1 billion (31 December 2009: RUR 1.4 billion) in non-freely convertible currencies. Restricted cash balances were collateralized by amounts due to customers and banks in the amount of RUR 1.1 billion (31 December 2009: RUR 1.0 billion). For the purposes of the consolidated statement of cash flows, restricted cash is not included in cash and cash equivalents.

8. Financial Assets at Fair Value Through Profit or Loss

	31 December 2010	*31 December 2009*
Financial assets held for trading	320.0	244.6
Financial assets designated as at fair value through profit or loss	24.6	23.3
Total financial assets at fair value through profit or loss	**344.6**	**267.9**

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

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

Financial assets held for trading

	31 December 2010	*31 December 2009*
Debt securities denominated in USD		
Eurobonds of Russian companies and banks	16.1	6.6
Bonds and eurobonds of foreign companies and banks	13.0	11.9
Bonds and eurobonds of foreign governments	5.1	–
Eurobonds of the Russian Federation	1.4	0.1
Debt securities denominated in RUR		
Bonds of Russian companies and banks	129.1	166.9
Russian Federal loan bonds (OFZ)	18.7	1.8
Bonds of the Central Bank of the Russian Federation	14.4	–
Russian municipal bonds	2.8	2.1
Eurobonds of foreign companies and banks	0.3	1.0
Promissory notes of Russian companies and banks	0.1	1.1
Debt securities denominated in other currencies		
Bonds of foreign governments	3.5	1.0
Bonds and eurobonds of foreign companies and banks	0.8	–
Eurobonds of Russian companies and banks	0.2	1.1
Equity securities	75.6	26.0
Balances arising from derivative financial instruments (Note 35)	38.9	25.0
Total financial assets held for trading	**320.0**	**244.6**

At 31 December 2010 bonds of Russian companies and banks are mostly represented by debt securities issued by Russian oil and gas companies, banks, transportation and telecommunication companies.

At 31 December 2010 equity securities are represented by securities issued by Russian banks, oil and gas companies and metals companies.

Financial assets designated as at fair value through profit or loss

	31 December 2010	*31 December 2009*
Bonds of foreign companies and banks	8.4	7.5
Equity securities	6.7	2.1
Bonds of foreign governments	4.9	2.7
Bonds and eurobonds of Russian companies and banks	4.6	8.2
Balances arising from derivative financial instruments (Note 35)	–	2.8
Total financial assets designated as at fair value through profit or loss	**24.6**	**23.3**

At 31 December 2010 Financial assets at fair value through profit or loss include the amount of RUR 0.6 billion which is pledged against amounts due to other banks (Note 19) (31 December 2009: 1.1 billion pledged against other borrowings (Note 21)).

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

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

	31 December 2010	_31 December 2009_
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Bonds of Russian companies and banks	6.1	59.6
Equity securities	1.2	–
Bonds of foreign companies and banks	0.1	–
Bonds of foreign governments	0.1	–
Eurobonds of Russian companies and banks	–	0.5
Total Financial assets held for trading	_7.5_	_60.1_
Financial assets designated as at fair value through profit or loss		
Bonds of foreign governments	1.5	–
Eurobonds of Russian companies and banks	1.2	0.4
Bonds of foreign companies and banks	0.7	–
Total Financial assets designated as at fair value through profit or loss	_3.4_	_0.4_
Total Financial assets at fair value through profit or loss	**_10.9_**	**_60.5_**
Financial assets available-for-sale		
Bonds of foreign governments	3.0	0.3
Bonds of Russian companies and banks	1.7	–
Total Financial assets available-for-sale	**_4.7_**	**_0.3_**
Investment securities held-to-maturity		
Bonds of Russian companies and banks	–	21.2
Total Investment securities held-to-maturity	**_–_**	**_21.2_**
Financial assets classified as loans and advances to customers	**_–_**	**_14.2_**
Financial assets classified as due from other banks	**_1.3_**	**_–_**
Total financial assets pledged under repurchase agreements and loaned financial assets	**16.9**	**96.2**

At 31 December 2010 bonds of Russian companies and banks included in the above table are mostly represented by debt securities issued by Russian oil and gas companies, transportation, telecommunication companies and banks.

10. Due from Other Banks

	31 December 2010	_31 December 2009_
Current term placements with other banks	285.6	334.6
Reverse sale and repurchase agreements with other banks	64.8	10.7
Overdue placements	2.4	1.6
Total gross due from other banks	**352.8**	**346.9**
Less: Allowance for impairment (Note 31)	(2.9)	(1.3)
Total due from other banks	**349.9**	**345.6**

At 31 December 2010, the Group received collateral of securities under reverse sale and repurchase agreements with other banks with fair value of RUR 70.2 billion (31 December 2009: RUR 11.9 billion).

At 31 December 2010, amount included in due from other banks of RUR 1.5 billion is pledged against issued local mortgage-backed bonds (Note 22) (31 December 2009: RUR 1.0 billion).

11. Loans and Advances to Customers

	31 December 2010	*31 December 2009*
Current loans and advances	2,475.0	1,998.4
Reverse sale and repurchase agreements	51.9	49.0
Renegotiated loans and advances	270.4	300.5
Overdue loans and advances	262.3	196.9
Total gross loans and advances to customers	**3,059.6**	**2,544.8**
Less: Allowance for impairment (Note 31)	(274.2)	(234.9)
Total loans and advances to customers	**2,785.4**	**2,309.9**

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

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

	31 December 2010	*31 December 2009*
Loans to legal entities		
Current activity financing	1,438.2	1,313.2
Project finance and other	888.9	666.6
Finance leases	142.2	105.9
Reverse sale and repurchase agreements	48.8	23.8
Total loans to legal entities	**2,518.1**	**2,109.5**
Loans to individuals		
Mortgages	217.2	181.7
Car loans	52.8	45.5
Reverse sale and repurchase agreements	3.1	25.2
Consumer loans and other	268.4	182.9
Total loans to individuals	**541.5**	**435.3**
Less: Allowance for impairment (Note 31)	(274.2)	(234.9)
Total loans and advances to customers	**2,785.4**	**2,309.9**

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

At 31 December 2010 finance lease receivables of RUR 116.6 billion equal to the net investment in lease before allowance are included in current loans (31 December 2009: RUR 97.2 billion).

The finance lease receivables were as follows:

	31 December 2010	*31 December 2009*
Gross investment in leases	165.0	131.1
Less: Unearned finance lease income	(48.4)	(33.9)
Net investment in leases before allowance	**116.6**	**97.2**
Less: Allowance for impairment	(9.5)	(10.0)
Net investment in leases	**107.1**	**87.2**

At 31 December 2010, the Group has 4 significant lessees represented by two railway and two airline companies with an aggregated net investment in lease of RUR 60.2 billion (31 December 2009: RUR 56.6 billion).

11. Loans and Advances to Customers (continued)

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

	31 December 2010	_31 December 2009_
Within 1 year	40.2	35.6
From 1 to 5 years	93.0	73.2
More than 5 years	31.8	22.3
Minimum lease payments receivable	**165.0**	**131.1**

Net investments in leases were as following:

	31 December 2010	_31 December 2009_
Within 1 year	28.4	22.4
From 1 to 5 years	60.6	49.7
More than 5 years	18.1	15.1
Net investment in leases	**107.1**	**87.2**

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

	31 December 2010		_31 December 2009_	
	Amount	_%_	_Amount_	_%_
Individuals	541.5	18	435.3	17
Finance	382.3	12	359.0	14
Metals	334.5	11	417.3	16
Building construction	303.2	10	278.6	11
Manufacturing	267.7	9	219.8	9
Trade and commerce	230.6	7	169.1	7
Chemical	226.6	7	28.6	1
Transport	186.2	6	141.5	5
Oil and gas	139.7	4	103.1	4
Government bodies	115.4	4	70.3	3
Energy	97.8	3	88.6	3
Food and agriculture	81.6	3	71.5	3
Coal mining	55.6	2	73.7	3
Telecommunications and media	23.6	1	17.9	1
Aircraft	20.5	1	24.0	1
Other	52.8	2	46.5	2
Total gross loans and advances to customers	**3,059.6**	**100**	**2,544.8**	**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 2010, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 643.7 billion, or 21% of the gross loan portfolio (31 December 2009: RUR 583.0 billion, or 23%).

At 31 December 2010 and 2009, outstanding loans issued under reverse repurchase agreements do not contain any significant concentrations.

At 31 December 2010, the Group received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of RUR 85.3 billion (31 December 2009: RUR 57.4 billion).

At 31 December 2010, the total amount of pledged loans is RUR 12.3 billion (31 December 2009: RUR 172.3 billion). The loans are pledged against the funds accounted within Other borrowed funds – Other borrowings and Due to other banks captions in Liabilities. Included in the above amount of pledged loans are mortgage loans of RUR 5.0 billion (31 December 2009: RUR 20.8 billion).

11. Loans and Advances to Customers (continued)

At 31 December 2010, the carrying value of mortgage loans pledged against debt securities issued amounted to RUR 14.8 billion (31 December 2009: RUR 14.4 billion) (Note 22).

During 2010 interest income on impaired loans, recognized by the Group amounted to RUR 13.4 billion (2009: RUR 18.4 billion).

12. Financial Assets Available-for-Sale

	31 December 2010	*31 December 2009*
Equity investments	28.8	19.3
Bonds of foreign governments	16.4	1.1
Bonds of foreign companies and banks	9.0	4.2
Eurobonds of Russian companies and banks	1.0	–
Bonds of Russian companies and banks	0.4	–
Promissory notes of Russian companies and banks	0.3	0.3
Total financial assets available-for-sale	**55.9**	**24.9**

The Group recognized an impairment loss of RUR 0.4 billion before tax, transferred from unrealized gain on financial assets available-for-sale to the income statement, and realized portion of revaluation of available-for-sale financial assets transferred to income statement due to the sale of available-for-sale financial assets of RUR 0.3 billion before tax for the year ended 31 December 2010 (2009: RUR 1.1 billion and RUR 1.9 billion correspondingly).

13. Investments in Associates and Joint Ventures

			31 December 2010		*31 December 2009*	
	Country of registration	*Activity*	*Carrying amount*	*Ownership percentage*	*Carrying amount*	*Ownership percentage*
“Eurofinance Mosnarbank”, OJSC	Russia	Banking	4.3	35.86%	4.0	35.86%
“Vietnam-Russia Joint Venture Bank”	Vietnam	Banking	0.9	49.00%	0.9	49.00%
“KS Holding”, CJSC	Russia	Insurance	4.8	49.00%	4.8	49.00%
“Sistemapsys S.a.r.l.”	Luxembourg	Construction	1.3	50.00%	1.2	50.00%
“POLIEF”, OJSC	Russia	Chemical	1.1	32.50%	1.1	32.50%
“Thalita Trading”, Ltd	Cyprus	Finance	0.9	50.00%	–	57.50%
“Finnist Real Estate S.a.r.l.”	Luxembourg	Real estate	0.8	19.90%	–	–
“Telecom-Development”, CJSC	Russia	Construction	0.6	50.00%	1.4	50.00%
“Hals-Technopark”, Ltd	Russia	Construction	1.0	50.00%	–	100.00%
“Sistema Saraya”, Ltd	Cayman Island	Construction	–	100.00%	0.1	50.00%
“Astanda”, Ltd	Cyprus	Construction	–	100.00%	0.4	50.00%
“Izumrudniy Gorod 2000”, Ltd	Russia	Construction	–	50.00%	–	50.00%
“Tagar-City”, Ltd	Russia	Construction	–	50.00%	–	50.00%
“Amiral' B. V.”, Ltd	Russia	Construction	–	50.00%	–	50.00%
“Ilinoza investments limited”, Ltd	Russia	Construction	–	45.00%	–	45.00%
“Interbank Trading House”, Ltd	Russia	Commerce	–	50.00%	–	50.00%
Total investments in associates			**15.7**		**13.9**	

In 2010 the Group sold a 7.5% stake in Thalita Trading, Ltd (a minor former Group’s subsidiary) to a third party which is a related party to the Group, for a consideration of RUR 0.2 billion. The related gain of RUR 0.1 billion is booked in the income statement caption “Profit from disposal of subsidiaries and associates”.

In 2010 the Group made a deemed disposal of "Hals-Technopark", Ltd (Sistema-Hals’s former 100%-owned subsidiary) decreasing its share to 50%. As a result of loss of control the Group recognized a loss of RUR 0.1 billion booked in the income statement caption “Profit from disposal of subsidiaries and associates”.

In 2010 the Group purchased shares of the additional share issue of Finnist Real Estate S.a.r.l. at the nominal value of RUR 0.6 billion.

13. Investments in Associates and Joint Ventures (continued)

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

	31 December 2010	_31 December 2009_
Assets	130.2	95.0
Liabilities	97.9	68.3
Net assets	32.3	26.7
Revenue	32.5	30.0
Net profit / (loss)	0.2	(0.9)

The unrecognized share in losses of associates for 2010 and cumulatively at 31 December 2010 was RUR 0.1 billion and RUR 0.1 billion, respectively (31 December 2009: RUR 0.1 billion and RUR 0.4 billion, respectively).

14. Investment Securities Held-to-Maturity

	31 December 2010	_31 December 2009_
Bonds of Russian companies and banks	32.6	11.1
Russian municipal bonds	2.4	–
Bonds of foreign governments	0.8	0.3
Bonds of foreign companies and banks	0.4	0.4
Eurobonds of Russian companies and banks	–	2.1
Total gross investment securities held-to-maturity	**36.2**	**13.9**
Less: Allowance for impairment (Note 31)	(2.0)	(2.2)
Total investment securities held-to-maturity	**34.2**	**11.7**

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

15. Premises and Equipment

The movements in property and equipment were as follows:

	Premises	_Equipment_	_Construction in progress_	_Equipment in operating lease_	_Total_
Net book amount at 31 December 2009	**37.9**	**10.5**	**11.4**	**6.1**	**65.9**
Cost or revalued amount					
Opening balance at 1 January 2010	**37.9**	**20.3**	**11.4**	**6.2**	**75.8**
Acquisitions of subsidiaries (Note 40)	14.0	1.4	–	–	**15.4**
Additions	2.0	5.5	4.2	29.6	**41.3**
Transfer	8.9	2.1	(11.0)	–	**–**
Disposals	(0.2)	(0.9)	(1.5)	(0.8)	**(3.4)**
Translation difference	(0.3)	(0.2)	–	–	**(0.5)**
Closing balance at 31 December 2010	**62.3**	**28.2**	**3.1**	**35.0**	**128.6**
Accumulated depreciation					
Opening balance at 1 January 2010	**–**	**9.8**	**–**	**0.1**	**9.9**
Depreciation charge	1.3	3.8	–	1.0	**6.1**
Disposals	(0.1)	(0.5)	–	–	**(0.6)**
Closing balance at 31 December 2010	**1.2**	**13.1**	**–**	**1.1**	**15.4**
Net book amount at 31 December 2010	**61.1**	**15.1**	**3.1**	**33.9**	**113.2**

15. Premises and Equipment (continued)

	Premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 2008	**40.6**	**9.3**	**10.9**	**–**	**60.8**
Cost or revalued amount					
Opening balance at 1 January 2009	**41.5**	**16.8**	**10.9**	**–**	**69.2**
Acquisitions of subsidiaries (Note 40)	0.1	0.4	–	–	**0.5**
Disposal of subsidiaries	–	(0.1)	–	–	**(0.1)**
Additions	0.7	3.1	6.6	6.2	**16.6**
Transfer	4.1	1.1	(5.2)	–	**–**
Disposals	(2.5)	(1.0)	(0.4)	–	**(3.9)**
Revaluation and impairment	(5.1)	–	(0.4)	–	**(5.5)**
Translation difference	(0.9)	–	(0.1)	–	**(1.0)**
Closing balance at 31 December 2009	**37.9**	**20.3**	**11.4**	**6.2**	**75.8**
Accumulated depreciation					
Opening balance at 1 January 2009	**0.9**	**7.5**	**–**	–	**8.4**
Depreciation charge	1.3	3.0	–	0.1	**4.4**
Disposals	(0.1)	(0.8)	–	–	**(0.9)**
Revaluation	(2.3)	–	–	–	**(2.3)**
Translation difference	0.2	0.1	–	–	**0.3**
Closing balance at 31 December 2009	**–**	**9.8**	**–**	**0.1**	**9.9**
Net book amount at 31 December 2009	**37.9**	**10.5**	**11.4**	**6.1**	**65.9**

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

Premises of the Group are subject to revaluation on a regular basis. The date of the latest revaluation was 31 December 2009. The Group engaged an independent appraiser to determine the fair value of its premises. Fair value was determined by reference to market-based evidence. The negative revaluation amounted to RUR 2.8 billion. The decrease of the premises' carrying amount was recognized as operating expenses through income statement in the amount of RUR 1.5 billion to the extent it exceeded the previous revaluation surplus in equity, and the amount of RUR 1.3 billion, which was posted through other comprehensive income to premises revaluation reserve within the shareholders' equity net of tax amounted to RUR 0.3 billion. At 31 December 2009 the Group recognized impairment losses with regard to construction in progress in the amount of RUR 0.4 billion.

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

	31 December 2010	*31 December 2009*
Cost	52.9	28.5
Less: Accumulated depreciation and impairment	3.0	2.1
Net carrying amount	**49.9**	**26.4**

16. Investment Property

	2010	*2009*
Investment property at 1 January	**79.8**	**4.3**
Acquisitions of subsidiaries (Note 40)	15.7	20.0
Additions	13.1	54.6
Disposals	(1.7)	–
Reclassified from premises	0.4	0.7
Reclassified to premises	(0.1)	–
Reclassified from property held for sale	1.9	0.2
Reclassified to property held for sale	(7.0)	–
Revaluation	(0.2)	(0.3)
Capitalization of borrowing costs	–	0.3
Other	0.3	–
Investment property at 31 December	**102.2**	**79.8**

16. Investment Property (continued)

At 31 December 2010, as a result of revaluation, investment property decreased by RUR 0.2 billion (in 2009 - increased by RUR 0.3 billion). The valuation was carried out by independent appraisers on the basis of market prices for comparable real estate.

In 2010 the Group received directly a property title for land plots valued at RUR 11.1 billion (2009: RUR 54.0 billion) and commercial and residential properties valued at RUR 1.2 billion in exchange for settlement of the outstanding loans granted by the Group. The remaining property of RUR 0.8 billion (2009: RUR 0.6 billion) was obtained through foreclosure of collateral under mortgage loans. The acquired investment properties were valued by an independent, professionally qualified appraiser at fair value at the acquisition date.

In 2010, the Group's investment property increased due to property valued at RUR 15.7 billion received a result of acquisition of "M", CJSC, "TransCreditBank", JSC and "VTB Arena", CJSC (Note 40).

In 2009, the Group's investment property increased due to property valued at RUR 74.6 billion received mainly from Russian real estate development companies, including real estate property valued at RUR 20.0 billion as a result of acquisition of "Sistema-Hals", OJSC.

At 31 December 2010, investment property of the amount of RUR 2.2 billion (31 December 2009 RUR 3.2 billion) is pledged against other borrowed funds (Note 21).

The Group leased out a portion of its investment property under operating lease. Future minimum receivables under non-cancellable operating lease are RUR 0.8 billion of which RUR 0.3 billion to be received in less than one year and of which RUR 0.5 billion to be received later than one year and not later than five years (2009: RUR 0.1 billion to be received in less than one year).

In 2010 the Group has recognized rental income as part of income arising from non-banking activities of RUR 0.2 billion (2009: RUR 0.1 billion) and no material direct operating expenses (2009: RUR 0.1 billion) in relation to investment property that generated rental income.

17. Intangible Assets and Goodwill

The movements in intangible assets were as follows:

	Core deposit intangible	*Computer software*	*Other rights*	*Goodwill*	*Total*
Net book amount at 31 December 2009	**1.2**	**2.1**	**0.7**	**7.9**	**11.9**
Cost less impairment					
Opening balance at 1 January 2010	**5.0**	**3.4**	**0.7**	**7.9**	**17.0**
Additions	–	1.0	0.4	–	**1.4**
Acquisition through business combinations (Note 40)	4.8	0.3	2.4	13.1	**20.6**
Disposals	–	(0.1)	(0.6)	–	**(0.7)**
Write-offs through impairment (Note 40)	–	–	–	(1.1)	**(1.1)**
Closing balance at 31 December 2010	**9.8**	**4.6**	**2.9**	**19.9**	**37.2**
Accumulated amortization					
Opening balance at 1 January 2010	**3.8**	**1.3**	**–**	**–**	**5.1**
Amortization charge	1.0	0.3	0.7	–	**2.0**
Disposals	–	–	(0.4)	–	**(0.4)**
Closing balance at 31 December 2010	**4.8**	**1.6**	**0.3**	**–**	**6.7**
Net book amount at 31 December 2010	**5.0**	**3.0**	**2.6**	**19.9**	**30.5**

17. Intangible Assets and Goodwill (continued)

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

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

	31 December 2010			*31 December 2009*		
	Carrying amount of goodwill	*Carrying amount of core deposit intangible*	*Total*	*Carrying amount of goodwill*	*Carrying amount of core deposit intangible*	*Total*
"TransCreditBank", JSC	7.7	4.8	**12.5**	–	–	**–**
"Bank VTB North-West", OJSC	5.2	–	**5.2**	5.2	0.9	**6.1**
"VTB Arena", OJSC	4.3	–	**4.3**	–	–	**–**
"Bank VTB 24", CJSC	2.1	–	**2.1**	2.1	–	**2.1**
"VTB Bank (Azerbaijan)", OJSC	0.4	–	**0.4**	0.4	–	**0.4**
"VTB Specialized Depository", CJSC	–	0.2	**0.2**	–	0.3	**0.3**
"VTB Bank (Armenia)" CJSC	0.1	–	**0.1**	0.1	–	**0.1**
"VTB Asset Management", CJSC	0.1	–	**0.1**	0.1	–	**0.1**
Net book amount	**19.9**	**5.0**	**24.9**	**7.9**	**1.2**	**9.1**

As at 31 December 2010, the recoverable amount of "Bank VTB North-West", 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 8%.

The following describes each key assumption on which management has based its cash flow projections for "Bank VTB North-West", 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 market research forecasts for the retail Russian market;
- Provision for loan impairment – the basis used relates statistics of losses for corporate and retail loans;
- 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 VTB North-West", CJSC.

17. Intangible Assets and Goodwill (continued)

The recoverable amount of "Bank VTB 24", CJSC at 31 December 2010 was based on the fair value, less costs to sell, of the cash-generating unit, which amounted to RUR 105.6 billion. As at 31 December 2009, the recoverable amount of "Bank VTB 24", CJSC has been determined based on a value in use calculation using pretax cash flow projections (adjusted for depreciation) based on financial budgets approved by management covering a four-year period. The discount rate applied to cash flow projections is 11%.

18. Other Assets

	Note	*31 December 2010*	*31 December 2009*
Property intended for sale in the ordinary course of business		20.0	14.2
Amounts in course of settlement		14.8	2.8
Equipment purchased for subsequent leasing		11.7	13.0
Taxes recoverable		9.1	8.2
Trade debtors and prepayments		7.3	6.1
Deferred expenses		6.5	2.9
Advances issued to leasing equipment suppliers		3.4	4.1
Accrued commission income		2.8	1.2
Precious metals		2.2	2.3
Inventories		2.2	0.7
Leasehold for development and sale		1.5	1.5
Positive fair value of derivatives (fair value hedges)	35	0.6	–
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs		0.1	0.2
Other assets related to non-banking activities		16.3	7.9
Other		6.5	3.9
Total other assets before allowance for impairment		**105.0**	**69.0**
Less: Allowance for impairment	31	(2.4)	(1.4)
Total other assets		**102.6**	**67.6**

At 31 December 2010 and 2009, equipment purchased for subsequent leasing and advances issued to leasing equipment suppliers represents operations of VTB Leasing.

At 31 December 2010, included in Property intended for sale in the ordinary course of business is the amount of RUR 1.4 billion (31 December 2009: RUR 1.9 billion), which is pledged against Other borrowings within Other borrowed funds (Note 21).

19. Due to Other Banks

	31 December 2010	*31 December 2009*
Correspondent accounts and overnight deposits of other banks	226.7	174.1
Term loans and deposits	161.6	111.6
Sale and repurchase agreements with other banks	9.0	1.3
Total due to other banks	**397.3**	**287.0**

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of RUR 11.4 billion (31 December 2009: RUR 1.7 billion) and those classified as due from other banks with amortized cost of RUR 1.3 billion (31 December 2009: nil) (Note 9).

At 31 December 2010, term loans and deposits in the amount of RUR 4.2 billion (31 December 2009: RUR 4.7 billion) is collateralized with loans to customers in the amount of RUR 5.6 billion (Note 11) (31 December 2009: RUR 4.6 billion).

Included in amounts due to other banks at 31 December 2010 are restricted deposits of RUR 0.9 billion (31 December 2009: RUR 0.9 billion), where matching deposits were placed by the Group in other balances in non-freely convertible currencies (Note 7).

19. Due to Other Banks (continued)

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

At 31 December 2010 term loans and deposits contain the amount of RUR 0.6 billion (31 December 2009: nil) secured with a pledge of financial assets at fair value through profit or loss in the amount of RUR 0.6 billion (31 December 2009: nil) (Note 8).

20. Customer Deposits

	31 December 2010	*31 December 2009*
Government bodies		
Current / settlement deposits	14.0	7.7
Term deposits	83.6	101.1
Other legal entities		
Current / settlement deposits	475.7	464.5
Term deposits	882.0	515.7
Individuals		
Current / settlement deposits	142.6	84.5
Term deposits	605.3	392.0
Sale and repurchase agreements	9.7	3.3
Total customer deposits	**2,212.9**	**1,568.8**

Included in customer deposits at 31 December 2010 are:

- Restricted deposits amounting to RUR 0.2 billion (31 December 2009: 0.1 billion), where matching deposits were placed by the Group in other balances in non-freely convertible currencies (Note 7).
- Deposits of RUR 9.6 billion (31 December 2009: RUR 9.4 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 35).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2010		*31 December 2009*	
	Amount	*%*	*Amount*	*%*
Individuals	747.9	34	476.5	30
Oil and gas	407.5	18	322.1	21
Finance	240.2	12	133.7	9
Transport	124.2	6	15.8	1
Building construction	98.8	4	65.3	4
Government bodies	97.6	4	108.8	7
Manufacturing	94.1	4	68.9	4
Trade and commerce	70.3	3	59.6	4
Energy	69.8	3	83.6	5
Telecommunications and media	56.3	3	64.8	4
Metals	29.6	1	71.5	5
Chemical	22.9	1	15.1	1
Food and agriculture	20.5	1	15.1	1
Aircraft	16.7	1	16.2	1
Coal mining	6.7	–	3.5	–
Other	109.8	5	48.3	3
Total customer deposits	**2,212.9**	**100**	**1,568.8**	**100**

At 31 December 2010 financial assets pledged against sale and repurchase agreements represent financial assets at fair value through profit or loss and financial assets available-for-sale with fair value of RUR 4.2 billion (31 December 2009: nil) (Note 9) and securities received under reverse sale and repurchase agreements with fair value of RUR 8.9 billion (31 December 2009: RUR 3.3 billion).

21. Other Borrowed Funds

	31 December 2010	*31 December 2009*
Syndicated loans	45.1	49.4
Other borrowings	140.6	421.5
Total other borrowed funds	**185.7**	**470.9**

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

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

In May 2009 VTB fully repaid a syndicated loan in the total amount of USD 171 million (RUR 5.9 billion). In December 2009 VTB fully repaid one tranche of a syndicated loan in the total contractual amount of USD 400 million (RUR 12.2 billion). In the fourth quarter 2009 VTB (Austria) purchased the contact of factoring a part of the second tranche of the syndicated loan in the total amount of USD 45 million (RUR 1.3 billion).

During 2009 VTB 24 fully repaid a syndicated loan in the total amount of USD 141 million (RUR 4.6 billion). In July 2009 VTB North-West fully repaid a syndicated loan in the total amount of USD 113 million (RUR 3.8 billion).

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

Funds attracted from local central banks included in other borrowings comprise RUR 1.4 billion at 31 December 2010 (31 December 2009: RUR 314.8 billion). The funds attracted from local central banks in the amount of RUR 1.4 billion (31 December 2009: RUR 107.5 billion) are secured by pledged loans and advances to customers of RUR 1.7 billion (31 December 2009: RUR 167.7 billion) (Note 11).

At 31 December 2010 other borrowed funds also contain the amount of RUR 7.3 billion (31 December 2009: RUR 4.4 billion) secured with a pledge of financial assets at fair value through profit or loss in the amount of nil (31 December 2009: RUR 1.1 billion) (Note 8), investment property of RUR 2.2 billion (31 December 2009: RUR 3.2 billion) (Note 16), loans to customers of RUR 5.0 billion (31 December 2009: nil) (Note 11) and other assets of RUR 1.4 billion (31 December 2009: RUR 1.9 billion) (Note 18).

22. Debt Securities Issued

	31 December 2010	*31 December 2009*
Bonds	470.6	346.0
Promissory notes	122.2	139.3
Deposit certificates	0.3	0.4
Total debt securities issued	**593.1**	**485.7**

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

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

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

22. Debt Securities Issued (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22. Debt Securities Issued (continued)

In June 2009, the Group arranged a securitization transaction, under which, three tranches of Mortgage-backed amortizing notes were issued for RUR 10.0 billion, RUR 2.0 billion and RUR 2.5 billion respectively with maturity in February 2039 and coupon rate of 10.5% for the first tranche, 11% for the second tranche and the floating coupon for the third tranche. These securities were collateralized with a portfolio of RUR 14.5 billion mortgage loans to individuals secured by residential properties (the loans were not derecognized). These securities were issued through a special purpose entity. In 2010 the first (senior) tranche of the above notes was partially redeemed (amortized). At 31 December 2010 the outstanding principal amount of the first tranche was RUR 5.9 billion and the amount of collateral was RUR 10.4 billion. At 31 December 2009 and 2010 VTB 24 is the sole holder of the notes, thus these notes are eliminated in these financial statements.

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

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

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

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

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

In December 2009, VTB 24 issued RUR 15.0 billion local mortgage-backed bonds maturing in December 2014 with a fixed rate of 9.7% p.a. payable quarterly with 2-year put option. These bonds are secured by mortgage loan portfolio with carrying amount of RUR 14.8 billion (Note 11) and an amount of RUR 1.5 billion within Due from other banks (Note 10).

VTB Group members from time to time seek to retire all or part of any of their issued and outstanding debt through open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, depend on prevailing market conditions, VTB's liquidity requirements, contractual restrictions and other factors. During 2010 the Group did not retire any Eurobonds or bonds issued. The notional amount of Eurobonds bought-back (excluding subordinated debt) by the Group during the twelve months of 2009 amounted to RUR 20.2 billion, which resulted in the recognition of a gain on the extinguishment of debt of RUR 3.3 billion for the period.

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 2010 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 2009: from demand to June 2015).

23. Subordinated Debt

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

23. Subordinated Debt (continued)

On 29 September 2005, OJSC “Industry and Construction Bank” (further renamed to OJSC “Bank VTB North-West”) issued USD 400 million subordinated Eurobonds due September 2015 with early redemption option (1 October 2010; price 100; type call). The Eurobonds bear interest rate at 6.2% p.a. payable semi-annually. From 1 October 2010 interest rate under the Eurobonds is equal to US Treasury yield increased by 226 b.p. and step-up of 150 b.p. In August 2010 the Group announced a decision not to exercise the redemption option. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxembourg) for the purpose of financing a subordinated loan to OJSC “Bank VTB North-West”. During the year ended 31 December 2010 the Group did not buy-back these subordinated Eurobonds. The notional amount of Eurobonds bought-back by the Group during 2009 amounted to RUR 0.4 billion, which resulted in the recognition of a gain on the extinguishment of liability of RUR 0.2 billion for the period. At 31 December 2010 the carrying amount of this subordinated debt was RUR 10.2 billion (31 December 2009: RUR 9.2 billion).

In October and November 2008, VTB received two subordinated loans of RUR 100 billion each with a rate of 8% p.a. maturing in December 2019 from Vnesheconombank (VEB), which is a related party to the Group. At 31 December 2008 in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” the Group discounted these loans using an appropriate market rate adjusted for loan premium. In August 2010 an interest rate on these two subordinated loans was reduced from 8% to 6.5% p.a. in accordance with the Federal Law requirements. At 31 December 2010 the carrying amount of this subordinated debt is RUR 178.0 billion (31 December 2009: RUR 176.4 billion).

Over a period from 2003 to 2009 “TransCreditBank”, JSC received subordinated loans from JSC "RZhD" and its related parties in the aggregate amount of RUR 13.1 billion with interest rates from 9% p.a. to 12.1% p.a. maturing in the period from December 2012 to January 2020. At 31 December 2010 the carrying amount of these subordinated loans is RUR 14.5 billion which represents the fair value determined on the acquisition date for the consolidation purposes (Note 40).

In July 2009, TransCreditBank, JSC received a subordinated loan of RUR 2.9 billion with an interest rate of 8% p.a. maturing in October 2019 from Vnesheconombank (VEB), which is a related party to the Group. In August 2010 an interest rate on this subordinated loan was reduced from 8% to 6.5% p.a. in accordance with the Federal Law requirements. At 31 December 2010 the carrying amount of this subordinated loan is RUR 2.8 billion, which represents the fair value determined on the acquisition date for the consolidation purposes (Note 40).

24. Other Liabilities

	31 December 2010	*31 December 2009*
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives (Note 35))	36.0	38.1
Amounts in course of settlement	17.8	5.4
Payable to employees	14.9	10.5
Liabilities to pay taxes	7.1	4.4
Obligation to deliver securities	4.2	1.7
Trade creditors and prepayments received	4.1	3.8
Liabilities on pension plans	4.0	1.9
Non-controlling interests in consolidated mutual funds	3.7	3.7
Provisions for credit related commitments and legal claims (Note 31)	1.7	1.7
Deferred income	1.1	1.2
Advances received from lessees	0.7	0.8
Provisions on insurance payments	0.5	0.5
Initial recognition of credit related commitments	0.2	0.5
Dividends payable	0.2	0.2
Put options over non-controlling interests	–	3.4
Other liabilities related to non-banking activities	9.4	10.0
Other	5.3	3.4
Total other liabilities	**110.9**	**91.2**

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

25. Share Capital

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

	31 December 2010		*31 December 2009*	
	Number of shares	*Nominal amount*	*Number of shares*	*Nominal amount*
Ordinary shares	10,460,541,337,338	113.1	10,460,541,337,338	113.1
Total share capital	**10,460,541,337,338**	**113.1**	**10,460,541,337,338**	**113.1**

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

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

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

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

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

At 31 December 2010 authorized but not issued shares comprise 10,263,597,171,681 shares (2009: 10,263,597,171,681) with a par value of RUR 0.01 each.

At 31 December 2010 and 2009, the reserves included both distributable and non-distributable reserves.

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

26. Interest Income and Expense

	2010	*2009*
Interest income		
Financial assets at fair value through profit or loss	**19.2**	**16.1**
Loans and advances to customers	301.5	343.9
Due from other banks	7.1	11.1
Other financial assets, including securities	2.7	2.6
Financial assets not at fair value through profit or loss	**311.3**	**357.6**
Total interest income	**330.5**	**373.7**
Interest expense		
Customer deposits	(85.9)	(89.9)
Debt securities issued	(40.1)	(38.1)
Subordinated debt	(17.0)	(18.7)
Due to other banks and other borrowed funds	(16.4)	(74.8)
Total interest expense	**(159.4)**	**(221.5)**
Net interest income	**171.1**	**152.2**

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

	2010	*2009*
Gains less losses / (losses net of gains) arising from trading financial instruments	13.9	(23.8)
Gains less losses arising from financial instruments designated at fair value through profit or loss	0.9	2.5
Total gains less losses / (losses net of gains) arising from financial instruments at fair value through profit or loss	**14.8**	**(21.3)**

28. Fee and Commission Income and Expense

	2010	*2009*
Commission on settlement transactions	15.4	13.2
Commission on operations with securities and capital markets	4.5	4.5
Commission on guarantees issued and trade finance	3.9	4.4
Commission on cash transactions	2.9	2.6
Other	2.1	0.8
Total fee and commission income	**28.8**	**25.5**
Commission on settlement transactions	(2.2)	(1.8)
Commission on cash transactions	(1.0)	(1.0)
Other	(0.9)	(1.7)
Total fee and commission expense	**(4.1)**	**(4.5)**
Net fee and commission income	**24.7**	**21.0**

29. Other Operating Income

	2010	*2009*
Dividends received	0.9	0.1
Fines and penalties received	0.2	1.6
Income arising from disposal of property	0.1	0.1
Other	1.9	1.2
Total other operating income	**3.1**	**3.0**

30. Staff Costs and Administrative Expenses

	2010	*2009*
Staff costs	47.3	37.1
Defined contribution pension expense	3.1	3.2
Depreciation and other expenses related to premises and equipment	11.6	8.4
Taxes other than on income	5.0	3.3
Leasing and rent expenses	4.8	5.3
Professional services	4.7	3.3
Advertising expenses	4.2	2.6
Payments to deposit insurance system	2.2	1.6
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit intangible	2.1	1.7
Post and telecommunication expenses	2.0	1.9
Charity	1.5	1.1
Security expenses	1.3	1.3
Transport expenses	1.2	0.8
Amortization of core deposit intangible	1.0	1.0
Insurance	0.7	0.3
Impairment of premises and equipment	–	1.9
Other	2.4	1.6
Total staff costs and administrative expenses	**95.1**	**76.4**

31. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks by classes for 2010 and 2009 were as follows:

	Russia	*OECD*	*Other*	*Total*
31 December 2008	**0.6**	**–**	**0.1**	**0.7**
Provision for loan impairment during the period	0.2	0.1	0.6	**0.9**
Disposal of subsidiaries	(0.3)	–	–	**(0.3)**
31 December 2009	**0.5**	**0.1**	**0.7**	**1.3**
Provision for loan impairment during the period	1.6	–	–	**1.6**
31 December 2010	**2.1**	**0.1**	**0.7**	**2.9**

The movements in allowances for impairment of loans and advances to legal entities by class for 2010 and 2009 were as follows:

	Finance leases	*Current activity financing*	*Reverse sale and repurchase agreements with legal entities*	*Project finance and other*	*Total*
31 December 2008	**1.6**	**60.5**	**0.1**	**18.0**	**80.2**
Provision for loan impairment during the period	11.2	74.8	–	51.0	**137.0**
Write-offs	(0.4)	(8.6)	–	(1.7)	**(10.7)**
Currency translation difference	(0.1)	(0.4)	–	(0.2)	**(0.7)**
Disposal of subsidiaries	–	–	–	(0.6)	**(0.6)**
31 December 2009	**12.3**	**126.3**	**0.1**	**66.5**	**205.2**
Provision for / (recovery of) loan impairment during the period	(0.1)	24.7	–	14.7	**39.3**
Write-offs	–	(4.5)	–	(4.6)	**(9.1)**
Recoveries of amounts written-off in previous period	–	0.7	–	–	**0.7**
Currency translation difference	–	(0.4)	–	0.7	**0.3**
31 December 2010	**12.2**	**146.8**	**0.1**	**77.3**	**236.4**

31. Allowances for Impairment and Provisions (continued)

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

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

	Mortgages	*Car loans*	*Consumer loans and other*	*Total*
31 December 2008	**1.0**	**2.4**	**11.1**	**14.5**
Provision for loan impairment during the period	4.6	0.4	10.9	**15.9**
Write-offs	(0.3)	–	(0.6)	**(0.9)**
Recoveries of amounts written-off in previous period	0.2	–	0.1	**0.3**
Currency translation difference	(0.1)	–	–	**(0.1)**
31 December 2009	**5.4**	**2.8**	**21.5**	**29.7**
Provision for loan impairment during the period	3.9	0.5	6.5	**10.9**
Write-offs	(0.1)	(0.1)	(2.8)	**(3.0)**
Recoveries of amounts written-off in previous period	0.1	–	0.1	**0.2**
31 December 2010	**9.3**	**3.2**	**25.3**	**37.8**

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 2008	**–**	**1.3**	**1.5**	**0.1**	**2.9**
Provision for impairment during the period	1.4	0.9	0.3	–	**2.6**
Currency translation difference	–	–	(0.1)	–	**(0.1)**
Disposal of subsidiary	–	–	(0.1)	–	**(0.1)**
31 December 2009	**1.4**	**2.2**	**1.6**	**0.1**	**5.3**
Provision for / (recovery of) impairment during the period	2.1	(0.2)	–	0.1	**2.0**
Currency translation difference	(1.1)	–	–	(0.1)	**(1.2)**
31 December 2010	**2.4**	**2.0**	**1.6**	**0.1**	**6.1**

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

32. Income Tax

Income tax expense and income tax recovery comprise the following:

	2010	*2009*
Current tax expense	24.5	14.3
Deferred taxation movement due to the origination and reversal of temporary differences	(8.2)	(23.0)
Income tax expense / (recovery) for the year	**16.3**	**(8.7)**

32. Income Tax (continued)

The income tax rate applicable to the majority of the Group's income in 2010 is 20% (2009: 20%). The income tax rate applicable to subsidiaries' income ranges from 10% to 32% in 2010 (2009: 10% to 32%).

	2010	***2009***
IFRS profit / (loss) before taxation	**71.1**	**(68.3)**
Theoretical tax expense / (recovery) at the applicable statutory rate of each company within the Group	14.1	(14.7)
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Change in unrecognized deferred taxes	(0.4)	4.3
- Non-deductible expenses	2.8	2.2
- Unrecognized deferred tax effect related to investments in subsidiaries, associates and joint ventures	0.2	1.2
- Adjustments recognized in the period for current tax of prior periods	0.4	(0.9)
- Income, which is exempt from taxation	(0.1)	(0.3)
- Income taxed at different rates	(0.1)	0.1
- Effect of change in tax rates	0.1	–
- Other	(0.7)	(0.6)
Income tax expense / (recovery) for the year	**16.3**	**(8.7)**

32. Income Tax (continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 32% (2009: from 10% to 32%). The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

		Origination and reversal of temporary differences					*Origination and reversal of temporary differences*				
	2008	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehensive income*	*Currency translation difference*	*Business combination*	*2009*	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehen-sive income*	*Currency translation difference*	*Business combination*	*2010*
Tax effect of deductible temporary differences:											
Allowances for impairment and provisions for other losses	**6.9**	10.2	–	(0.1)	–	**17.0**	3.9	–	–	0.5	**21.4**
Tax losses carried forward	**9.1**	5.2	–	0.3	–	**14.6**	0.3	–	(0.2)	–	**14.7**
Fair value measurement of derivatives	**5.2**	(4.4)	–	–	–	**0.8**	(0.4)	–	–	–	**0.4**
Accrued expenses	**3.8**	6.2	–	–	–	**10.0**	3.6	–	–	0.8	**14.4**
Fair value of securities	**–**	1.6	(1.0)	0.1	–	**0.7**	0.1	–	–	0.3	**1.1**
Fair value of investment property	**–**	0.1	–	–	1.4	**1.5**	0.5	–	–	0.5	**2.5**
Other	**1.1**	0.1	0.4	–	–	**1.6**	(0.7)	–	–	0.9	**1.8**
Gross deferred tax assets	**26.1**	**19.0**	**(0.6)**	**0.3**	**1.4**	**46.2**	**7.3**	**–**	**(0.2)**	**3.0**	**56.3**
Unrecognized deferred tax assets	**(3.7)**	(4.3)	–	(0.2)	–	**(8.2)**	0.4	–	–	(0.1)	**(7.9)**
Gross deferred tax asset	**22.4**	**14.7**	**(0.6)**	**0.1**	**1.4**	**38.0**	**7.7**	**–**	**(0.2)**	**2.9**	**48.4**
Tax effect of taxable temporary differences:											
Fair value measurement of securities	**(9.3)**	9.3	–	–	–	**–**	(0.8)	–	–	(0.3)	**(1.1)**
Property and equipment	**(4.6)**	(0.4)	0.3	0.8	0.1	**(3.8)**	(0.2)	–	0.1	(0.3)	**(4.2)**
Intangible assets	**(0.4)**	0.1	–	–	–	**(0.3)**	0.3	–	–	(1.0)	**(1.0)**
Net investment in lease	**(3.0)**	0.9	–	–	–	**(2.1)**	0.6	–	–	–	**(1.5)**
Valuation of advances from customers	**(0.4)**	0.2	–	–	–	**(0.2)**	–	–	–	–	**(0.2)**
Fair value of investment property	**–**	–	–	–	(4.5)	**(4.5)**	(0.5)	–	–	(1.8)	**(6.8)**
Allowances for impairment and provisions for other losses	**–**	–	–	–	–	**–**	–	–	–	(0.4)	**(0.4)**
Fair value measurement of derivatives	**–**	–	–	–	–	**–**	(0.1)	–	–	(0.4)	**(0.5)**
Other	**(0.9)**	(1.8)	–	–	–	**(2.7)**	1.2	–	–	(0.6)	**(2.1)**
Gross deferred tax liability	**(18.6)**	**8.3**	**0.3**	**0.8**	**(4.4)**	**(13.6)**	**0.5**	**–**	**0.1**	**(4.8)**	**(17.8)**
Deferred tax asset, net	**9.3**	**20.0**	**0.5**	**0.1**	**1.5**	**31.4**	**6.0**	**–**	**(0.2)**	**0.7**	**37.9**
Deferred tax liability, net	**(5.5)**	**3.0**	**(0.8)**	**0.8**	**(4.5)**	**(7.0)**	**2.2**	**–**	**0.1**	**(2.6)**	**(7.3)**

32. Income Tax (continued)

At 31 December 2010 VTB, VTB Bank (Austria), VTB Capital, Plc, VTB Arena and VTB-Leasing had unused tax losses of RUR 29.1 billion (2009: VTB, VTB Bank (Austria), VTB Bank (Deutschland), VTB Capital, Plc and VTB-Leasing – RUR 24.5 billion) for which no deferred tax asset was recognized due to uncertainty that these entities would anticipate to have sufficient future taxable profits against which unused tax losses could be utilized. Losses of VTB Bank (Austria) and VTB Capital, Plc do not expire. Tax losses of VTB can be utilized over the next 8 -10 years in accordance with the Russian Tax Code requirements.

At 31 December 2010, the aggregate amount of temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred tax liability has not been recognized amounted to RUR 14.2 billion (31 December 2009: RUR 9.1 billion).

The difference between the theoretical and actual income tax expense for 2010 is mainly attributable to non-deductible expenses (for 2009 is mainly attributable to non-deductible expenses and changes in unrecognized deferred tax assets).

The following table provides disclosure of income tax effects relating to each component of other comprehensive income for 2010 and 2009:

	2010			*2009*		
	Before tax	***Tax (expense) / recovery***	***Net of tax***	***Before tax***	***Tax (expense) / recovery***	***Net of tax***
Unrealized gain on financial assets available-for-sale	0.6	–	0.6	4.8	(1.0)	3.8
Revaluation of premises	–	–	–	(1.3)	0.3	(1.0)
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.2)	–	(0.2)	–	–	–
Cash flow hedges	–	–	–	(0.5)	0.1	(0.4)
Effect of translation	(2.4)	–	(2.4)	0.7	–	0.7
Share of other comprehensive income of associates	(0.2)	–	(0.2)	–	–	–
Reclassification adjustment of currency translation difference due to disposal of subsidiary	–	–	–	(1.5)	0.3	(1.2)
Other comprehensive income	**(2.2)**	**–**	**(2.2)**	**2.2**	**(0.3)**	**1.9**

33. Basic and Diluted Earnings per Share

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

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

	2010	*2009*
Net profit / (loss) attributable to shareholders of the parent	58.2	(63.4)
Weighted average number of ordinary shares in issue	10,457,975,181,446	7,724,555,850,335
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.00557**	**(0.00821)**

34. Dividends

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

34. 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 4 June 2010, VTB's annual shareholders' meeting declared dividends of RUR 6.1 billion for 2009 (RUR 0.00058 per share). Dividends were fully paid in July and August 2010.

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

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

35. Contingencies, Commitments and Derivative Financial Instruments

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

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

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

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

Outstanding credit related commitments are as follows:

	31 December 2010	***31 December 2009***
Guarantees issued	216.5	190.6
Undrawn credit lines	190.3	197.0
Import letters of credit	29.2	29.9
Commitments to extend credit	176.3	97.4
Less: allowance for impairment on credit related commitments (Note 31)	(1.6)	(1.6)
Total credit related commitments	**610.7**	**513.3**

The Bank received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2010 was RUR 154.0 billion (31 December 2009: RUR 89.4 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 9.6 billion (31 December 2009: RUR 9.4 billion).

At 31 December 2010, included in guarantees issued are guarantees issued for 2 related Russian companies of RUR 48.1 billion or 22% of the guarantees issued. At 31 December 2009, included in guarantees issued are guarantees issued for a related company (Russian entity) of RUR 27.3 billion or 14% of the guarantees issued.

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

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

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

Remaining contractual maturity	*31 December 2010*	*31 December 2009*
Not later than 1 year	2.9	1.8
Later than 1 year but not later than 5 years	5.1	4.9
Later than 5 years	3.4	5.8
Total operating lease commitments	**11.4**	**12.5**

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

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

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

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

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

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

Cash flow hedges

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

Fair value hedges

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 and currency rates. The financial instruments hedged for interest rate risk and currency risk include debt securities issued. For the year ended 31 December 2010, the Group recognized a net gain of RUR 0.6 billion, representing the gain on the hedging instruments. The net loss on hedged items attributable to the hedged risk amounted to RUR 0.6 billion for the year ended 31 December 2010.

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

Fair value hedges (continued)

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

Purchase commitments

As at 31 December 2010 the Group had RUR 26.8 billion of outstanding commitments for the purchase of precious metals (31 December 2009: RUR 14.0 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognized on these contracts.

36. Analysis by Segment

In accordance with IFRS 8, *Operating Segments*, the Group defined as the primary operating segments its key business lines. This segment disclosure is presented on the basis of IFRS compliant data of legal entities of the Group adjusted, where necessary, for intersegment reallocation and managerial adjustments, which primarily include replacement of valuation model prices on equity securities with the market quotes regardless of whether the markets are active or not. Qualitative and quantitative information about operating segments is reported to the appropriate operating decision makers for the purposes of making operating decisions on allocation of resources to the segment and assessment of its performance. On this basis, the Group aggregated these operating segments in accordance with IFRS 8 into the following reportable segments: Corporate business, Retail business, Investment business, Ukraine and Other. The Group also disclosed TransCreditBank as a separate reportable segment in 2010 as the control was obtained only on 31 December 2010, at which date the Group did not yet allocate TransCreditBank's transactions and data to other reportable segments. This separate disclosure of TransCreditBank also provides consistent and comparable information for 2009 and 2010 years.

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

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

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

36. Analysis by Segment (continued)

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

	Corporate business	*Retail business*	*Investment business*	*Ukraine*	*Trans-Credit-Bank*	*Other*	*Total before intersegment eliminations*	*Intersegment eliminations*	*Total*
For the year ended 31 December 2010:									
Revenues from:									
External customers	224.9	99.5	51.7	14.1	–	13.4	**403.6**	–	**403.6**
Other segments	27.6	13.7	9.4	–	–	2.3	**53.0**	(53.0)	**–**
Total revenues	**252.5**	**113.2**	**61.1**	**14.1**	**–**	**15.7**	**456.6**	**(53.0)**	**403.6**
Segment income and expense									
Interest income	233.6	96.6	23.8	12.9	–	4.7	**371.6**	(41.1)	**330.5**
Interest expense	(123.9)	(43.0)	(16.7)	(9.5)	–	(7.4)	**(200.5)**	41.1	**(159.4)**
Net interest income	**109.7**	**53.6**	**7.1**	**3.4**	**–**	**(2.7)**	**171.1**	**–**	**171.1**
Provision charge for impairment of debt financial assets	(35.5)	(14.2)	(0.6)	(2.0)	–	(0.7)	**(53.0)**	1.4	**(51.6)**
Net interest income after provision for impairment	**74.2**	**39.4**	**6.5**	**1.4**	**–**	**(3.4)**	**118.1**	**1.4**	**119.5**
Gains less losses / (losses net of gains) arising from other financial instruments	(5.3)	0.3	19.8	(0.2)	–	–	**14.6**	0.1	**14.7**
Losses on initial recognition of financial instruments and on loans restructuring	0.2	(0.4)	–	–	–	–	**(0.2)**	–	**(0.2)**
(Losses net of gains) / gains less losses arising from dealing in foreign currencies	(12.6)	0.5	3.4	0.3	–	0.9	**(7.5)**	–	**(7.5)**
Foreign exchange translation gains less losses	9.8	1.3	1.2	0.1	–	–	**12.4**	(0.3)	**12.1**
Net fee and commission income	10.5	10.2	4.2	0.7	–	(0.7)	**24.9**	(0.2)	**24.7**
Share in (loss) / income of associates	0.3	–	0.4	–	–	(1.4)	**(0.7)**	–	**(0.7)**
Provision charge for impairment of other assets and credit related commitments	(1.5)	–	–	(0.1)	–	(0.6)	**(2.2)**	–	**(2.2)**
Other operating income / (expense)	(0.2)	0.9	6.8	–	–	1.7	**9.2**	(2.3)	**6.9**
Operating income	**75.4**	**52.2**	**42.3**	**2.2**	**–**	**(3.5)**	**168.6**	**(1.3)**	**167.3**
Staff costs and administrative expenses	(40.4)	(28.8)	(16.9)	(3.5)	–	(7.1)	**(96.7)**	1.6	**(95.1)**
- of which: depreciation / amortization charge	*(3.9)*	*(2.2)*	*(0.3)*	*(0.4)*	–	*(1.3)*	***(8.1)***	–	***(8.1)***
Impairment of goodwill	–	–	–	–	–	(1.1)	**(1.1)**	–	**(1.1)**
Profit from disposal of subsidiaries	–	–	0.1	–	–	(0.1)	**–**	–	**–**
Segment results: Profit / (loss) before taxation	**35.0**	**23.4**	**25.5**	**(1.3)**	**–**	**(11.8)**	**70.8**	**0.3**	**71.1**
Income tax expense									**(16.3)**
Net profit									**54.8**
Capital expenditure	36.1	3.0	1.0	1.2	–	1.6	**42.9**	(0.2)	**42.7**
As at 31 December 2010:									
Cash and short-term funds	158.4	71.4	7.1	7.2	34.9	10.3	**289.3**	(13.8)	**275.5**
Mandatory cash balances with central banks	17.6	5.5	–	0.7	1.9	0.7	**26.4**	–	**26.4**
Due from other banks	285.2	304.0	102.2	0.4	64.8	3.7	**760.3**	(410.4)	**349.9**
Loans and advances to customers	2,187.5	483.5	82.2	100.6	203.6	32.0	**3,089.4**	(304.0)	**2,785.4**
Other financial instruments	130.8	22.9	224.9	10.2	71.4	6.7	**466.9**	(15.3)	**451.6**
Investments in associates and joint ventures	11.1	–	1.7	–	–	2.9	**15.7**	–	**15.7**
Other asset items	233.8	18.9	20.0	6.1	27.0	86.9	**392.7**	(6.3)	**386.4**
Segment assets	**3,024.4**	**906.2**	**438.1**	**125.2**	**403.6**	**143.2**	**5,040.7**	**(749.8)**	**4,290.9**
Due to other banks	649.0	4.4	258.3	69.3	16.1	11.5	**1,008.6**	(611.3)	**397.3**
Customer deposits	1,154.5	727.3	22.7	30.8	276.9	20.2	**2,232.4**	(19.5)	**2,212.9**
Other borrowed funds	105.1	11.9	52.0	0.1	9.8	64.9	**243.8**	(58.1)	**185.7**
Debt securities issued	517.0	41.0	3.8	0.3	40.7	2.4	**605.2**	(12.1)	**593.1**
Subordinated debt	189.1	18.0	18.3	6.4	17.3	1.5	**250.6**	(45.1)	**205.5**
Other liabilities items	45.7	9.5	44.3	0.3	4.7	21.6	**126.1**	(7.9)	**118.2**
Segment liabilities	**2,660.4**	**812.1**	**399.4**	**107.2**	**365.5**	**122.1**	**4,466.7**	**(754.0)**	**3,712.7**

36. Analysis by Segment (continued)

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

	Corporate business	*Retail business*	*Investment business*	*Ukraine*	*Other*	*Total before intersegment eliminations and adjustments*	*Intersegment eliminations and adjustments*	*Total*
For the year ended 31 December 2009:								
Revenues from:								
External customers	289.5	88.4	46.7	16.6	9.9	**451.1**	–	**451.1**
Other segments	31.0	8.9	4.7	–	1.5	**46.1**	(46.1)	**–**
Effect recognized on the Group level							5.9	**5.9**
Total revenues	**320.5**	**97.3**	**51.4**	**16.6**	**11.4**	**497.2**	**(40.2)**	**457.0**
Segment income and expense								
Interest income	286.8	85.9	19.1	15.1	5.7	**412.6**	(38.9)	**373.7**
Interest expense	(184.6)	(42.3)	(19.4)	(9.5)	(4.6)	**(260.4)**	38.9	**(221.5)**
Net interest income	**102.2**	**43.6**	**(0.3)**	**5.6**	**1.1**	**152.2**	**–**	**152.2**
Provision charge for impairment of debt financial assets	(128.4)	(19.7)	(1.5)	(9.4)	(1.1)	**(160.1)**	5.4	**(154.7)**
Net interest expense after provision for impairment	**(26.2)**	**23.9**	**(1.8)**	**(3.8)**	**–**	**(7.9)**	**5.4**	**(2.5)**
(Losses net of gains) / Gains less losses arising from other financial instruments	(13.9)	0.5	20.0	–	0.1	**6.7**	(26.9)	**(20.2)**
Gains less losses arising from extinguishment of liability	7.4	–	–	–	–	**7.4**	7.3	**14.7**
Losses on initial recognition of financial instruments and on loans restructuring	(19.4)	(0.3)	–	–	–	**(19.7)**	–	**(19.7)**
(Losses net of gains) / gains less losses arising from dealing in foreign currencies	(16.2)	(1.0)	3.6	0.6	0.7	**(12.3)**	(0.1)	**(12.4)**
Foreign exchange translation gains less losses / (losses net of gains)	25.4	1.4	0.3	0.2	(0.2)	**27.1**	(0.5)	**26.6**
Net fee and commission income	11.0	6.8	2.8	0.6	(0.5)	**20.7**	0.3	**21.0**
Share in income of associates	0.3	–	–	–	–	**0.3**	–	**0.3**
(Provision charge for) / recovery of impairment of other assets and credit related commitments	(1.3)	(0.1)	(0.4)	–	0.1	**(1.7)**	–	**(1.7)**
Other operating income / (expense)	(1.5)	0.5	4.3	0.1	3.0	**6.4**	(1.7)	**4.7**
Operating income	**(34.4)**	**31.7**	**28.8**	**(2.3)**	**3.2**	**27.0**	**(16.2)**	**10.8**
Staff costs and administrative expenses	(33.1)	(24.5)	(12.4)	(2.7)	(4.8)	**(77.5)**	1.1	**(76.4)**
- of which: depreciation / amortization charge	*(2.8)*	*(1.9)*	*(0.3)*	*(0.4)*	*(0.6)*	***(6.0)***	*0.1*	***(5.9)***
Impairment of goodwill	–	–	–	–	(3.7)	**(3.7)**	–	**(3.7)**
Profit from disposal of subsidiaries	1.0	–	–	–	–	**1.0**	–	**1.0**
Segment results: (Loss) / Profit before taxation	**(66.5)**	**7.2**	**16.4**	**(5.0)**	**(5.3)**	**(53.2)**	**(15.1)**	**(68.3)**
Income tax recovery								**8.7**
Net loss								**(59.6)**
Capital expenditure	13.1	4.1	0.5	0.3	0.8	**18.8**	(1.4)	**17.4**
As at 31 December 2009:								
Cash and short-term funds	181.8	59.3	11.2	10.6	10.8	**273.7**	(13.5)	**260.2**
Mandatory cash balances with central banks	16.0	4.3	1.8	0.9	0.9	**23.9**	–	**23.9**
Due from other banks	399.3	158.1	49.0	0.8	2.9	**610.1**	(264.5)	**345.6**
Loans and advances to customers	1,905.8	459.7	52.3	85.7	23.2	**2,526.7**	(216.8)	**2,309.9**
Other financial instruments	138.8	16.8	255.3	0.4	2.9	**414.2**	(13.5)	**400.7**
Investments in associates and joint ventures	10.8	–	–	–	3.1	**13.9**	–	**13.9**
Other asset items	171.0	16.4	10.8	5.3	54.9	**258.4**	(1.8)	**256.6**
Segment assets	**2,823.5**	**714.6**	**380.4**	**103.7**	**98.7**	**4,120.9**	**(510.1)**	**3,610.8**
Due to other banks	356.7	17.1	239.2	68.7	11.6	**693.3**	(406.3)	**287.0**
Customer deposits	1,014.3	517.6	9.0	19.5	16.5	**1,576.9**	(8.1)	**1,568.8**
Other borrowed funds	398.0	24.2	41.4	0.1	39.7	**503.4**	(32.5)	**470.9**
Debt securities issued	443.1	47.3	0.2	0.3	6.3	**497.2**	(11.5)	**485.7**
Subordinated debt	210.7	21.1	18.1	6.4	1.5	**257.8**	(62.5)	**195.3**
Other liabilities items	45.6	4.6	30.1	0.3	19.1	**99.7**	(1.5)	**98.2**
Segment liabilities	**2,468.4**	**631.9**	**338.0**	**95.3**	**94.7**	**3,628.3**	**(522.4)**	**3,105.9**

36. Analysis by Segment (continued)

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

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

The column "Intersegment Eliminations and Adjustments" of the above table on information for the reportable segments of the Group at 31 December 2009 and results for the year ended 31 December 2009 in the line "(Losses net of gains) / Gains less losses arising from other financial instruments" includes an adjustment of RUR (24.3) billion before tax, which relates to replacement of valuation model prices on equity securities with the market quotes regardless of whether such markets are active or not. Other adjustments are not material.

Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. Information for the geographical areas of the Group is set out below for the years ended 31 December 2010 and 2009:

	2010					*2009*		
	Russia	***Other***	***Total before intersegment eliminations***	***Inter-segment eliminations***	***Total***	***Russia***	***Other***	***Total***
Revenues from external customers for the year ended	334.7	61.6	**396.3**	–	**396.3**	369.5	71.9	**441.4**
Non-current assets as at end of period	243.7	18.1	**261.8**	(0.2)	**261.6**	155.4	16.1	**171.5**

37. Financial Risk Management

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

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

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

Being the Group's management 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 risk management standards and approaches. Decisions and recommendations of the GMC taken in a coordinated and consolidated way serve as a basis for respective managerial decisions in the members of the Group.

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

The main tasks set for the RMC include:

- Supervising the risk management systems in VTB's subsidiaries;
- Development and implementation of individual plans to improve risk management systems in subsidiaries (CIS subsidiary banks), on the basis of methodological and consulting support provided by VTB;
- Development of formats and maintaining data flows from subsidiary companies in order to monitor risks on a Group-wide basis, supervision of regular risk management reporting in the Group;
- Preparation and discussion of draft framework documents on consolidated risk control processes, including regulations for risk management and control in the Group and regulations for setting and applying consolidated risk limits.

37. Financial Risk Management (continued)

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

Within the process of step-by-step implementation of consolidated credit risk management system, the Group Credit Committee continued working in this area during 2010.

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, concept of economic capital in VTB Bank and VTB Group, Group data consolidation, development of consolidated risk control system.

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

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

During 2010 the unified methodology and procedure of economic capital (Capital-at-Risk) calculation in VTB Group were elaborated, agreed within the Group and approved by GMC in the form of a Group-wide conceptual document. In 2010 the new strategic initiatives to strengthen and enhance Group Risk Management (in accordance with the new Strategy of VTB Group for 2010-2013) were approved by GMC. The step-by-step implementation of these initiatives began in the 4th quarter of 2010. As a result a special Commission under GMC was established to monitor loan portfolios of the Group subsidiaries.

Analysis of financial assets and liabilities by measurement basis

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

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

37. Financial Risk Management (continued)

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

As at 31 December 2010:

	Held for trading	*Designated at fair value through profit or loss*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities measured at amortized cost*	*Total*
Financial assets							
Cash and short-term funds	–	–	–	275.5	–	–	**275.5**
Mandatory cash balances with central banks	–	–	–	26.4	–	–	**26.4**
Financial assets at fair value through profit or loss	320.0	24.6	–	–	–	–	**344.6**
Financial assets pledged under repurchase agreements and loaned financial assets	7.5	3.4	–	1.3	4.7	–	**16.9**
Due from other banks	–	–	–	349.9	–	–	**349.9**
Loans and advances to customers	–	–	–	2,785.4	–	–	**2,785.4**
Financial assets available-for-sale	–	–	–	–	55.9	–	**55.9**
Investment securities held-to-maturity	–	–	34.2	–	–	–	**34.2**
Other assets	0.8	–	–	34.7	–	–	**35.5**
Total financial assets	**328.3**	**28.0**	**34.2**	**3,473.2**	**60.6**	**–**	**3,924.3**
Financial liabilities							
Due to other banks	–	–	–	–	–	397.3	**397.3**
Customer deposits	–	–	–	–	–	2,212.9	**2,212.9**
Other borrowed funds	–	–	–	–	–	185.7	**185.7**
Debt securities issued	–	–	–	–	–	593.1	**593.1**
Subordinated debt	–	–	–	–	–	205.5	**205.5**
Other liabilities	40.6	–	–	–	–	47.2	**87.8**
Total financial liabilities	**40.6**	**–**	**–**	**–**	**–**	**3,641.7**	**3,682.3**

37. Financial Risk Management (continued)

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

As at 31 December 2009:

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

Credit risk

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

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

- local credit risk management at a Group member level;
- consolidated credit risk management at the Group level.

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

Consolidated credit risk management comprises the following functions:

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

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

37. Financial Risk Management (continued)

Credit risk (continued)

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

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

The document "The main principles and provisions of VTB Group's credit policy" outlines the main approaches and standards of risk management and organization of lending operations in the Group. These principles should be complied with by each subsidiary bank and financial companies of the Group. The Group's credit policy covers the following issues:

- roles and responsibilities of different committees, departments of VTB and subsidiaries in the area of lending and credit risk management;
- matters related to the approval and revision of credit policies in VTB companies;
- general approaches and principles of system of credit risk limits;
- principles of pricing policy (interest rates and commissions).

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

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

The procedure for adopting a credit policy is as follows:

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

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

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

- the GMC;
- the RMC;
- VTB Group Credit Committee of the GMC ("GCC");
- Commission for credit portfolio monitoring in VTB's subsidiaries («CCPM»).

GCC is a permanent collective decision-making committee of the GMC. GCC is chaired by Chief Risk Officer of VTB and includes representatives of VTB divisions (Risk, Legal, Corporate Banking, Investment Banking, etc.) and selected subsidiary companies. The key tasks of this committee are as follows:

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

CCPM is a new collegial decision-making commission which was established at the end of 2010 and will begin its work from the first quarter of 2011. The main purpose of CCPM is to ensure a uniform approach in the following fields:

- risk assessment of credit transactions of Group members;
- identification of potentially bad loans and further actions to be taken in respect of such loans.

37. Financial Risk Management (continued)

Credit risk (continued)

CCPM is chaired by Chief Risk Officer of VTB and includes representatives of VTB departments (such as RD, Subsidiary Banks Department and Internal Control Department). It may also include representatives of certain subsidiary companies (for example, "VTB Dolgovoi centre", CJSC).

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

The Risk analysis department of Bank VTB 24 co-ordinates retail credit risk management across the Group and is responsible for:

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

In 2010 the Concept of Credit Risk Management in Retail Lending in the Group was developed by Bank VTB 24 and RD and approved by GMC.

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

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

	31 December 2010	*31 December 2009*
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**205.4**	**207.9**
Debt securities	**306.1**	**337.7**
Financial assets held for trading	***211.2***	***205.8***
debt securities of Russian companies and banks	145.5	175.7
debt securities of Russian Federal and municipal authorities	37.3	4.0
debt securities of foreign companies and banks	19.8	25.1
debt securities of foreign government and municipal authorities	8.6	1.0
Financial assets designated at fair value through profit or loss	***17.9***	***18.4***
debt securities of foreign companies and banks	8.4	7.5
debt securities of foreign government and municipal authorities	4.9	2.7
debt securities of Russian companies and banks	4.6	8.2
Financial assets pledged under repurchase agreements and loaned financial assets – held for trading	***6.3***	***60.1***
debt securities of Russian companies and banks	6.1	60.1
debt securities of foreign companies and banks	0.1	–
debt securities of foreign government and municipal authorities	0.1	–
Financial assets pledged under repurchase agreements and loaned financial assets – designated at fair value through profit or loss	***3.4***	***0.4***
debt securities of foreign government and municipal authorities	1.5	–
debt securities of Russian companies and banks	1.2	0.4
debt securities of foreign companies and banks	0.7	–
Financial assets pledged under repurchase agreements and loaned financial assets – available-for-sale	***4.7***	***0.3***
debt securities of foreign government and municipal authorities	3.0	0.3
debt securities of Russian companies and banks	1.7	–
Financial assets pledged under repurchase agreements and loaned financial assets – classified as due from other banks	***1.3***	***–***
Financial assets pledged under repurchase agreements and loaned financial assets – classified as loans and advances to customers	***–***	***14.2***
Financial assets pledged under repurchase agreements and loaned financial assets – classified as investment securities held-to-maturity	***–***	***21.2***

37. Financial Risk Management (continued)

Credit risk (continued)

	31 December 2010	**_31 December 2009_**
Financial assets available-for-sale	**_27.1_**	**_5.6_**
debt securities of foreign government and municipal authorities	16.4	1.1
debt securities of foreign companies and banks	9.0	4.2
debt securities of Russian companies and banks	1.7	0.3
Investment securities held-to-maturity	**_34.2_**	**_11.7_**
debt securities of Russian companies and banks	30.6	11.0
debt securities of Russian government and municipal authorities	2.4	–
debt securities of foreign government and municipal authorities	0.8	0.3
debt securities of foreign companies and banks	0.4	0.4
Due from other banks	**349.9**	**345.6**
Russia	174.5	69.4
OECD	163.0	269.2
Other	12.4	7.0
Loans and advances to customers	**2,785.4**	**2,309.9**
Loans to legal entities	**_2,281.7_**	**_1,904.3_**
Current activity financing	1,291.4	1,186.9
Project finance and other	811.6	600.1
Finance leases	130.0	93.6
Reverse sale and repurchase agreements	48.7	23.7
Loans to individuals	**_503.7_**	**_405.6_**
Mortgages	207.9	176.3
Car loans	49.6	42.7
Reverse sale and repurchase agreements	3.0	25.2
Consumer loans and other	243.2	161.4
Other assets	**34.7**	**7.7**
Total balance sheet exposure	**3,681.5**	**3,208.8**
Off-balance sheet exposure		
Guarantees issued	216.5	190.5
Undrawn credit lines	190.3	197.0
Import letters of credit	27.6	28.4
Commitments to extend credit	176.3	97.4
Exposure arising from credit default swaps		
- sale of credit default swaps	50.3	35.1
- purchase of credit default swaps	6.9	4.6
Total off-balance sheet exposure	**667.9**	**553.0**
Total maximum exposure to credit risk	**4,349.4**	**3,761.8**

Total credit risk exposure

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

37. Financial Risk Management (continued)

Credit quality by class of due from other banks

Credit quality of due from other banks (gross), which are neither past due nor impaired at 31 December 2010 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Russia	101.0	73.9
OECD	75.9	87.1
Other countries	4.4	7.8
Total due from other banks (gross) neither past due nor impaired	**181.3**	**168.8**

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

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

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

Credit quality by class of loans and advances to customers

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

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

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

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

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

customers individually assessed

37. Financial Risk Management (continued)

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

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

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

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

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

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

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**233.8**	**53.3**	**16.7**	**1.3**	**10.9**	**316.0**
Finance leases	42.4	7.9	0.5	–	–	**50.8**
Current activity financing	174.8	34.8	13.0	1.3	10.9	**234.8**
Reverse sale and repurchase agreements	7.2	–	–	–	–	**7.2**
Project finance and other	9.4	10.6	3.2	–	–	**23.2**
Loans to individuals	**373.7**	**2.1**	**6.5**	**17.7**	**22.7**	**422.7**
Mortgages	160.0	0.6	0.3	9.6	1.4	**171.9**
Car loans	40.5	0.9	1.2	0.6	2.2	**45.4**
Reverse sale and repurchase	25.2	–	–	–	–	**25.2**

agreements						
Consumer loans and other	148.0	0.6	5.0	7.5	19.1	**180.2**
Total loans and advances to customers collectively assessed	**607.5**	**55.4**	**23.2**	**19.0**	**33.6**	**738.7**

37. Financial Risk Management (continued)

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

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

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,549.9**	**256.9**	**423.5**	**20.1**	**1.3**	**2,251.7**
Finance leases	74.4	41.1	0.7	–	–	**116.2**
Current activity financing	808.2	185.4	257.8	20.1	1.2	**1,272.7**
Reverse sale and repurchase agreements	48.4	0.4	–	–	–	**48.8**
Project finance and other	618.9	30.0	165.0	–	0.1	**814.0**
Loans to individuals	**478.8**	**1.5**	**9.4**	**8.1**	**10.4**	**508.2**
Mortgages	192.6	–	2.7	5.6	1.1	**202.0**
Car loans	48.3	1.0	0.2	0.5	0.8	**50.8**
Reverse sale and repurchase agreements	3.1	–	–	–	–	**3.1**
Consumer loans and other	234.8	0.5	6.5	2.0	8.5	**252.3**
Total loans and advances to customers individually assessed	**2,028.7**	**258.4**	**432.9**	**28.2**	**11.7**	**2,759.9**

The table below shows credit quality by class of loans and advances to customers (gross) at 31 December 2009, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,208.9**	**329.4**	**283.3**	**1.1**	**2.9**	**1,825.6**
Finance leases	50.5	11.7	18.7	–	–	**80.9**
Current activity financing	727.1	198.4	209.9	1.1	2.9	**1,139.4**
Reverse sale and repurchase agreements	23.7	–	–	–	–	**23.7**
Project finance and other	407.6	119.3	54.7	–	–	**581.6**
Loans to individuals	**377.0**	**2.0**	**6.3**	**14.7**	**14.9**	**414.9**
Mortgages	161.1	0.6	0.3	6.8	1.1	**169.9**
Car loans	40.4	0.9	1.2	0.6	1.1	**44.2**
Reverse sale and repurchase agreements	25.2	–	–	–	–	**25.2**
Consumer loans and other	150.3	0.5	4.8	7.3	12.7	**175.6**
Total loans and advances to customers collectively assessed	**1,585.9**	**331.4**	**289.6**	**15.8**	**17.8**	**2,240.5**

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2010 and 2009 is presented in the table below.

	31 December 2010	*31 December 2009*
Trade and commerce	56.2	46.5
Building construction	41.7	56.0
Manufacturing	32.4	21.6
Energy	30.3	1.2
Food and agriculture	23.1	27.0
Transport	19.9	16.0
Oil and gas	14.6	45.9
Finance	8.3	9.5
Individuals	6.1	9.0
Coal mining	2.9	1.6
Metals	2.3	8.3
Chemical	1.6	10.2
Telecommunications and media	0.7	1.4
Other	5.1	9.0

Total loans and advances to customers individually impaired	**245.2**	**263.2**

37. Financial Risk Management (continued)

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

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

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

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

	From 1 to 30 days	*From 31 to 60 days*	*From 61 to 90 days*	*From 91 to 180 days*	*From 181 days to 1 year*	*More than 1 year*	*Total*
Loans to legal entities	**12.9**	**8.8**	**2.3**	**8.4**	**28.0**	**3.0**	**63.4**
Finance leases	–	4.2	0.9	3.8	20.8	–	**29.7**
Current activity financing	12.0	2.6	1.3	4.5	6.8	2.8	**30.0**
Project finance and other	0.9	2.0	0.1	0.1	0.4	0.2	**3.7**
Loans to individuals	**10.4**	**1.8**	**1.0**	**0.9**	**2.8**	**5.3**	**22.2**
Mortgages	4.3	1.1	0.6	0.3	1.1	1.4	**8.8**
Car loans	1.1	0.1	0.1	0.1	0.2	0.5	**2.1**
Consumer loans and other	5.0	0.6	0.3	0.5	1.5	3.4	**11.3**
Total loans and advances to customers past due but not impaired	**23.3**	**10.6**	**3.3**	**9.3**	**30.8**	**8.3**	**85.6**

For the purposes of the above table, the amount of overdue loans and advances includes the entire outstanding amount of the loans, out of which the current portion amounts to RUR 37.0 billion and overdue portion amounts to RUR 54.5 billion at 31 December 2010 (31 December 2009: RUR 44.5 billion and RUR 41.1 billion correspondingly).

The table below shows the carrying amount of renegotiated loans and advances to customers (gross) by class.

	31 December 2010			*31 December 2009*		
	Gross	*Allowance*	*Net*	*Gross*	*Allowance*	*Net*
Loans to legal entities	**254.7**	**(31.3)**	**223.4**	**283.7**	**(19.2)**	**264.5**
Finance leases	1.6	(0.6)	**1.0**	0.4	(0.1)	**0.3**
Current activity financing	167.2	(28.4)	**138.8**	234.1	(16.0)	**218.1**
Project finance and other	85.9	(2.3)	**83.6**	49.2	(3.1)	**46.1**
Loans to individuals	**15.7**	**(4.8)**	**10.9**	**16.8**	**(4.9)**	**11.9**
Mortgages	7.3	(2.1)	**5.2**	8.0	(2.4)	**5.6**
Car loans	1.2	(0.3)	**0.9**	1.4	(0.2)	**1.2**
Consumer loans and other	7.2	(2.4)	**4.8**	7.4	(2.3)	**5.1**

Total renegotiated loans and advances to customers	**270.4**	**(36.1)**	**234.3**	**300.5**	**(24.1)**	**276.4**

37. Financial Risk Management (continued)

Collateral and other credit enhancements

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

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.

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

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

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

Collateral repossessed

During 2010 and 2009 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers. The carrying values of the collateral repossessed during the relevant year are as follows:

Nature of assets	*2010*	*2009*
Investment property	13.1	54.5
Premises and equipment	3.6	6.2
Investments in associates and subsidiaries	0.9	5.9
Other assets	1.8	0.4
Total collateral repossessed	**19.4**	**67.0**

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

37. Financial Risk Management (continued)

Geographical concentration

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

	Russia	*OECD*	*Other countries*	*Total*
Assets				
Cash and short-term funds	177.8	83.8	13.9	**275.5**
Mandatory cash balances with central banks	19.0	1.6	5.8	**26.4**
Financial assets at fair value through profit or loss	283.3	45.4	15.9	**344.6**
Financial assets pledged under repurchase agreements and loaned financial assets	11.5	5.0	0.4	**16.9**
Due from other banks	174.5	163.0	12.4	**349.9**
Loans and advances to customers	1,919.4	71.9	794.1	**2,785.4**
Financial assets available-for-sale	26.3	15.7	13.9	**55.9**
Investments in associates and joint ventures	11.8	2.1	1.8	**15.7**
Investment securities held-to-maturity	33.0	0.4	0.8	**34.2**
Premises and equipment	103.1	3.2	6.9	**113.2**
Investment property	101.4	–	0.8	**102.2**
Intangible assets	29.2	0.5	0.8	**30.5**
Deferred tax asset	32.0	4.3	1.6	**37.9**
Other assets	78.4	10.8	13.4	**102.6**
Total assets	**3,000.7**	**407.7**	**882.5**	**4,290.9**
Liabilities				
Due to other banks	275.9	81.0	40.4	**397.3**
Customer deposits	2,045.5	28.0	139.4	**2,212.9**
Other borrowed funds	63.5	114.7	7.5	**185.7**
Debt securities issued	251.5	338.9	2.7	**593.1**
Deferred tax liability	6.3	–	1.0	**7.3**
Other liabilities	54.3	53.5	3.1	**110.9**
Subordinated debt	195.3	10.2	–	**205.5**
Total liabilities	**2,892.3**	**626.3**	**194.1**	**3,712.7**
Net balance sheet position	**108.4**	**(218.6)**	**688.4**	**578.2**
Net off-balance sheet position – Credit Related Commitments	**539.7**	**25.7**	**45.3**	**610.7**

37. Financial Risk Management (continued)

Geographical concentration (continued)

As at 31 December 2009 the geographical concentration of the Group's assets and liabilities is set out below:

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

Market risk

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

Interest rate risk exposure and sensitivity analysis

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

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

37. Financial Risk Management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

As at 31 December 2010 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	87.3	–	–	–	–	–	–	**87.3**
Corporate loans and advances to customers	153.7	335.2	242.7	248.7	634.8	305.3	329.5	**2,249.9**
Retail loans and advances to customers	8.4	15.6	24.0	60.8	142.6	81.1	161.8	**494.3**
Due from other banks	222.2	25.9	5.5	14.6	2.6	3.7	1.6	**276.1**
Reverse sale and repurchase agreements	81.8	8.7	15.3	13.9	0.8	–	–	**120.5**
Fixed income (quick assets)	1.9	20.2	39.6	30.1	87.9	44.6	13.8	**238.1**
Fixed income (non liquid or held-to-maturity financial assets)	4.5	12.7	7.5	7.3	15.4	35.9	24.5	**107.8**
Foreign exchange swaps	317.4	87.4	21.1	32.1	53.0	2.6	18.7	**532.3**
Interest rate derivative financial instruments	54.1	301.2	17.1	10.1	91.9	73.4	27.5	**575.3**
Other interest earning assets	1.7	–	–	–	–	–	–	**1.7**
Total assets	**933.0**	**806.9**	**372.8**	**417.6**	**1,029.0**	**546.6**	**577.4**	**4,683.3**
Liabilities								
Correspondent accounts and overnight deposits	207.6	–	–	–	–	–	–	**207.6**
Current/settlement deposits	457.7	–	–	–	–	–	–	**457.7**
Term deposits of legal entities and government bodies	253.9	255.6	178.7	171.8	161.8	7.1	20.1	**1,049.0**
Term deposits of individuals	45.9	68.0	63.1	120.9	281.9	18.1	6.6	**604.5**
Due to other banks	82.0	104.0	59.6	45.5	58.6	22.0	228.6	**600.3**
Reverse sale and repurchase agreements	13.5	2.5	3.5	1.1	–	–	–	**20.6**
Promissory notes issued	15.5	39.1	15.9	41.7	8.9	–	0.1	**121.2**
Bonds issued	1.1	26.2	29.5	119.1	201.1	73.1	30.5	**480.6**
Foreign exchange swaps	316.6	86.7	21.5	32.0	54.3	2.8	15.2	**529.1**
Interest rate derivative financial instruments	5.2	292.8	17.2	10.0	127.4	97.3	27.5	**577.4**
Other interest bearing liabilities	1.3	0.9	0.4	0.1	0.3	0.3	1.5	**4.8**
Total liabilities	**1,400.3**	**875.8**	**389.4**	**542.2**	**894.3**	**220.7**	**330.1**	**4,652.8**
Net repricing gap	**(467.3)**	**(68.9)**	**(16.6)**	**(124.6)**	**134.7**	**325.9**	**247.3**	**30.5**

37. Financial Risk Management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

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

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Correspondent accounts with other banks	73.9	–	–	–	–	–	–	**73.9**
Corporate loans and advances to customers	233.6	229.0	153.5	391.0	336.4	251.5	293.0	**1,888.0**
Retail loans and advances to customers	19.0	15.7	14.7	47.8	103.0	61.9	139.1	**401.2**
Due from other banks	264.9	38.8	7.6	7.4	12.3	0.1	1.4	**332.5**
Reverse sale and repurchase agreements	18.5	1.5	–	13.7	–	–	–	**33.7**
Fixed income (quick assets)	4.4	7.4	16.1	55.4	96.1	53.6	95.7	**328.7**
Fixed income (non liquid or held-to-maturity financial assets)	1.9	4.3	2.7	5.4	10.5	1.7	8.3	**34.8**
Foreign exchange swaps	238.4	125.1	5.8	16.2	12.3	–	–	**397.8**
Interest rate derivative financial instruments	80.7	177.0	8.7	22.9	56.3	6.9	3.1	**355.6**
Other interest earning assets	1.0	–	–	–	–	–	–	**1.0**
Total assets	**936.3**	**598.8**	**209.1**	**559.8**	**626.9**	**375.7**	**540.6**	**3,847.2**
Liabilities								
Correspondent accounts and overnight deposits	163.7	–	–	–	–	–	–	**163.7**
Current/settlement deposits	370.4	–	–	–	–	–	–	**370.4**
Term deposits of legal entities and government bodies	361.6	205.1	82.6	86.5	45.9	3.0	0.6	**785.3**
Term deposits of individuals	41.3	40.9	38.2	102.2	160.8	2.2	0.1	**385.7**
Due to other banks	166.5	177.4	42.9	146.0	27.7	14.8	230.1	**805.4**
Reverse sale and repurchase agreements	14.5	5.5	–	–	–	–	–	**20.0**
Promissory notes issued	6.3	27.3	22.9	68.8	5.8	–	–	**131.1**
Bonds issued	1.1	29.0	45.7	46.5	174.2	49.1	20.1	**365.7**
Foreign exchange swaps	242.6	128.3	5.7	16.1	12.8	–	–	**405.5**
Interest rate derivative financial instruments	13.7	89.5	6.5	31.7	92.0	120.3	3.1	**356.8**
Other interest bearing liabilities	0.8	2.2	1.1	0.2	0.2	0.3	0.3	**5.1**
Total liabilities	**1,382.5**	**705.2**	**245.6**	**498.0**	**519.4**	**189.7**	**254.3**	**3,794.7**
Net repricing gap	**(446.2)**	**(106.4)**	**(36.5)**	**61.8**	**107.5**	**186.0**	**286.3**	**52.5**

37. Financial Risk Management (continued)

Interest rate sensitivity analysis

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

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

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

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

Currency	*Interest rate increase, b.p.*	*Effect on net interest income*	*Interest rate decrease, b.p.*	*Effect on net interest income*
RUR	300	(10.5)	(200)	7.0
USD	100	0.9	(25)	(0.2)
EUR	100	0.8	(25)	(0.2)
GBP	100	0.1	(25)	–
Other	100	(0.1)	(25)	0.4
Total		**(8.8)**		**7.0**

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

Currency risk and VaR analysis

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

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

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

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

37. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

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

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

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

The VaR model has been modified since 2009 by using business days instead of calendar days as a holding period. Comparative data as at 31 December 2009 was recalculated to provide a consistent information in these financial statements.

As at 31 December 2010 and 2009, the Group had the following exposures to currency risk, which include balance sheet positions and off-balance sheet foreign currency derivatives positions against RUR (open positions).

	Open positions	
Currency	***31 December 2010***	***31 December 2009***
USD	(8.2)	(6.6)
EUR	(2.4)	(13.6)
GBP	0.2	(1.1)
CHF	(1.5)	(0.2)
JPY	–	(0.9)
UAH	30.5	16.0
GEL	2.5	1.8
AMD	1.7	1.6
BYR	1.1	0.9
AUD	(0.9)	0.8
AZN	0.9	0.8
TRY	0.6	–
KZT	0.4	0.3
AOA	0.2	0.2
SGD	(0.2)	0.2
XAU	–	0.2
CNY	0.1	–
Other	0.1	0.1
Total	**25.1**	**0.5**

As at 31 December 2010 and 2009, the Group had the following VaR for its foreign currency positions:

	31 December 2010	***31 December 2009***
Open currency position	25.1	0.5
Value at Risk	3.9	4.1

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

37. Financial Risk Management (continued)

Price risk

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

The RD reports on a 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 securities portfolio market risk.

Parameters for VaR calculation are following:

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

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

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

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

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

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

During 2010 the Bank amended its VaR calculation methodology for diversification effect. For comparative purposes the Bank recalculated VAR for 2009 according to a new methodology and disclosed comparative data for 2009 with and without diversification effect.

Total Group’s VaR for 2010 with diversification amounts to RUR 11.9 billion (2009: RUR 6.3 billion).

Financial assets at fair value through profit or loss

	With diversification		Without diversification
	31 December 2010	31 December 2009	31 December 2009
Debt securities	2.4	1.5	16.1
Equity securities	9.7	5.6	11.4
Credit default swaps	–	0.2	0.4
Total	**12.1**	**7.3**	**27.9**

Financial assets available-for-sale

	With diversification		Without diversification
	31 December 2010	31 December 2009	31 December 2009
Debt securities	0.2	0.4	0.2
Equity securities	0.5	0.3	0.5
Total	**0.7**	**0.7**	**0.7**

37. Financial Risk Management (continued)

Sensitivity analysis

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

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

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

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

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

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

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

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

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

37. Financial Risk Management (continued)

Sensitivity analysis (continued)

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

At 31 December 2009, market value sensitivity of debt financial assets was as follows:

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

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

At 31 December 2009, market value sensitivity of equity financial assets was as follows:

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

37. Financial Risk Management (continued)

Sensitivity analysis (continued)

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

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 two main levels:

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

The tools used by 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 mandatory statutory ratios set by the CBR.

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 cash 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.

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

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

In the table above, negative liquidity gaps in RUR in the time band 1-3 months and in other currencies in time band from 3 months to 1 year are due to maturities of customer deposits in RUR, USD and EUR. The gaps are bridged by new borrowings including renewal of existing deposits.

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

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

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

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

The table below shows cash flows payable under financial liabilities at 31 December 2010 by their remaining contractual maturity.

	On demand and up to 1 month	_From 1 month to 3 months_	_From 3 month to 6 months_	_From 6 months to 1 year_	_More than 1 year_	_Overdue, maturity undefined_	_Total_
Non-derivative liabilities							
Due to other banks	302.6	17.3	23.4	9.8	89.2	–	**442.3**
Customer deposits	952.5	303.4	236.2	268.9	542.8	–	**2,303.8**
Other borrowed funds	2.8	42.6	46.0	25.5	75.8	–	**192.7**
Debt securities issued	19.5	47.1	44.6	147.5	470.1	–	**728.8**
Subordinated debt	–	3.6	3.4	8.2	342.3	–	**357.5**
Other liabilities	18.6	31.2	12.0	31.1	6.0	–	**98.9**
Derivative liabilities							
Negative fair value	4.3	3.6	2.4	6.3	19.4	–	**36.0**
Derivative financial instruments – gross settled							
Positive fair value of derivatives							
(Inflow)	(195.5)	(102.3)	(79.3)	(85.3)	(198.9)	–	**(661.3)**
Outflow	193.3	96.7	76.0	83.3	185.5	–	**634.8**
Negative fair value of derivatives							
(Inflow)	(175.0)	(40.2)	(49.3)	(358.0)	(177.1)	–	**(799.6)**
Outflow	176.8	41.7	50.0	358.9	184.7	–	**812.1**
Derivative financial instruments – net settled							
(Inflow)	(1.9)	(2.9)	(1.5)	(3.4)	(3.6)	–	**(13.3)**
Outflow	2.5	2.1	1.7	5.4	11.8	–	**23.5**
Credit related commitments	54.0	62.1	51.4	132.8	312.0	–	**612.3**
Total cash flows payable	**1,722.6**	**647.8**	**544.7**	**1,071.4**	**2,220.2**	**–**	**6,206.7**

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

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” column.

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

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	275.5	–	–	**275.5**
Mandatory cash balances with central banks	21.9	4.5	–	**26.4**
Financial assets at fair value through profit or loss	324.1	13.8	6.7	**344.6**
Financial assets pledged under repurchase agreements and loaned financial assets	10.6	6.3	–	**16.9**
Due from other banks	319.6	29.9	0.4	**349.9**
Loans and advances to customers	778.5	1,932.0	74.9	**2,785.4**
Financial assets available-for-sale	18.7	8.4	28.8	**55.9**
Investments in associates and joint ventures	–	–	15.7	**15.7**
Investment securities held-to-maturity	2.2	32.0	–	**34.2**
Premises and equipment	–	–	113.2	**113.2**
Investment property	–	–	102.2	**102.2**
Intangible assets and goodwill	–	–	30.5	**30.5**
Deferred tax asset	–	–	37.9	**37.9**
Other assets	47.7	26.8	28.1	**102.6**
Total assets	**1,798.8**	**2,053.7**	**438.4**	**4,290.9**
Liabilities				
Due to other banks	342.9	54.4	–	**397.3**
Customer deposits	1,712.5	500.4	–	**2,212.9**
Other borrowed funds	114.5	71.2	–	**185.7**
Debt securities issued	223.2	369.9	–	**593.1**
Deferred tax liability	–	–	7.3	**7.3**
Other liabilities	73.8	31.1	6.0	**110.9**
Subordinated debt	–	205.5	–	**205.5**
Total liabilities	**2,466.9**	**1,232.5**	**13.3**	**3,712.7**
Net total gap	**(668.1)**	**821.2**	**425.1**	**578.2**
Cumulative total gap	**(668.1)**	**153.1**	**578.2**	

37. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

38. Fair Values of Financial Instruments

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

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

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

Due from other bank and cash and cash equivalents. Management has estimated that at 31 December 2010 and 2009 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.

38. Fair Values of Financial Instruments (continued)

Loans and advances to customers. Management has estimated that at 31 December 2010 and 2009 the fair value of loans and advances to customers was not materially different from respective carrying value. Fair value of loans and advances to customers was calculated basing on respective market interest rates as at 31 December 2010.

Borrowings. Management has estimated that at 31 December 2010 and 2009 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 2010		*31 December 2009*	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Financial assets				
Cash and short-term funds	275.5	275.5	260.2	260.2
Financial assets at fair value through profit or loss	344.6	344.6	267.9	267.9
Financial assets pledged under repurchase agreements and loaned financial assets	16.9	16.9	96.2	96.2
Due from other banks	349.9	350.0	345.6	345.5
Russia	174.5	174.6	69.4	70.0
OECD	163.0	163.0	269.2	268.5
Other	12.4	12.4	7.0	7.0
Loans and advances to customers	2,785.4	2,886.8	2,309.9	2,293.6
Loans to legal entities	2,281.7	2,364.2	1,904.2	1,894.6
Loans to individuals	503.7	522.6	405.7	399.0
Financial assets available-for-sale	55.9	55.9	24.9	24.9
Investment securities held-to-maturity	34.2	34.2	11.7	11.8
Financial liabilities				
Due to other banks	397.3	397.3	287.0	287.2
Customer deposits	2,212.9	2,237.0	1,568.8	1,548.7
Deposits of legal entities	1,465.0	1,473.9	1,092.3	1,092.3
Deposits of individuals	747.9	763.1	476.5	456.4
Other borrowed funds	185.7	183.3	470.9	465.4
Debt securities issued	593.1	603.2	485.7	525.8
Subordinated debt	205.5	205.1	195.3	195.5

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2010:

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

38. Fair Values of Financial Instruments (continued)

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorized as follows as at 31 December 2009:

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

Movement in Level 3 financial instruments measured at fair value

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2010 is as follows:

	Financial assets at fair value through profit or loss			
	Financial assets held for trading	***Financial assets designated as at fair value through profit or loss***	***Financial assets available-for-sale***	***Financial derivative assets and liabilities (net)***
Fair value at 1 January 2010	***–***	***1.6***	***18.1***	***1.0***
Gains or losses recognized in profit or loss for the year	0.1	(0.5)	–	–
Gains or losses recognized in other comprehensive income	–	–	0.2	–
Purchases	–	–	1.5	–
Sales	–	(0.7)	–	–
Acquisition of subsidiary	2.7	–	5.4	–
Eliminated at consolidation	–	–	(2.6)	–
Transfers into level 3	–	–	0.2	–
Fair value at 31 December 2010	***2.8***	***0.4***	***22.8***	***1.0***
Unrealized gains less losses recognized in profit or loss or other comprehensive income for the current period for assets held at 31 December 2010	***–***	***(0.5)***	***0.2***	***–***

38. Fair Values of Financial Instruments (continued)

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

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

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

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

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

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

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

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

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

38. Fair Values of Financial Instruments (continued)

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

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

If the Group had used other reasonably possible alternative assumptions at 31 December 2009, the fair value of the above equity securities valued based on valuation models, would have been in the range from RUR 17.5 billion to RUR 18.5 billion.

Other reasonably possible alternative assumptions for 2010 and 2009 are the following:

- Cost of equity from -10% to 10%;
- Cost of debt from -10% to 10%
- Net margin from -10% to 10%;
- ROE from -10% to 10%.

Transfers between levels

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

There have been no transfers from Level 1 to Level 2 in 2010.

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

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

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

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

39. Related Party Transactions

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

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

Statements of financial position

	31 December 2010		*31 December 2009*	
	State-owned entities	*Associates and joint ventures*	*State-owned entities*	*Associates and joint ventures*
Assets				
Cash and short-term funds	104.8	–	123.5	–
Mandatory cash balances with central banks	19.0	–	14.7	–
Financial assets at fair value through profit or loss	158.6	–	139.9	–
Financial assets pledged under repurchase agreements and loaned financial assets	7.8	–	64.3	–
Due from other banks	81.0	3.7	29.1	2.5
Loans and advances to customers	358.3	12.4	401.9	7.8
Allowance for loan impairment	(14.0)	(1.6)	(14.1)	(5.0)
Financial assets available-for-sale	7.1	0.3	4.8	0.3
Investment securities held-to-maturity	2.5	–	0.6	–
Liabilities				
Due to other banks	58.5	1.3	40.9	0.4
Customer deposits	562.3	3.5	567.2	1.6
Other borrowed funds	167.4	–	354.5	–
Subordinated debt	195.3	–	176.4	–
Credit Related Commitments				
Guarantees issued	109.8	0.7	116.5	–
Undrawn credit lines	25.6	–	16.3	–
Import letters of credit	2.5	–	1.6	–
Commitments to extend credit	39.2	1.7	13.3	0.7

Income statements

	2010	*2009*
Interest income		
Loans and advances to customers	38.6	58.2
Securities	12.7	9.4
Due from other banks	2.3	5.3
Interest expense		
Customer deposits	(23.3)	(39.3)
Due to other banks and other borrowed funds	(6.7)	(60.2)
Subordinated debt	(16.6)	(17.3)
Recovery of / (provision for) impairment	3.5	(13.0)

For the period ended 31 December 2010, the total remuneration of the directors and key management personnel of the Group including pension contributions amounted to RUR 3.8 billion (31 December 2009: RUR 3.2 billion). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the directors and key management personnel as at 31 December 2010 amounted to RUR 0.5 billion (31 December 2009: RUR 0.3 billion).

40. Consolidated Subsidiaries, Associates and Joint Ventures

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

			Percentage of ownership	
Name	***Activity***	***Country of registration***	***31 December 2010***	***31 December 2009***
Subsidiaries:				
"VTB Bank (Austria)" AG	Banking	Austria	100.00%	100.00%
"Russian Commercial Bank (Cyprus) Limited"	Banking	Cyprus	60.00%	60.00%
"VTB Bank", PJSC (Ukraine)	Banking	Ukraine	99.97%	99.96%
"VTB Bank (Armenia)", CJSC	Banking	Armenia	100.00%	100.00%
"VTB Bank (Georgia)", JSC	Banking	Georgia	96.31%	87.38%
"VTB Bank (Belarus)", CJSC	Banking	Belarus	71.42%	69.70%
"Bank VTB 24", CJSC	Banking	Russia	100.00%	100.00%
"VTB Bank (Deutschland)", AG	Banking	Germany	100.00%	100.00%
"Bank VTB (Kazakhstan)", JSC	Banking	Kazakhstan	100.00%	100.00%
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	51.00%	51.00%
"Bank VTB North-West", OJSC	Banking	Russia	100.00%	100.00%
"VTB Bank (France)"	Banking	France	87.04%	87.04%
"VTB Capital", Plc	Banking	Great Britain	95.54%	95.54%
"Banco VTB Africa S.A."	Banking	Angola	66.00%	66.00%
"TransCreditBank", JSC	Banking	Russia	43.18%	–
"VTB Capital (Namibia) (Proprietary) Limited"	Investment	Namibia	50.33%	50.33%
"Multicarta", Ltd	Plastic cards (processing)	Russia	100.00%	100.00%
"ITC Consultants (Cyprus)", Ltd	Finance	Cyprus	100.00%	100.00%
"VB-Service", Ltd	Commerce	Russia	100.00%	100.00%
"Almaz-Press", CJSC	Publishing	Russia	100.00%	100.00%
"VTB-Leasing", OJSC	Leasing	Russia	100.00%	100.00%
"Embassy Development Limited"	Finance	Jersey	100.00%	100.00%
"VTB-Development", CJSC	Development	Russia	100.00%	100.00%
"VTB Europe Strategic Investments Limited"	Investment	Great Britain	100.00%	100.00%
"VTB Europe Finance", B.V.	Finance	Netherlands	100.00%	100.00%
"Nevsky Property", Ltd	Property	Cyprus	100.00%	100.00%
"Business-Finance", Ltd	Finance	Russia	100.00%	100.00%
"VTB Dolgovoi centre", CJSC	Finance	Russia	100.00%	100.00%
"Sistema Leasing 24", CJSC	Finance	Russia	100.00%	100.00%
"VTB-Capital", CJSC	Finance	Russia	100.00%	100.00%
"Insurance Company VTB-Insurance", Ltd	Insurance	Russia	100.00%	100.00%
"VTB-Leasing Ukraine", Ltd	Leasing	Ukraine	100.00%	100.00%
"Capablue", Ltd	Leasing	Ireland	100.00%	100.00%
"VTB Leasing (Europe)", Ltd	Leasing	Cyprus	100.00%	100.00%
"VTB-Leasing Finance", Ltd	Finance	Russia	99.99%	99.99%
"VTB-Leasing", Ltd	Leasing	Belarus	100.00%	100.00%
"VTB-Leasing Capital", Ltd	Finance	Ireland	100.00%	100.00%
"VTB Specialized Depository", CJSC	Finance	Russia	100.00%	100.00%
"VTB Asset Management", CJSC	Finance	Russia	19.00%	19.00%
"Holding VTB Capital", CJSC	Finance	Russia	100.00%	100.00%
"VTB Factoring", Ltd	Factoring	Russia	100.00%	100.00%
"Sistema-Hals", OJSC	Real Estate	Russia	51.24%	51.24%
"M", CJSC	Real Estate	Russia	100.00%	–
"VTB Arena", CJSC	Real Estate	Russia	75.00%	–
Associates and joint ventures:				
"Eurofinance Mosnarbank", OJSC	Banking	Russia	35.86%	35.86%
"Vietnam-Russia Joint Venture Bank"	Banking	Vietnam	49.00%	49.00%
"Interbank Trading House", Ltd	Commerce	Russia	50.00%	50.00%
"KS Holding", CJSC	Insurance	Russia	49.00%	49.00%
"POLIEF", OJSC	Chemical	Russia	32.50%	32.50%
"Sistemapsys S.a.r.l."	Construction	Luxembourg	50.00%	50.00%
"Telecom-Development", CJSC	Construction	Russia	50.00%	50.00%
"Hals-Technopark", Ltd	Construction	Russia	50.00%	100.00%
"Thalita Trading"	Finance	Cyprus	50.00%	57.50%
"Finnist Real Estate S.a.r.l."	Real Estate	Luxembourg	19.90%	–

40. Consolidated Subsidiaries, Associates and Joint Ventures (continued)

In February 2010, VTB Bank (Azerbaijan) issued 16,000,000 additional ordinary shares with notional amount of AZN 1.0 each (RUR 37.5) for AZN 16 million (RUR 0.6 billion). The Group purchased 8,160,000 ordinary shares for AZN 8 million (RUR 0.3 billion), thus the ownership share remained unchanged.

In accordance with the Russian legislation in December 2009, upon consolidating 51.24% of “Sistema-Hals”, OJSC shares the Group made the binding offer to repurchase the non-controlling interests of Sistema-Hals, which has expired on 9 March 2010. The Group booked the liability under the offer (put option over non-controlling interests) directly in the equity in the amount of RUR 3.4 billion as at 31 December 2009. No shares were offered by Sistema-Hals’s minorities (non-controlling interests’ owners) for repurchase by VTB in accordance with the terms of the shares repurchase offer. As a result the Group booked a reversal of the above accrual of liability in full.

In April 2010, VTB increased its ownership in "VTB Bank (Belarus)", CJSC from 69.70% to 71.42% by purchasing 4,826 ordinary shares from minorities for RUR 48.6 million.

In April 2010, the Group gained a 100% ownership share in “M”, CJSC by purchasing the remaining 50% share in "Ekvivalent", CJSC, the holding company of “M”, CJSC for USD 80 million (RUR 2.3 billion) through “Sistema-Hals”, OJSC subsidiary. In 2008 the Group invested USD 87.5 million in 50% of "Ekvivalent", CJSC. At acquisition date fair value of the financial asset amounted to RUR 2.3 billion.

The fair values of identifiable assets and liabilities of “M”, CJSC at the acquisition date were as follows:

	**Fair value**
Assets	
Investment property	8.1
Deferred tax asset	0.2
Other assets	0.7
Total assets	**9.0**
Liabilities	
Other borrowed funds	2.8
Deferred tax liability	1.3
Other liabilities	0.4
Total liabilities	**4.5**
Fair value of identifiable net assets of subsidiary	**4.5**
Goodwill arising from the acquisition:	
Consideration paid	2.3
Fair value of the acquirer’s previously held equity interest in the acquiree	2.3
Less: fair value of identifiable net assets of subsidiary	(4.5)
Goodwill arising from the acquisition	**0.1**

At acquisition date goodwill of RUR 0.1 billion allocated to “M”, CJSC was written-off through an impairment charge, due to uncertainty about future cash inflows and economic benefits from this business in the observable future.

40. Consolidated Subsidiaries, Associates and Joint Ventures (continued)

In April 2010, the Group obtained a 100% share in the Group of companies "Russian Elevator" by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the loans receivable from these borrowers. The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the acquisition date was as follows:

	Fair value
Assets	
Financial assets available-for-sale	0.1
Premises and equipment	0.6
Total assets	**0.7**
Liabilities	
Other liabilities related to non-banking activities	0.1
Total liabilities	**0.1**
Fair value of identifiable net assets of subsidiary	**0.6**
Goodwill arising from the acquisition:	
Loans receivable	0.6
Less: fair value of identifiable net assets of subsidiary	(0.6)
Goodwill arising from the acquisition	**–**

In May 2010, the Group purchased a 50% share in PL Kamelia, OJSC for USD 42.4 million (RUR 1.3 billion), thus obtaining a 100% ownership share in PL Kamelia, OJSC. Previously held 50% share in PL Kamelia, OJSC was received by the Group through acquisition of associates "Astanda", Ltd and "Sistema Saraya", Ltd as the holding entities for PL Kamelia, OJSC shares.

The fair values of identifiable assets and liabilities of PL Kamelia, OJSC at the acquisition date were:

	Fair value
Assets	
Premises and equipment	0.7
Total assets	**0.7**
Liabilities	
Other liabilities related to non-banking activities	–
Total liabilities	**–**
Fair value of identifiable net assets of subsidiary	**0.7**
Goodwill arising from the acquisition:	
Consideration paid	1.3
Fair value of the acquirer's previously held equity interest in the acquiree	0.4
Less: fair value of identifiable net assets of subsidiary	(0.7)
Goodwill arising from the acquisition	**1.0**

At acquisition date goodwill of RUR 1.0 billion allocated to PL Kamelia, OJSC was written-off through an impairment charge due to uncertainty about future cash inflows and economic benefits from this business in the observable future.

In June 2010, VTB increased its ownership in "VTB Bank (Georgia)", JSC from 87.38% to 90.74% by purchasing 100% of 38,008,734 newly issued ordinary shares for the nominal value of GEL 38 million (RUR 0.6 billion).

40. Consolidated Subsidiaries, Associates and Joint Ventures (continued)

In August 2010, VTB increased its ownership in "VTB Bank (Georgia)", JSC from 90.74% to 96.16% by purchasing from minorities 5.42% (7,730,073 ordinary shares) for USD 4.25 million (RUR 128.5 million).

In July 2010, "Bank VTB (Kazakhstan)", JSC issued 296,000 additional ordinary shares with nominal value of KZT 10,000 each for KZT 2,960 million (RUR 0.6 billion), which are fully purchased by the Group. The ownership share of 100% remained unchanged.

In September 2010, the Group obtained a 75% less 1 share ownership share in VTB Arena, CJSC, which owned 100% of Petrovsky Park Arena, CJSC and 75% less 1 share in Management Company "Dinamo", CJSC that owned 68.92% of Football Club "Dinamo", CJSC. The cash totaling RUR 18.0 billion was contributed to the equity of newly established entity VTB Arena. The fair values of consolidated identifiable assets of VTB Arena, CJSC at the acquisition date were determined by the independent appraiser. The fair values of identifiable liabilities of VTB Arena, CJSC were not materially different from nominal values immediately before the acquisition except for the fair value of financial liability represented by the loan obtained by Petrovsky Park Arena, CJSC from the Bank before the acquisition date.

The Group invested in VTB Arena with the purpose of effective developing the real estate project, that significantly strengthens a positive public image of the Group as a nation-wide brand.

For the purpose of determining goodwill from the acquisition the fair values of identifiable assets and liabilities of VTB Arena, CJSC at the acquisition date were as follows:

	Fair value
Assets	
Cash and short-term funds	15.5
Investment property	4.6
Premises and equipment	8.1
Intangible assets	2.2
Deferred tax asset	0.3
Other assets	3.8
Total assets	**34.5**
Liabilities	
Due to other banks	11.9
Deferred tax liability	0.4
Other liabilities	2.7
Total liabilities	**15.0**
Fair value of identifiable net assets of subsidiary	**19.5**
Goodwill arising from the acquisition:	
Consideration paid	18.0
Non-controlling interests (proportionate share of the acquiree's identifiable net assets)	5.8
Less: fair value of identifiable net assets of subsidiary	(19.5)
Goodwill arising from the acquisition	**4.3**

The goodwill represents the value of expected benefits from investing in the real estate project. As at 31 December 2010 goodwill was not impaired as the fair value of cash-generating unit to which this goodwill was allocated did not change from the acquisition date. The goodwill will not be deductible for tax purposes in future periods.

The Group does not disclose the revenue and net profit of the Group with VTB Arena for the year ended 31 December 2010 as if the acquisition had occurred on 1 January 2010 as VTB Arena is a newly established entity.

In October 2010, VTB Bank, PJSC (Ukraine) issued 24,870 million additional ordinary shares with nominal value of UAH 2,487 million (RUR 9.4 billion), 99.99% of which were purchased by the Group. As a result VTB's ownership share in VTB Bank, PJSC (Ukraine) increased from 99.96% to 99.97%.

In November 2010, VTB increased its ownership in "VTB Bank (Georgia)", JSC from 96.16% to 96.31% by purchasing additionally issued 5,491,266 ordinary shares with nominal value of GEL 1 each for GEL 5.5 million (RUR 95.1 million).

40. Consolidated Subsidiaries, Associates and Joint Ventures (continued)

In December 2010, VTB Arena acquired all of 11,227,930 additionally issued shares of Football Club “Dinamo”, CJSC for RUR 6.6 billion. As a result, the ownership share of VTB Arena in Football Club “Dinamo”, CJSC increased to 76.09%. This change in ownership interest resulted in recognition of RUR 1.5 billion reallocation of retained earnings attributable to non-controlling interests, which was accounted for within equity.

In December 2010, “Obyedinennaya Depositarnaya companya”, CJSC was renamed into "VTB Specialized Depository", CJSC.

At 31 December 2010 VTB acquired 43.18% interest in “TransCreditBank”, JSC. The Group obtained control over “TransCreditBank”, JSC based on the potential voting rights existence on the same date. The Group considered the potential voting rights not giving current access to economic benefits, thus fully consolidating “TransCreditBank”, JSC based on the present ownership interest of 43.18% with 56.82% non-controlling interest.

For the purpose of determining goodwill from the acquisition the fair values of identifiable assets and liabilities of “TransCreditBank”, JSC at the acquisition date were as follows:

	Fair value
Assets	
Cash and short-term funds	34.9
Mandatory cash balances with central banks	1.9
Financial assets at fair value through profit or loss	62.6
Financial assets pledged under repurchase agreements and loaned financial assets	0.4
Due from other banks	64.8
Loans and advances to customers	203.6
Financial assets available-for-sale	6.0
Investment securities held-to-maturity	2.4
Premises and equipment	6.0
Investment property	3.0
Intangible assets	5.3
Deferred tax asset	0.2
Other assets	4.8
Total assets	**395.9**
Liabilities	
Due to other banks	16.1
Customer deposits	276.9
Other borrowed funds	9.8
Debt securities issued	40.7
Deferred tax liability	1.1
Subordinated debt	17.3
Other liabilities	3.6
Total liabilities	**365.5**
Fair value of identifiable net assets of subsidiary	**30.4**
Goodwill arising from the acquisition:	
Consideration paid	20.7
Non-controlling interests (proportionate share of the acquiree’s identifiable net assets)	17.4
Less: fair value of identifiable net assets of subsidiary	(30.4)
Goodwill arising from the acquisition	**7.7**

The gross contractual amounts of loans and advances to customers of “TransCreditBank”, JSC at the acquisition date amounted to RUR 214.4 billion. The estimate of the contractual cash flows not expected to be collected amounted to RUR 11.9 billion.

The Group acquired “TransCreditBank”, JSC implementing its strategy of further increasing its retail and corporate market share and improving profitability through economies of scale.

The goodwill is primarily attributable to the profitability of the acquired business, potential synergies and combined cost savings. The goodwill will not be deductible for tax purposes in future periods.

40. Consolidated Subsidiaries, Associates and Joint Ventures (continued)

The Group considers that it is impracticable to disclose the revenue and net profit of the Group with "TransCreditBank", JSC for the year ended 31 December 2010 as if the acquisition had occurred on 1 January 2010 due to uncertainties associated with factors effecting the income statement including impact of intragroup transactions that might have happened between the Group's members and "TransCreditBank", JSC.

Within the program of integration of business of Bank VTB North-West into the Group, the Supervisory Council and the shareholders approved a legal merger of VTB and Bank VTB North-West (Note 42).

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 CBR 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 at 31 December 2010 and 2009, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum and was as follows:

	31 December 2010	***31 December 2009***
Capital	529.7	565.2
Risk-weighted assets	2,347.7	2,371.6
Capital adequacy ratio	22.6%	23.8%

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 100.0 billion each, to a related third party (state owned institution), which was classified as Tier 2 capital upon the regulator's approval and included in upper Tier 2 capital for the purposes of calculation of capital adequacy in accordance with CBR regulations.

Capital adequacy ratio under the Basel Capital Accord 1988

The Group is also subject to minimum capital requirements established by covenants under liabilities incurred by the Bank. The Group's international risk based capital adequacy ratio, computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, and modified as stated below, as at 31 December 2010 and 2009 was 16.8% and 20.9% respectively. For the purposes of this calculation, the two subordinated debts issued by the Bank in November 2008, in the amount of RUR 100.0 billion each (see previous paragraph), were included in the full amount as disclosed in Note 23 in upper Tier 2 capital on the basis of the regulator's approval and the appropriate regulations set out by the CBR. These ratios exceeded the minimum ratio of 8% recommended by the Basel Accord.

The Group's capital adequacy ratio, computed on this basis in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2010 and 2009 was as follows:

	31 December 2010	***31 December 2009***
Tier 1 capital	546.9	485.2
Tier 2 capital	214.8	207.1
Less: deductions from total capital	(21.7)	(4.9)
Total capital	**740.0**	**687.4**
Risk weighted assets	4,413.2	3,291.3
Tier 1 capital ratio	12.4%	14.7%
Capital adequacy ratio	16.8%	20.9%

42. Subsequent Events

In February 2011, the Russian Federation state, acting through the Federal Property Agency, has reduced its share from 85.5% to 75.5% of VTB's issued and outstanding shares at 31 December 2010 as a result of offering in the form of shares and global depositary receipts.

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

In February 2011, VTB purchased 46.48% of "The Bank of Moscow", OJSC and 25% plus 1 share of "Metropolitan Insurance Group", OJSC.

In February 2011, the Group entered into the agreement to sell shares of "Eurofinance Mosnarbank", OJSC, effectively decreasing the Group's ownership in "Eurofinance Mosnarbank", OJSC associate to 25% plus 0.5 share. "Eurofinance Mosnarbank", OJSC was renamed to "Russian-Venezuelan Bank".

In February 2011, VTB partially redeemed Series 9 Eurobonds in the amount of EUR 195.4 million (RUR 7.8 billion) under investor put option.

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

In February 2011, the Group's subsidiary was ordered by the local court to conclude agreements with a third party that might result in potential loss of UAH 150 million (RUR 0.6 billion) to the Group. The Group's subsidiary appealed against the court ruling.

In February 2011, tax authorities imposed a fine of UAH 458 million (RUR 1.8 billion) in relation to the tax loss carried forward of a Group's subsidiary that was not allowed by the above tax authorities. The management of the Group's subsidiary believes that the tax losses under dispute are recognized in accordance with the tax law and appealed the tax authorities' decision.

In February 2011, VTB 24 redeemed domestic bonds in the amount of RUR 10.0 billion under investor put option.

On 28 March 2011, VTB North-West ceased its operations as a subsidiary of VTB following the legal merger of VTB and VTB North-West. As a result of the legal merger the Group recognized the carrying value of the net assets of VTB North-West at the legal merger date and recognized in the income statement the difference between the carrying value of the net assets of VTB North-West and carrying value of VTB's investment in VTB North-West. As the initial accounting was not completed before the financial statements were authorized for issue the carrying value of the net assets of VTB North-West at the legal merger date and other relevant information would be disclosed in the interim consolidated financial statements of the Group at 31 March 2011.

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