JSC VTB Bank
ANNUAL REPORT 2012

Content

The Annual Report is based on the data as of 31 March 2013 available to JSC VTB Bank and its subsidiaries at the time the report was written.

Our Mission

To provide world-class financial products and services that help to create a prosperous and sustainable future for our customers, stakeholders and society.

Our Values

Trust. Gaining and retaining the trust of our customers is VTB Group's most important value.

Reliability. VTB Group's long-term strength is reinforced by leading positions in the financial markets where we operate and our ability to provide local expertise on a global scale.

Transparency. Our business is open and transparent, and all of our key stakeholders cooperate closely in order to deliver maximum value and visibility.

Versatility. Our wealth of expertise across a broad range of financial products and services ensures that we offer all of our customers the most comprehensive, flexible and sophisticated solutions that suit their individual needs.

Team. Our dedicated team of professionals benefits from the synergy of knowledge afforded by our diverse line of businesses, and our Group's spirit is enhanced by the energy, creative insight and potential of each member of our team.

Our Identity

VTB Group is the leading Russian financial institution with a strong presence in key international markets.

Our Vision

VTB Group aims to replicate its successes in the domestic market on a global scale, becoming a premier player in all of our priority markets.

Statement of the Chairman of the Supervisory Council

Dear Shareholders, Clients and Partners,

I am pleased to summarise the results of another successful year for VTB Group. We managed to complete most of the tasks we set, which had a positive impact on the Group's results, and according to all key indicators, helped VTB to strengthen its leading position in the Russian banking market.

2012 was a year of mixed results in terms of macroeconomic conditions and the situation in the banking sector. The Russian economy showed good momentum at the beginning of the year, but by the second quarter it became clear that economic growth was starting to slow down. The banking market nevertheless continued to grow strongly in the reporting period albeit at a slightly slower pace than in 2011. The slowdown of the Russian economy has had a moderate impact on corporate lending growth, while the retail banking segment retained the momentum it had gathered in 2011 and grew at a consistently fast pace throughout the year. All of these factors had an impact on VTB Group's business, with any negative factors being mitigated by our ability to capitalise on positive trends.

VTB Group achieved good results during the reporting period following the sustainable growth of our core business lines. In 2012, VTB Group's net profit amounted to RUB 90.6 billion, while ROE was 13.7% and its earnings per share came to 0.82 Russian kopecks.

Implementation of our Strategy

One of our key strategic objectives for 2013 is to accelerate the development of the Group's high-margin business segments, and a very important step was taken in this direction during the reporting year. In October 2012, the Group launched a new retail bank, Leto Bank, which specialises in cash and point-of sale lending in its branches and in the sales outlets of its partners. The bank is focused on the high-margin mass retail segment and its launch aims to strengthen the Group's position in retail banking. We will see the results of the new bank's launch in 2013.

We continued to work meticulously on the integration of the Bank of Moscow and TransCreditBank into VTB Group during 2012. The Group has made considerable efforts to improve the Bank of Moscow's manageability and the efficiency of its business processes. In addition, we are now in the final stage of merging TransCreditBank with VTB24, which will be completed by the end of 2013. Our corporate business will migrate to VTB and the Bank of Moscow, while our retail business will operate under VTB24's management.

The Supervisory Council will approve a new development strategy for VTB Group in 2013 to ensure that efficient and profitable growth is maintained for the benefit of all shareholders.

Share Buyback

In March 2012, VTB announced a buyback programme. We have taken this step to preserve the interest of individual shareholders, who do not always understand the operating process relating to our shares and who therefore bare significant losses as they are unable to manage their shareholdings. Our individual shareholders repeatedly raised this issue at annual general meetings and in their letters to the Bank's management. Our buyback programme was focused on purchasing shares from the most loyal individual shareholders who participated in our IPO in 2007 and remained VTB shareholders in 2012.

The price offered for shares owned by retail investors during the buyback was equal to the value of the shares at the time of the IPO (RUB 0.136/ share). Within a month, nearly 75,000 minority shareholders applied to participate in the offer to redeem their shares at a price which was more than double the current market price of VTB shares. We received applications for a total of approximately RUB 11.5 billion in shares.

The Bank's share capital structure changed as a result of the buyback programme. Individual investors' share in the Bank's capital decreased from 3% to 2.3%. This reduction has not in any way changed how VTB interacts with its existing shareholders. On the contrary, we are in regular dialogue with shareholders to increase their awareness of and trust in the Bank. In addition, we do not intend to change our dividend policy. This matter remains a focus of our attention, and the Bank will be making every effort to further increase its dividend payout.

Developing Corporate Governance

In 2012, we continued to gradually develop VTB's corporate governance system in line with global best practices and regulatory requirements. We increased the number of independent directors in the Supervisory Council and included three of them in the Staff and Remuneration Committee. Furthermore, the scope of the Supervisory Council's work was extended during the reporting period with members receiving additional powers in areas relating to risk management, internal control and decisions about the Bank's participation in its subsidiary operations.

Further steps have been taken to increase transparency and improve VTB's disclosure practices. We created a separate section on VTB Bank's corporate website, which covers the Supervisory Council's activities and includes information on the agenda of each Supervisory Council meeting and the decisions taken.

In 2012, the Supervisory Council examined the Bank's corporate governance system in detail and an assessment procedure was developed based on the Bank of Russia's recommendations and the Corporate Code of Conduct of the Federal Service for Financial Markets. The study also included a self-assessment of the Supervisory Council based on a survey of its members. As a result, a number of actions were proposed to further improve the Group's corporate governance.

Actions undertaken by the Bank in this respect resulted in its corporate governance rating being upgraded to "7+". Upon receipt of this rating, VTB currently has the highest score of all Russian banks that have ever been assessed on the national corporate governance scale.

Privatisation

The priority for 2013 will be the further privatisation of VTB, the first phase of which was implemented in 2011 when the Russian government sold 10% of VTB Bank's share capital on the open market. A second phase of the privatisation process is under consideration, which would see additional shares being issued, enabling VTB Group to increase its share capital. I am confident that VTB's strong business growth and improvements in our main financial indicators will lead to a successful new share offering.

Chairman of the Supervisory Council of JSC VTB Bank
Sergey K. Dubinin

Statement of the President and Chairman of the Management Board

Dear Shareholders, Clients and Partners,

2012 was another important year in the development of VTB Group. Despite the challenges faced during the year, we still achieved success. The Group reported outstanding financial results, earning more than RUB 90 billion of net profit for the second consecutive year and we intend to recommend the Annual General Meeting of shareholders to increase our dividend payments.

Our results for 2012 reflect the sustainable development of our core businesses, and I would like to highlight the special contribution made by our retail banking business, which started operating in full force as a single business line in 2012 with an integrated product range. In the reporting period, we also focused on the sale of high-margin products and in line with our strategy we launched a new project, Leto Bank, to provide customers with more affordable banking services. Leto Bank will focus on developing cash loans and point-of-sale loans. All these steps have led to a substantial rise in the profitability level of our retail loan portfolio while its volume increased by nearly 36% in 2012.

We continued to work on enhancing our product line and further increasing efficiency in the corporate and investment banking segment. With economic activity in Russia slowing down, we focused more on our pricing rather than on growing our loan portfolio. During the reporting year, the corporate loan portfolio grew by 5.3%, while its yield increased steadily over the last three quarters of 2012. We have a stable position in the corporate lending market, which we intend to maintain and strengthen further.

Our investment banking division, represented by VTB Capital, maintained its leading position in Russia and the CIS in 2012. During the reporting year, VTB Capital held leading positions in the global rankings of top international agencies such as Dealogic, Bloomberg and Thomson Reuters. In 2012, our investment banking division opened an office in New York, and started operations in new geographies, including South Africa, Turkey, Poland, the Czech Republic, Hungary and Israel. In 2013, it will be five years since we launched this ambitious project and we can now confidentially claim that Russia has a world-class national investment bank.

In 2012, we actively developed our transaction banking business. During the year, VTB Group's net non-interest income increased by 23% and amounted to RUB 48.3 billion as a result of strong growth of the commission business in the corporate and investment banking (CIB) and retail segments. In 2012, the Group's global transaction banking business developed customised cash management solutions for 165 large corporate groups, generating over RUB 1.5 billion of additional fee income. Significant growth in non-interest income facilitated the Group's increased penetration of remote customer service channels, including the internet and mobile banking, as well as the rapid development of VTB's banking card business. The Group intends to continue focusing on expanding its commission-based product line and growing its customer base in this segment.

In 2012, we put a lot of effort into effectively integrating the Bank of Moscow and TransCreditBank. We worked intensively on unifying the Bank of Moscow's business processes and bringing them in line with the Group's standards. Furthermore, reducing bad debts and improving the quality of the loan portfolio as a whole continued to form part of our key priorities. At the end of the year, 70% of the Bank of Moscow's loan portfolio consisted of new high quality loans following its merger with the Group. During the integration of TransCreditBank, a number of potential synergies will be realised, leading to cost reduction and business development opportunities, primarily in the retail segment. We intend to complete the integration of TransCreditBank by the end of 2013. The bank's brand will cease to exist and its retail unit will be merged with VTB24's, while its corporate unit will become part of the Bank of Moscow and VTB.

We were able to control the level of our capital adequacy throughout the year. In August 2012, VTB was the first Russian issuer to place perpetual Eurobonds for USD 1 billion in overseas markets. This Eurobond issue was particularly interesting for us as it meets the requirements of Tier 1 capital in accordance with the Basel I and II standards. In addition, it accommodates anticipated changes to the Russian regulatory system in light of the transition to Basel III. The issue was oversubscribed, and so, in November, we placed an additional issue of USD 1.25 billion of perpetual Eurobonds. This capital raising also enabled us to replenish Tier 1 capital. Our total and Tier 1 capital adequacy ratios (CAR) as of 31 December 2012 reached 14.6% and 10.3%, respectively, compared to 13.0% and 9.0% as of 31 December 2011. Going forward, we will continue to strengthen our capital ratios to support the Group's continued growth.

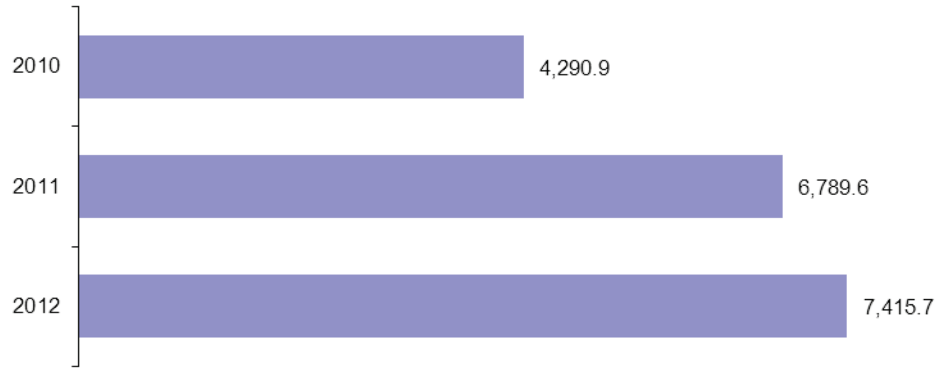
Repurchasing shares from individual investors who acquired shares during our IPO was the most important event in 2012. We received applications from nearly 75,000 shareholders representing shares worth approximately RUB 11.5 billion and all applications were paid in full. As a result of the share buyback programme, the number of minority shareholders decreased to 106,000. We are grateful to all our shareholders for their loyalty and we intend to make every effort to ensure that an acceptable level of return on their investment is achieved.

2013 now presents new challenges. The slowdown in global and Russian economic growth and the continued instability in the financial markets force us to shift our focus from expanding the business to improving its profitability, efficiency and quality of risk management. In addition, in 2013, we will have to draw a line under our current three-year strategy and present our vision of VTB Group's medium-term development to the Supervisory Council and shareholders. I am confident that we will find the right direction for our new strategy.

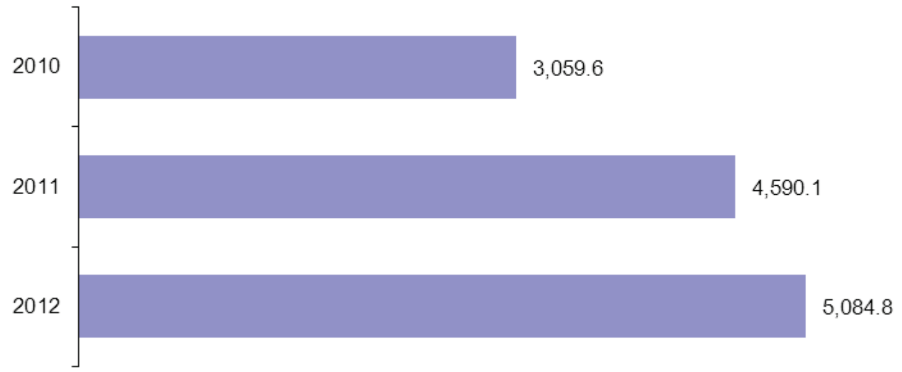
VTB Bank President and Chairman of the Management Board
Andrey L. Kostin

1. Financial Highlights

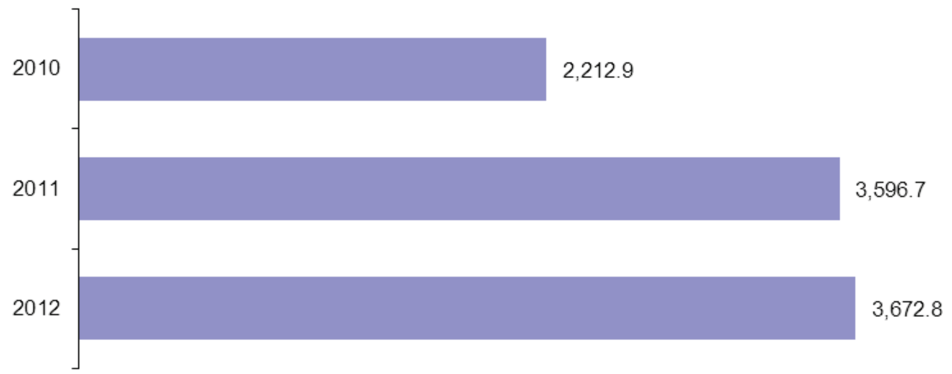
Total assets, RUB billion



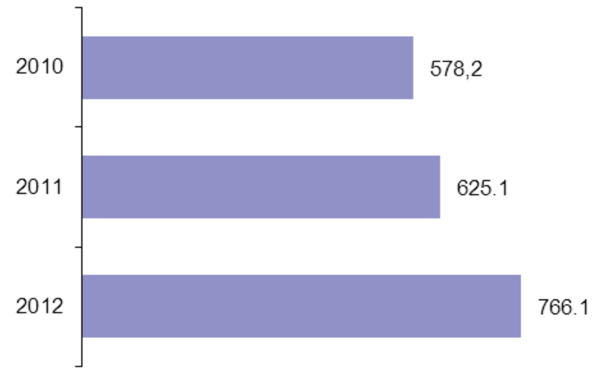
Loan portfolio, RUB billion



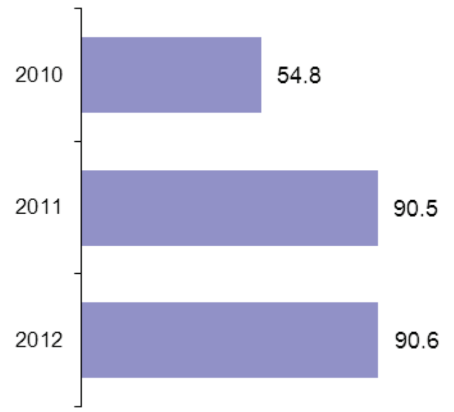
Customer deposits, RUB billion



Total shareholders’ equity, RUB billion



Net profit, RUB billion



Selected indicators, %

	2010[1]	2011	2012
Net interest margin	5.1	5.0	4.2
Cost to operating income before provision	43.0	49.4	51.9
Return on assets (ROA)	1.5	1.7	1.3
Return on equity (ROE)	10.3	15.0	13.7

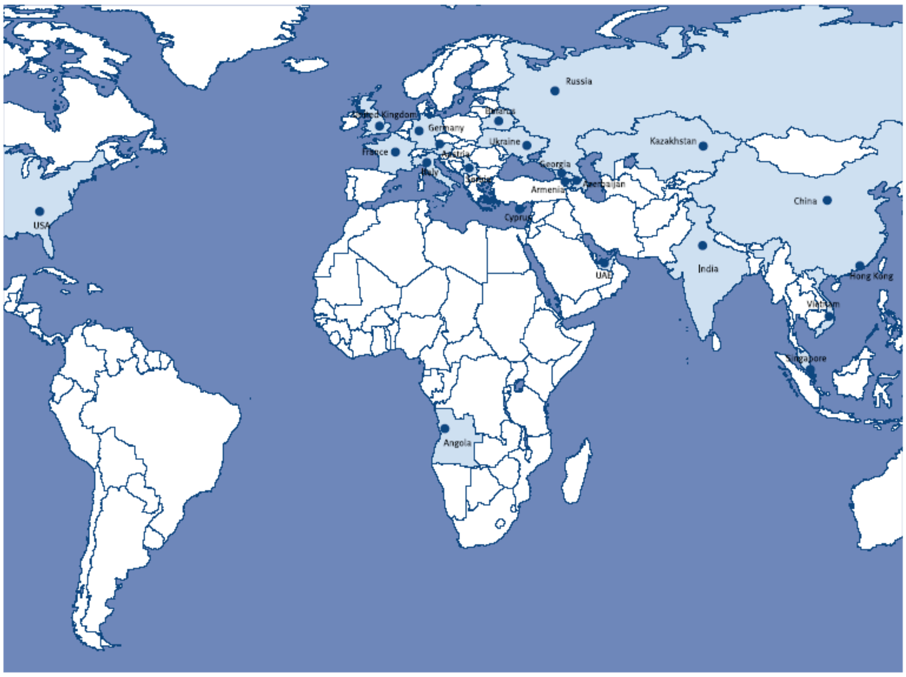
[1] Calculated excluding the effect of TCB consolidation.

2. VTB's Market Position

VTB Group comprises VTB Bank and its credit and financial subsidiaries, in which it holds more than 50% of voting shares. VTB's credit subsidiaries carry out banking operations, while its financial subsidiaries provide stock market services, insurance and other types of financial services. VTB asset management companies for pension funds and unit funds, leasing companies and other types of subsidiaries operate in financial services markets.

VTB Group possesses a unique international network among Russian banks that is made up of over 30 banks and financial companies across more than 20 countries worldwide. VTB offers its customers a wide range of comprehensive financial services in the CIS, Western Europe, Asia and Africa. VTB Group is the second-largest bank in Russia in terms of all major indicators.

VTB Group's international presence



VTB Group in the Russian banking market

	2012		2011		2010	
Segments	**Market share, %**	**Rank**	**Market share, %**	**Rank**	**Market share, %**	**Rank**
Corporate loans	17.5%	2	18.7%	2	12.2%	2
Corporate accounts and deposits	18.4%	2	21.1%	1	15.0%	2
Retail loans	13.3%	2	13.7%	2	12.1%	2
Retail accounts and deposits	8.7%	2	9.0%	2	7.2%	2

Source: Market share calculations are based on VTB's internal methodology and on the Bank of Russia and Rosstat data

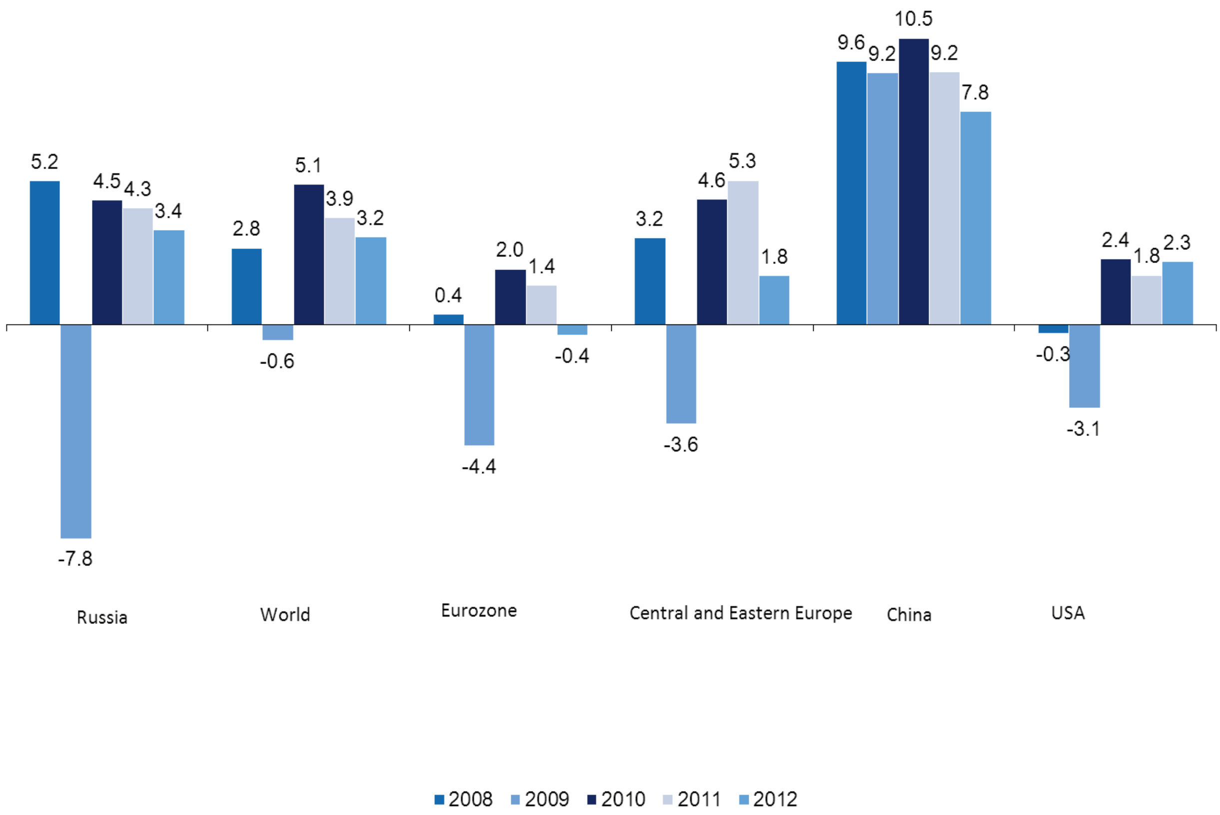
3. The Economy and Banking Sector

The Russian economy in 2012

At the beginning of 2012, the Russian economy demonstrated positive growth, with GDP growing 4.9% year-on-year in the first quarter of 2012. However, by the second quarter it became clear that the economy reached its growth potential, with the positive effect of temporary factors (fiscal influence and the dynamics of bank lending) starting to weaken. Problems in the global economy, which caused oil prices to fall to less than USD 90 per barrel in June, also had a negative impact on Russian economic growth.

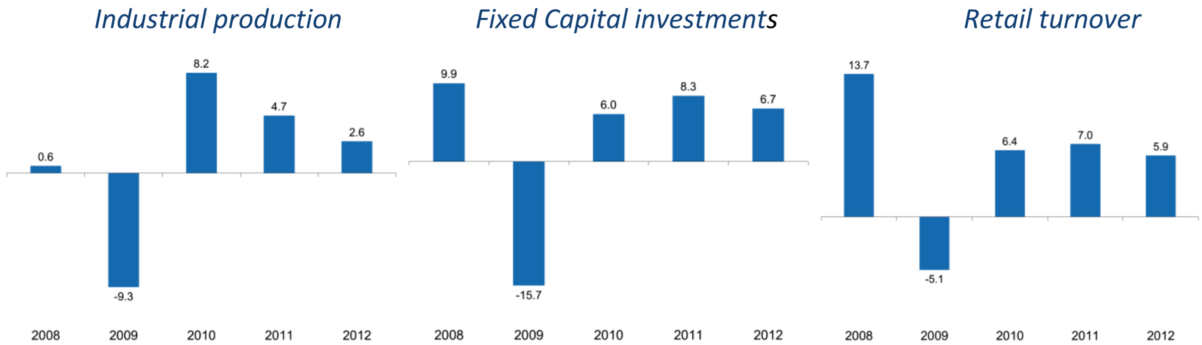
Nevertheless, the Russian economy grew by 3.4% in real terms in 2012. In the reporting period, GDP totalled RUB 62.4 trillion, or approximately USD 2 trillion. Domestic consumption and fixed capital investments were the main sources of growth in the Russian economy in 2012. In the reporting period, retail turnover grew by 5.9% in real terms, with investments and industrial productions growing by 6.7% and 2.6% respectively.

Real growth of Russian GDP compared to other countries, % year-on-year



Source: IMF World Economic Outlook Database and Federal State Statistics Services (Rosstat) for the Russian data

Russian macroeconomic indicators, % year-on-year



Source: Federal State Statistics Services (Rosstat)

Inflation reached 6.6% in 2012, exceeding the maximum forecasted rate of 6% set by the Bank of Russia. Nevertheless, there was a slowdown in price increases in the fourth quarter, especially in goods and services, which formed part of the base inflation rate calculation. This calculation excluded volatile elements such as food, fuel and regulated tariffs.

In September 2012, the Bank of Russia raised the base rate to 8.25%, 25 basis points higher than in December 2011. The main reason for making this decision was to curb inflation expectations and to build trust in the regulator's actions with regard to introducing inflation targeting from 2015.

In the reporting period, the Bank of Russia continued to move towards a floating exchange rate. In particular, the dual-currency basket target range was widened from RUB 6 to RUB 7. The RUB/USD exchange rate was 30.37 at the end of the reporting period, which represented a 5.7% increase compared to the end of 2011. The RUB/USD exchange rate fluctuated significantly during 2012, reaching a high of 28.95 on 28 March, and a low of 34.04 on 5 June. In the reporting period, the rouble exchange rate strengthened by 2.4% in real terms.

A record current account surplus enabled the rouble to strengthen in the first half of 2012. However, the rouble started to weaken from the end of the second quarter because of falling export prices, a drop in external demand, and also because of investors moving away from risky assets. The rouble strengthened again towards the end of the reporting period, as a result of strong oil prices and inflows to the Russian Federal loan bonds market in anticipation of its liberalisation.

Russian lenders were some of the most active in the world in 2012. They managed to attract nearly USD 44 million. Russian banks had a nearly 55% share of the new transactions, with sovereign and corporate bonds having a 15% and 30% share respectively.

In 2012, Russian sovereign bonds outperformed their Latin American counterparts. In particular, the spread between the Russian and Brazilian/Mexican curves narrowed from approximately 100 basis points to 20-30 basis points, which is drawing closer to the average trading levels of previous years. In 2012, Russian bonds traded at similar levels to Eastern European bonds, such as Polish bonds.

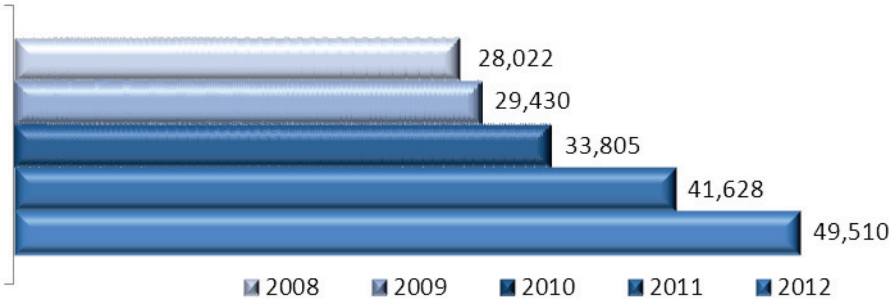
Overall, according to the Bank of Russia, Russia's gross foreign debt increased by USD 83.4 billion to USD 624 billion. Banking sector debt rose by USD 45.6 billion to USD 208.4 billion, while corporate borrowers increased their foreign debt by USD 24.5 billion to USD 356.1 billion.

The Russian banking sector

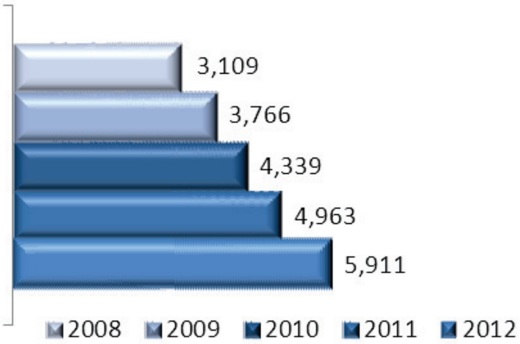
The Russian banking sector continued to develop strongly in 2012. The Russian banking sector's assets increased by 19% year-on-year, which is a slightly weaker figure than the 23% increase that was reported in 2011. At the same time, the penetration of the banking sector, which is defined as the ratio between the banks' total assets and GDP, rose from 75% in 2011 to 79% in 2012.

Banking system indicators (in RUB, billion)

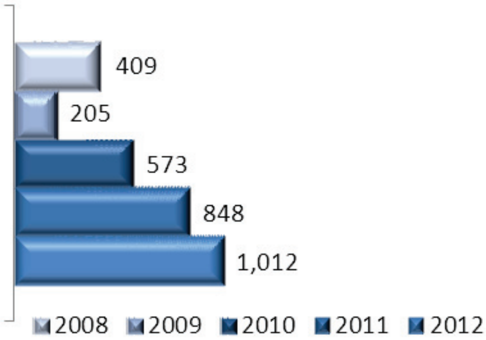
Assets



Equity



Net profit



The penetration of the lending sector relative to GDP also increased to 44% in the reporting year, compared to 43% in 2011. This is in spite of the fact that the credit portfolio only grew by 19% in 2012, compared to 28% growth in 2011. The main driver for the slowing growth of the credit portfolio was that the corporate loan portfolio only saw a 13% year-on-year increase in the reporting period compared to a 26% increase in 2011. This was due to slowdown in national economic growth in the second half of 2012 and high interest rates on loans. Nevertheless, growth in the retail portfolio reached 39% year-on-year (compared to 36% in 2011) as a result of an increase in consumption.

In 2012, asset quality significantly improved in the retail business (particularly as a result of strong growth in the credit portfolio). The proportion of non-performing loans reduced to 4.1% at the end of the reporting period compared to 5.2% at the end of 2011. In the corporate sector, the number of non-performing loans remained unchanged at 4.6%. The improvement in asset quality allowed banks to reduce their allowances for loan loss provisions in the first half of 2012, as well as to restore a proportion of reserves. This in turn resulted in a lower proportion of reserves in the total portfolio – 7.6% in December 2012 compared to 8.5% in the previous year. At the same time, the credit risk coverage ratio amounted to 169% at the end of 2012, which was a comfortable level for the banking system.

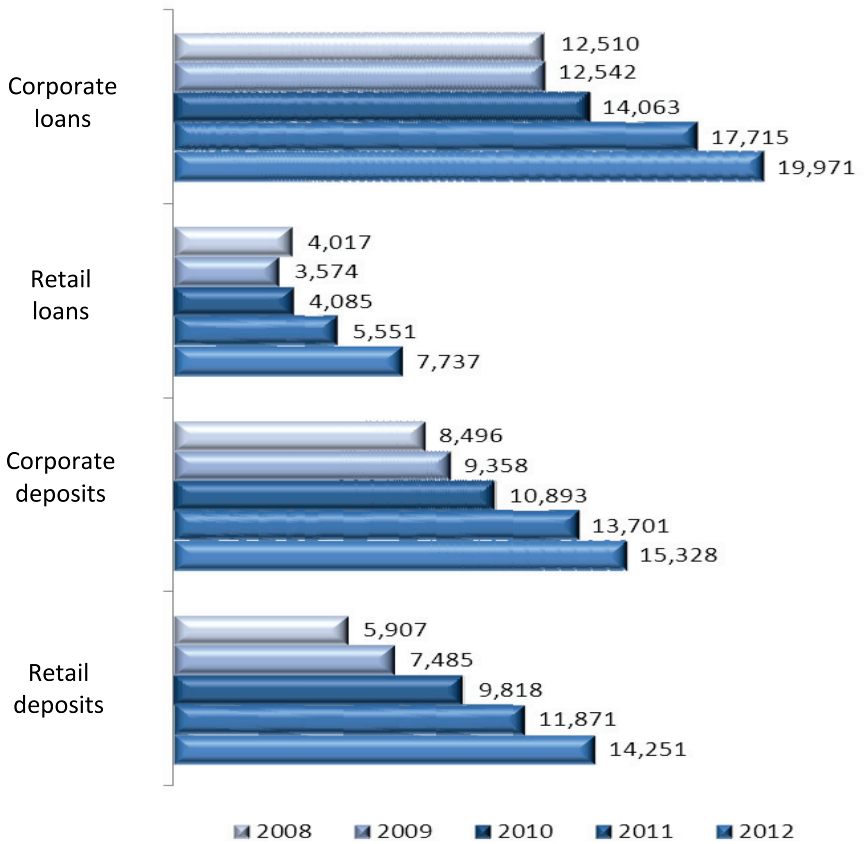
The sector's total profit reached a record level of RUB 1,012 billion, compared to RUB 848 billion in 2011. In addition, there was a negligible increase in the number of unprofitable banks in the sector to 55, compared to 50 in 2011.
Growth in deposits slowed significantly in 2012 to 16% compared to 24% in 2011. The increase in retail banking deposits was negligible (20% year-on-year compared to 21% in 2011). However, growth in corporate banking deposits reduced to 12% compared to 26% the previous year. Also, the proportion of customer funds in gross liabilities reduced to 68% compared to 70% at the end of 2011.

Despite the strong growth in deposits, the even greater increase in loans resulted in a higher loan to deposit ratio of 87% in 2012, compared to 83% in 2011. This increase creates a strong foundation for further potential growth in the lending segment. A total capital adequacy ratio of 13.7% at the end of 2012 is evidence that the banking sector is able to mitigate negative factors.

In 2012 state banks maintained their leading position. The four largest state-owned banks – Sberbank, VTB Group, Gazprombank and Russian Agricultural Bank – accounted for 51.6% of all banking assets in the country as at the end of 2012, compared to 51% in the previous year. Against this background, and also due to growing pressure from the developing banking crisis in Europe, some subsidiaries of foreign financial institutions were forced to reduce the scale of their operations.

The concentration of assets in the Russian banking sector increased in the reporting year. At the end of December 2012, the 30 largest banks held 74.6% of assets compared to 74.5% in 2011. Additionally, the share of the five largest banks in the sector (including VTB Group) increased to 54.2%, compared to 53.2% a year earlier.

Russian banking sector loan portfolio and customer deposits (in RUB, billion)



4. Management Report

4.1. Key events in 2012

March-April	• VTB Group, through its subsidiary, VTB Pension Administrator, purchased JSC VTB Bank shares from the Bank's shareholders, who acquired the Bank's shares during its initial public offering in May 2007 and were the Bank's shareholders as of 1 February 2012	**74,302 shareholders participated in the share buyback programme with VTB Pension Administrator**
April	• VTB Capital opened an office in New York, which allowed VTB Group to develop its investment business in the American market	**VTB capital has had a licence for carrying out broker dealer activities in the USA since autumn 2011**
August	• In August 2012, VTB successfully issued a USD 1 billion Tier 1 Perpetual bond, which provided the Group with a cost effective, non-dilutive means of raising capital.	**VTB successfully tapped this bond issue for USD 1.25 billion in November 2012**
September	• VTB's Presdient and Chairman Andrey Kostin chaired the APEC CEO Summit 2012	**Over 750 business elite representatives from the Asia-Pacific region participated in this event in 2012**
October	• VTB launched Leto Bank, a new strategic project oriented on the mass and lower-mass retail segments of the banking market, which specialises in offering cash and POS-loans	**In 2012, 43 offices were opened; more than 12,000 customers used the new bank's services**
October	• VTB Bank increased its stake in OJSC TransCreditBank (TCB) to 99.6% from 77.8% by purchasing shares from Russian Railways (OJSC RZhD).	**In accordance with the integration plan, TCB will be fully integrated into VTB24 in Q4 2013.**

4.2 VTB Group Strategy

The Group's overall strategic goal is to leverage its existing scale in corporate, retail and investment banking services in the Russian Federation to focus on profitable growth and a consistent return on capital. According to this strategy, approved by the Supervisory Council for the period 2010-2013, the key targets of the Group are to achieve:

- Qualitative changes in profit structure and more resilient financial results of the Group;
- Steady growth in net profit between 2010 and 2013.

To achieve these targets, the Group seeks to:

- Strengthen its position in the Russian corporate banking sector;
- Continue dynamic development of the retail business;
- Broaden its range of investment banking products and services;
- Develop non-banking financial businesses;
- Increase the efficiency of the Group's international network;
- Further increase the Group's operating efficiency;
- Centralise and upgrade the Group's IT systems.

Strategic objectives and the results of the implementation of strategy in 2012

Large-scale transformations to improve the operational efficiency and to increase the proportion of commission income

- Development of integrated corporate and investment banking business.
- Active development of transaction banking – the business strategy has been approved; new cash management products, packaged offerings and a system of remote banking services have been launched.
- Optimisation of the key business processes:
  - Simplification of lending procedures for large and medium sized corporate clients to reduce the length of time it takes to process credit decisions and improve overall efficiency.
  - Launch of a new financial system of revenue, cost and capital allocation to facilitate transparency of financial results by clients, key business lines and products.
  - Implementation of universal methods for evaluating and estimating large and medium corporate client credit risks based on best practices.
- Reform of the regional network – transformation of branches into operational offices and centralisation of back-office functions.
- Strengthen functional coordination within the Group through the distribution of VTB's assets among global business-lines.
- Centralisation of responsibility and integration of management of key support and control functions, including risk management, finance, IT and operations.

Efficient integration of assets

- Implementation of projects aimed at improving the manageability of the Bank of Moscow and the efficiency of its business processes, as well as the reduction of bad debts.

- The final stage of the integration of TCB, which will be completed before the end of 2013, through a merger with VTB24. Corporate business will be migrated to VTB and Bank of Moscow, while the retail will be under VTB24 management.

Increase in the proportion of higher-margin business

- Opening of a new bank, Leto Bank, in the VTB retail segment, which is oriented on the high-marginal mass retail segment and aimed at strengthening the Group's positions in retail banking.

In 2013, VTB plans to develop and approve a new development strategy to ensure further efficient and profitable growth, which will be beneficial for its shareholders.

4.3. REVIEW OF OPERATING PERFORMANCE

4.3.1. Corporate and Investment Banking

Servicing corporate clients in the key areas is carried out through VTB Group's global business line, Corporate and Investment Banking (CIB). The CIB comprises three product units – investment banking, lending and transaction banking - and three customer service units, focused on large corporate clients in the state and defence sectors, large corporate clients from market-based sectors (companies, whose total annual revenue exceeds RUB 10 billion) and medium-sized businesses. Responsibility for all global product segments is assumed by all the key territories of VTB Group's presence, including Russia, the CIS countries, Europe, Asia and Africa.

VTB Group's investment banking business offers its corporate customers a full range of investment banking products, including carrying out commercial transactions, organising debt and equity issuance, financial consulting in relation to capital markets and M&A transactions, development of direct investment business, asset management and others.

The credit services unit provides various types of loan products. The structure of the unit is designed to take into account the particular requirements of servicing clients from various industries and business segments, with the objective of improving methods of credit analysis and the quality of the Group's loan portfolio.

The product line of the transaction banking unit includes settlement and cash services, control of foreign exchange transactions, products to attract funds, centralised settlements and liquidity management, and trade finance services.

Having the product and customer service units working jointly together enables the Group's to implement an integrated approach to servicing large corporate customers by using VTB's platform, and to also take advantage of synergies, which arise from the combined product and service offerings in key business areas, and from more targeted services tailored to the specific needs of clients.

Investment banking

Investment services within VTB Group's corporate and investment banking business are primarily provided by VTB Capital. During the reporting period, the development of VTB Group's investment business was carried out mainly by expanding its network geographically, as well as by introducing new services, and upgrading the investment product line, which is offered to both Russian and international companies.

Trade operations in the global markets

VTB Group offers a full spectrum of trade operations in the debt and equity markets, currency exchange transactions, operations in the global commodities markets, currency and interest rate risk management services, including hedging services, as well as structured finance, structured deposits and notes, and other structured credit and hybrid products. In 2012, the Group retained its leading positions in various segments of the investment banking services market.

The equity capital markets of South Africa, Poland, the Czech Republic, Hungary, Israel and the Middle East countries have been accessible to VTB's clients since 2012. Today, VTB Capital is a member of the London Stock Exchange (LSE), the Frankfurt Stock Exchange (Xetra) and the Warsaw Stock Exchange (WSE). The Bank also has access to a number of other foreign markets through its wide network of local brokers. Furthermore, during the reporting period, VTB Capital became a market maker of the Turquoise trading platform (London), Eurex Exchange (France), as well as a market-maker of the MICEX-RTS Stock Exchange's Derivatives Market (FORTS). VTB Capital is also a market maker on a number of shares on the Main Market of the MICEX-RTS Stock Exchange.

For the third year in a row, VTB Capital was one of the leading three banks by trading volume for repurchase agreements on the MICEX-RTS Stock Exchange. In the reporting period, the geography of OTC repo transactions was expanded. This service is now available to clients of the Group's Russian companies (CJSC VTB Capital, OJSC VTB Bank) and also to the clients of VTB Austria, VTB Deutschland, VTB France and Russian Commercial Bank (RCB) Cyprus.

In 2012, VTB Capital launched a service for direct access to the DMA market for institutional clients for the first time. To facilitate this, the Bank acquired Mos-broker LLC (the Bank of Moscow's brokerage firm), which was renamed VTB Capital Broker. The company offers a wide range of services on the FORTS market of the MICEX-RTS Exchange, as well as on the debt and equity over-the-counter (OTC) markets. In 2013, the Group plans to increase the geographical offering of DMA services for its clients, by including new markets.

During the reporting period, VTB Group secured its position as one of the leading traders in the government and corporate bonds market on the Moscow Exchange and on over-the-counter markets, remaining the leading trader on the Russian fixed-income instruments market. In 2012, the Group conducted a significant volume of trade and investment operations with government securities, including bonds issued by the Russian Ministry of Finance and Russian Federation sovereign Eurobonds. According to the Emerging Markets Trade Association (EMTA), VTB Group's share of trades in the bond market exceeded 10% for both rouble-denominated bonds and Eurobonds in 2012. During the reporting period, VTB Group achieved market maker status on futures contracts of the Russian Federal loan bonds (OFZ) on the Moscow Exchange. The Group has also started trading operations with CDS Indices for the first time on the Russian market.

In 2012, VTB Capital Finance, which is part of VTB Capital, became the first Russian issuer of capital protected structured bonds with a yield linked to the price of gold.

According to Global Finance magazine, VTB Group was recognised as the best provider of services in the foreign exchange operations market in Russia in 2012. Euromoney gave VTB Capital recognition for outperforming other market participants in the growth rate of foreign exchange operations in Central and Eastern Europe.

Investment banking operations

VTB Group offers its clients a full range of investment banking services, including consulting services in relation to M&A transactions (advising both buyers and sellers), placements of debt and equity issuances, etc.

The Group holds a solid position on the debt capital markets. Thus, in 2012, Dealogic named VTB Capital as the leader by total volume of transactions on Russia's debt capital market, after organising 101 placements for a total sum of RUB 552 billion.

In the reporting period, VTB Group participated in a number of significant equity capital markets deals. In particular, VTB Capital acted as one of the bookrunners of the largest IPO to take place in Russia in 2012– the initial public offering of OJSC MegaFon (USD 1.8 billion). VTB came second in the 2012 Bloomberg ranking of bookrunners in the equity capital market in Russia and the CIS.

During the reporting period, VTB successfully completed projects relating to investments and clients' liabilities restructuring, as well as organising the M&A transactions of the largest Russian and international companies. VTB Capital participated in the acquisition of TNK-BP by Rosneft for USD 59.3 billion – a deal which became the world's largest M&A deal in 2012.

In 2012, VTB Capital attracted a strategic investor from China on behalf of OSJC Uralkali's shareholders by issuing convertible bonds, and acted as an organiser and co-investor in the project. The placement became one of the largest issuances of convertible bonds in Russia and one of the most significant direct investments in the Russian market from China.

According to Dealogic, in 2011-2012, VTB Capital was named as the top M&A consultant in Russia and the CIS, as well as being the first Russian investment bank to be included into the TOP-20 world's largest organisers of M&A deals.

During the reporting period, VTB Capital won the National business award, "Company of the year", in the "Development of Russia's investment attractiveness in the international markets" category. Award organisers noted that in 2012, VTB Capital provided more than USD 30 billion inflows of investments into the Russian economy having taken part in more than 80 deals in the international equity capital markets.

Research

During the reporting period, VTB Capital's research products provided full coverage of capital markets and the main sectors of the economy, offering VTB's clients a well-rounded and thorough analysis. VTB Capital's research team provides coverage on the operations of more than 180 Russian and international companies. It also regularly conducts independent research on the fixed-income instruments markets, on the equity and commodities markets, carries out analysis of the macroeconomic situation and provides analytical support to the companies of the Group. In 2012, in the Russian research team category, VTB Capital analysts took five of the top-ten places according to Thomson Reuters and six of the top-twelve according to Institutional Investor magazine.

Operations in the commodities markets

VTB Group offers a wide range of risk management services for those participating in commodities markets transactions, including risk hedging products, commodity–linked finance, etc. The range of VTB Capital's services encompasses structured investment instruments, including structured deposits and structured notes with interest rates linked to commodity prices or commodities indices.

The Group also participates in the trading of precious metals, performs operations with derivative instruments, export operations, and sells precious metals acting in its own name, or on behalf of clients who produce precious metals, or other banks. In 2012, VTB Bank became a member of the London Bullion Market Association, which has enabled the Group to gain direct access to a number of potential markets, primarily in Asia, and will further promote business development within a strategic diversification of the customer base and markets.

Custody services

VTB Group's Custody is one of the largest custodians in Russia, and provides a full range of custody services in respect of all types of securities issued by Russian and foreign issuers. The majority of companies operating in the Russian market hold depository accounts with the Bank. The Group currently services over 2,100 depo accounts.

During the reporting period, Belgium-based Euroclear Bank appointed VTB Group's Custody as its manager of the depo account in the Central Depository. The Euroclear Bank transaction services of Russian Federal loan bonds (OFZ) in the over-the-counter markets have become the first service to be offered as part of VTB's new package of services. The new package includes transactions with the Russian Federal loan bonds (OFZ) and other fixed-income securities (corporate and municipal bonds) in the exchange markets.

The Bank's Custody acts as a sub-custodian of the Bank of New York Mellon, keeping the underlying assets for issuing depositary receipts of shares for 18 Russian issuers.

In 2012, for the sixth consecutive year, the Bank's Custody was named the best Russian custody and was recognised as "Top Rated" by Russian and international clients in the Agent Bank in Emerging Markets Survey conducted by Global Custodian magazine.

Asset management

VTB Group offers effective asset management solutions in the Russian and international markets. VTB Capital Asset Management (VTB Capital AM) provides services in this market segment.

By the end of 2012, VTB Capital AM's assets under management grew by over 100% and exceeded RUB 132 billion. All key areas of the business were actively developed during the reporting period: retail business, work with institutional clients, wealth management, and management of closed-end mutual funds.

VTB Capital AM is one of the market leaders by volume of pension savings under its management, which include funds of the Pension Fund of the Russian Federation, non-governmental pension funds, insurance reserves and endowment funds and indemnification funds of self-regulatory organisations. In 2012, VTB Capital Asset Management continued to implement its strategy of building long-term relationships with largest non-governmental pension funds. In particular, trust management agreements for pension savings were signed with NPF KIT Finance and NPF OBRAZOVANIE. During the reporting period, VTB Capital AM won the asset management contract for the largest endowment fund – The Skolkovo Institute of Science and Technology Endowment Fund.

VTB Capital AM is among the companies that are authorised to manage the funds of the Pension Fund of the Russian Federation. Over the previous 3 years, VTB Capital Asset Management produced an annual yield of 8.33%[2] for assets from the accumulative portion of the Pension Fund of Russia. VTB Capital AM's

[2] As of 31 December 2012

outstanding performance in this field was awarded with the highest rating for the effective management of the accumulative portion of the Pension Fund of Russia according to the study conducted by the New Economic School.

In 2012, the Group actively developed its wealth management business for high-net-worth individuals, which resulted in the doubling of its client base. Qualified investors were offered an upgraded range of strategies for trust management, which includes aggressive growth strategies, conservative strategies, as well as capital protected strategies.

The asset management company, VTB Capital AM, has repeatedly been named among the top-10 firms for market share position in the retail mutual fund sector[3]. In 2012, the company continued to expand its retail network, by signing sales agency agreements with Citibank, Nordea Bank and the Ural Bank for Reconstruction and Development, bringing the number of sales outlets to 757. To attract new customers and create an alternative way for investors to diversify their savings, VTB Capital Asset Management launched a new investment strategy "VTB – Global Dividend Fund". The fund invests in ordinary and preferred shares of Russian and foreign companies with market capitalisations of USD 5 billion or greater, that pay high and consistent dividends, or have potential to increase dividend payments. VTB Capital AM has a range of 15 open-end mutual funds with various investment strategies, including investments in foreign assets.

During the reporting period, VTB Group has also rapidly expanded its line of closed-end mutual investment funds. These funds helped carry out a number of projects for qualified investors. Thus, in 2007, VTB together with the Russian Venture Company established its first venture fund, “VTB – Venture Fund”. VTB Capital AM manages the assets of the fund. As of 31 December 2012, VTB Venture’s funds have been invested in 15 companies, which operate in high-tech sectors of the economy.

Within the framework of a public-private partnership, VTB Capital Asset Management established four regional venture funds for investing into small businesses in various regions of Russia. As at 31 December 2012, the funds have invested in 14 projects.

At the beginning of 2012, VTB Capital Asset Management, together with OJSC RUSNANO and in partnership with American venture fund Draper Fisher Jurvetson (DFJ), established DFJ VTB Capital Aurora fund. By the end of the year, the fund invested in four projects in the spheres of nanotechnology and electronic commerce.

In 2012, a Russian-Kazakh Nanotechnology Fund was established, with OJSC RUSNANO and Kazyna Capital Management JSC acting as anchor investors. VTB Capital AM manages the fund in cooperation with the international venture company, I2BF Innovation Partners.

VTB Capital Asset Management’s strategic plan to become an outstanding leader in the asset management market was highly recognised by the professional community. The National Rating Agency assigned the reliability rating of AAA (maximum reliability), whilst Expert RA assigned an A++ rating (extremely high/ highest level of reliability and quality of service) to VTB Capital Asset Management.

[3] According to Investfunds.ru as of 29 December 2012

VTB Capital's largest transactions in 2012

Russian Federation **USD 7 billion** 3-Tranche Eurobond Issue (5, 10, 30 years) VTB Capital Joint Bookrunner 2012	WESTERN HIGH-SPEED DIAMETER **Western High-Speed Diameter** **EUR 3 billion** Toll highway development project (PPP) VTB Capital Financial Advisor, Equity Co-Investor, Senior Lender 2012	**Russian Railways** **EUR 800 million** Acquisition of a 75% stake in GEFCO S.A. from PSA Peugeot Citroen VTB Capital Joint Financial Advisor 2012	VIVACOM United Communications **Vivacom** **EUR 1.7 billion** Debt Restructuring and Acquisition VTB Capital Buy-Side Financial Advisor 2012
MEGAFON The Future Depends On You **Megafon** **USD 1.83 billion** Initial Public Offering VTB Capital Joint Bookrunner 2012	VTB **VTB Bank** **USD 2.25 billion** Tier 1 Perpetual Eurobond issue VTB Capital Joint Lead Manager and Bookrunner 2012	ZHAIKMUNAI **Zhaikmunai** **USD 560 million** Eurobond issue **USD 348 million** Tender Offer VTB Capital Joint Lead Manager and Bookrunner – New Issue, Dealer Manager – Tender Offer 2012	**Republic of Serbia** **USD 750 million** Sovereign Eurobond issue VTB Capital Joint Lead Manager and Bookrunner 2012
POLYUS **Polyus Gold International Limited** **USD 635.5 million** Sale of 5% minus one share of issued share capital to Chengdong Investment Corporation and sale of 2.50% to VTB Bank VTB Capital Financial advisor 2012	Severstal **Severstal** **USD 750 million** Eurobond issue VTB Capital Joint Lead Manager and Bookrunner 2012	**Ukraine** **USD 4.85 billion** Sovereign Eurobond issue VTB Capital Joint Bookrunner 2012	Liberty Mutual. INSURANCE **Liberty Mutual Insurance Group** **Amount undisclosed** Acquisition of KIT Finance Insurance from KIT Finance Holding Company VTB Capital Financial Advisor 2012
BRUNSWICK RAIL **Brunswick Rail** **USD 600 million** Eurobond issue VTB Capital Joint Lead Manager and Bookrunner 2012	АЛРОСА ALROSA **ALROSA** **USD 1.3 billion** ECP issue VTB Capital Joint Lead Manager and Bookrunner 2012	MECHEL **Mechel** **USD 55 million** Divestment of 100% of TPP Rousse VTB Capital Joint Financial Advisor 2012	ROSNEFT **Rosneft** **USD 3 billion** Eurobond issue VTB Capital Joint Global Coordinator and Bookrunner, Ratings Advisor 2012
Russian Railways **RUB 37.5 billion** Eurobond issue VTB Capital Joint Lead Manager and Bookrunner 2012	Caspian Pipeline Consortium **Caspian Pipeline Consortium** **USD 500 million** Debt Financing (Project Finance) VTB Capital Exclusive Financial Advisor 2012	GPM GeoProMining **GeoProMining** **USD 120 million** Georgian Divestments VTB Capital Financial Advisor 2012	Nb NOMOS BANK **Nomos Bank** **USD 500 million** LT2 Subordinated Eurobond Issue VTB Capital Joint Lead Manager 2012

DEVELOPMENT BANK OF KAZAKHSTAN **Development Bank of Kazakhstan USD 1 billion** Eurobond issue VTB Capital Joint Lead Manager and Bookrunner 2012	**Federal Agency for State Property Management of the Russian Federation USD 501 million** Privatisation of 55% stake in Vanino Commercial Sea Port VTB Capital Sole Agent 2012	Otkritie Financial Corporation **OTKRITIE Amount Undisclosed** Acquisition of controlling stake in NOMOS BANK & Voluntary Tender Offer to NOMOS BANK minorities VTB Capital Financial Advisor & Deal Manager 2012	URALKALI **Uralkali major shareholders Amount Undisclosed** Private placement of exchangeable bonds equivalent to 14.5% of issued share capital VTB Capital Sole advisor, bond arranger, co-investor 2012

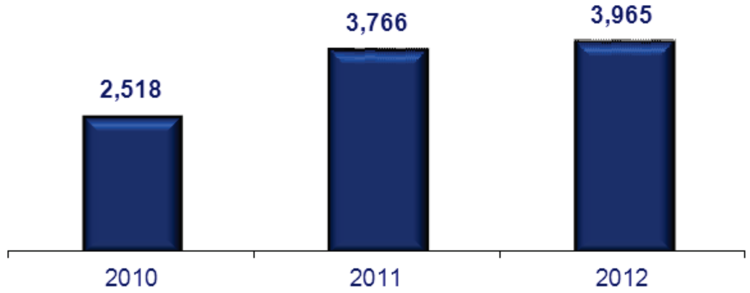
VTB Capital's Awards in 2012

EUROMONEY 2012 Awards for excellence Awards for Excellence **Best Debt House in Russia** 2012	IFR AWARDS 2012 IFR Awards **Emerging EMEA Bond of the Year: US$ 7bn Russia Sovereign Eurobond** 2012	emeafinance Europe • Middle East • Africa Achievement Awards **Best Rouble Bond House in EMEA** 2012	EUROWEEK THE NEWSPAPER OF THE GLOBAL CAPITAL MARKETS Bond Awards **Overall Emerging Market Deal of the Year** **Emerging Market Sovereign Deal of the Year** **Eastern Europe Deal of the Year** **Russia Sovereign Three-Tranche USD 7bn Eurobond** 2012
Institutional Investor All-Russia Investor Survey **#1 All-Russia Equity Trading Team** 2012	Institutional Investor All-Russia Investor Survey **#1 All-Russia Equity Sales Team** 2012	PFI AWARDS 2012 PFI Awards **Road Deal of the Year in Europe: WHSD** 2012	WORLD FINANCE PPP Awards **Best Project Sponsor in Europe** 2012
WORLD FINANCE PPP Awards **Best Debt Funder in Europe** 2012	WORLD FINANCE PPP Awards **Best Urban Development Project in Europe: WHSD** 2012	EUROMONEY Project Finance EMEA Deals of the Year Awards **European Road Toll Deal of the Year: "WHSD"** 2012	PEI INFRASTRUCTURE INVESTOR Infrastructure Investor Awards **European PPP Transaction of the Year: "WHSD"** 2012
Institutional Investor All-Russia Investor Survey **#1 All-Russia Research Team** 2011, 2012	THOMSON REUTERS Extel Survey (Russia) **#1 Research Team in Russia Country Analysis** 2012	THOMSON REUTERS Extel Survey **#1 Leading Brokerage Firm in Russia** 2012	THOMSON REUTERS Extel Survey **#1 Equity Sales Team in Russia** 2012

Lending Business

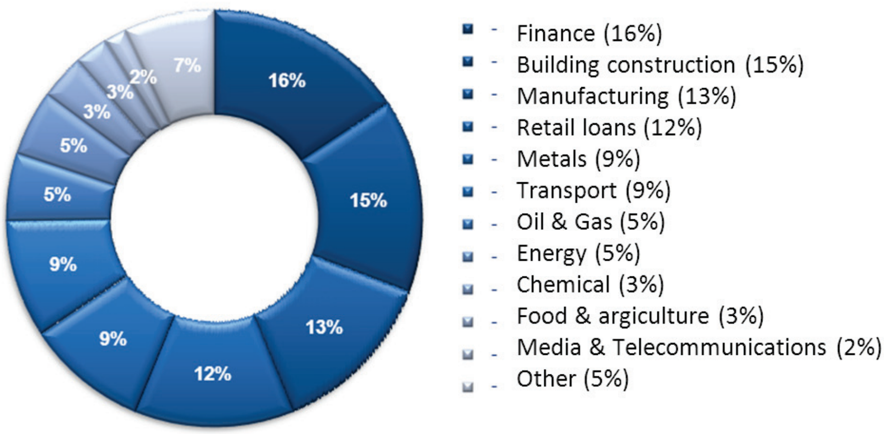
Development of the Russian corporate lending market slowed in the reporting period in comparison to the previous year against a background of a slowdown in the Russian economy, and uncertainty regarding the global economic crisis. Nevertheless, the size of VTB Group's credit portfolio reached RUB 4.0 trillion by the end of 2012, which was a 5% increase on the previous year. VTB maintained its leading position in the lending market, and its market share in the sector amounted to 17.5%.

Corporate gross loans and advances to customer (in RUB, billion)



Source: VTB Group's IFRS consolidated financial statements.

Corporate gross loans and advances to customers by industry as at 31 December 2012



Source: VTB Group's IFRS consolidated financial statements.

An increase in competition was one of the main contributing factors to the development of the Russian lending market in 2012.

VTB Bank offers a wide range of lending products, from traditional lending to structured financing. This allows VTB Bank to meet the needs of corporate clients working in a variety of sectors. To facilitate effective customer service for our corporate clients, departments of the lending business are organised along sector lines. Financing for our clients is available for varying time periods and in all the major world currencies. Moreover, the Bank offers various types of credit lines – with drawdown limits, credit limits and with a combination of these limits.

The Bank's loan products are constantly developing. Advances in technology are providing new, modern lending instruments. Thus, in 2012, VTB Bank's clients were able to complete credit transactions within their agreed limit through remote banking system (without needing to sign hard-copy agreements to receive credit tranches). In addition, during the reporting period, the Bank introduced a new approach to setting rates on credit transactions which fall within credit agreements. As a result, it became possible for the Bank to establish interest rates for each individual loan customer. This approach ensured that the

Bank was able to react to any changes in the cash markets. As a result, credit line products became more appealing.

In 2012, VTB Bank realised a number of complex projects, including those linked to financing infrastructure projects. As part of this, the Bank contributed funds towards building the Western High Speed Diameter, the world's largest public-private partnership in road construction.

In the reporting period, the range of innovative financial products was strengthened. VTB Bank was the first on the Russian market to offer its customers structured financing, which allows customers to significantly reduce their interest rate by allowing them to tell the Bank which currency they would prefer to repay their loans in.

At the end of 2012, a new trade financing unit was created within the lending department, which enabled the Bank to offer its customers a wide range of services in the trade finance of imports and exports, including those protected by the Export Credit Agencies (ECA). Taking both the latest market trends and international best practice for minimising risks into account, the Bank plans to actively offer such services as post-import finance, import finance under the ECA's protection, export finance, finance under the protection of the Export Insurance Agency of Russia, and also unfunded trade finance instruments.

One of VTB Group's main priorities is to develop the regional economy, which medium-sized businesses significantly contribute to. VTB Bank branches actively give credit to businesses working in agriculture, the food industry, healthcare, education and work on special terms with businesses operating within the housing sector.

In 2012, work continued on building the global business line, the Lending department – a single centre responsible for the Group's lending business. This Centre ensures that customers in all the key regions where VTB Group is present have access to the full range of lending products.

In order to improve the quality of customer service, the Bank carries out an analysis of the accumulated lending portfolio of its subsidiaries in the remit of global business lines. In collaboration with employees at the Bank's subsidiaries, new and potential projects are being looked at, the expense structure is being optimised, along with the transfer of skills, in order to increase work effectiveness. The Group sees potential in offering the clients of its subsidiaries more complex financing products.

Transaction banking

In 2012, to develop transaction banking, the Bank improved the quality of its customer service by expanding its product line, optimising paperwork and improving business processes. In addition, the Bank devoted resources to institutionalising the transaction business in the regional and overseas subsidiaries of VTB Group.

Deposits

From the beginning of 2012, the deposit portfolio for VTB Group's largest clients grew at a stable rate. The Bank remained committed to its flexible approach in fixing interest rates, taking both customers' needs and the current market situation into consideration. Thus, in order to make deposit products more attractive, the option for the client to terminate fixed-term deposits ahead of schedule was introduced for terms up to one year/more than one year.

In 2012, VTB played an active role in signing general agreements on deposit products with its corporate clients. The amount of agreements signed rose by 25% within a year. During the reporting period, a range of existing instruments were improved in order to attract clients. For instance, non-standard term deposits were developed and are planned to be available to clients in 2013. In order to improve customer service, the application software package ("Aksioma") started to be implemented, which supports the sales process and transaction settlements for the Bank's main deposit products. Introducing this software package in 2013 will allow the Bank to reduce the transaction processing time, along with the paperwork required for deposit operations as a whole.

Working with clients

In the reporting period, VTB continued to improve the quality of its customer service in the transaction business by introducing international best practices and prompt response to business enquiries. In 2012, electronic banking services were set up, which helped to improve the level of customer service. In particular, the scope of the "Bank-Client" and "Internet-Client" services was broadened. In addition, the "Mobile Client" service was launched, which is a mobile phone and tablet application that allows top management to follow company reports and look at detailed information on all fund flows online using their mobile phones, PDAs and tablets.

The scope of the Customer's Processing Centre's (CPC) work was broadened within the framework of improving the liquidity management products In particular, functions of multi-level acceptance were introduced to the CPC and the "Budget Control Codes" were extended. Individual projects for large corporate clients were also implemented in the reporting period.

The Bank collects feedback from its clients by monitoring levels of customer satisfaction with regard to its products and the quality of its customer service. Building our client relationships by taking part in international conferences and seminars organised by VTB Bank is an important channel for gaining information about the business' product demands. The transaction banking department organised a series of seminars on the trade finance business[4] for our clients, and also led a session on effective settlements at the EuroFinance conference in Moscow.

Developing the transaction business in Russia's regions and abroad

In line with the Bank's strategy to develop the transaction business, a number of events were held in 2012 across VTB Bank's regional network to improve the effectiveness of selling transaction products. Specialised sales departments were set up in 17 of the Bank's largest branches and operating offices, which enabled them to put more emphasis on attracting new clients, as well as to improve relationships with their existing client base. By broadening relationships with our regional clients with regard to our trade finance and liquidity management products, we have created a good base for growing the Bank's commission and interest rate incomes.

In the reporting period, the transaction business was split into a separate function in the Bank's subsidiaries in Ukraine, Belarus and Kazakhstan. This allowed the Bank to start actively developing and implementing its transaction business product line, and to strengthen sales in these countries for clients who carry out their business both in Russia and abroad.

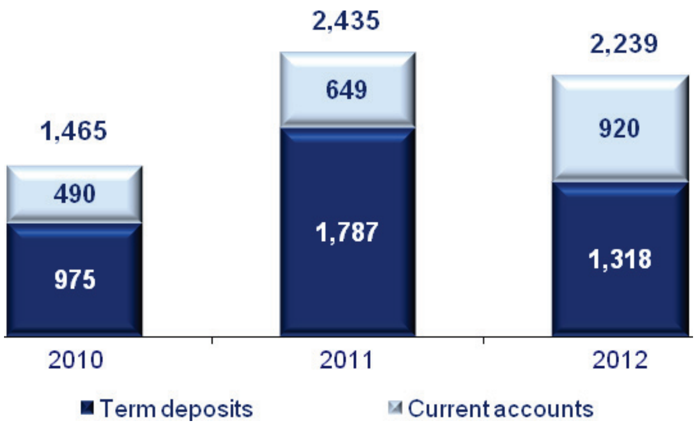
Key results for 2012

In 2012, VTB Group is ranked in second place with an 18.4% market share in the corporate engagement market in Russia. At the end of the reporting period, VTB Group's portfolio of funds attracted by

[4] "Documentary letters of credits as an effective settlement tool for foreign and domestic trade" (May 2012); "VTB Bank's guarantee transactions for corporate clients" (August 2012). Participants came from all parts of the Bank's regional network, and also included clients of overseas branches. More than 400 people took part in each seminar.

corporate clients amounted to RUB 2.2 trillion. The client deposits into current/settlement accounts increased by 41% compared to 2011 and amounted to RUB 920 billion.

Corporate deposits (in RUB, billion)



VTB Bank is currently one of the Russian banking sector's leaders in the trade finance business and is Russia's leading credit establishment for companies' foreign trade activity. Business development in the area of trade finance has ensured that transactions in this product segment have increased by 28.5%, including a 38% increase in guarantee transactions and a 14.3% increase in letters of credit. Following 2012's results, VTB Bank's trade finance portfolio increased to RUB 507 billion.

In 2012, a full-range of measures was taken to centralise the accounts and liquidity management for those corporate clients working in the defence, nuclear and construction sectors of the Russian economy.

4.3.2 Retail Banking

In 2012, VTB Group's retail banking business developed in a dynamic fashion as a result of organic growth and the successful completion of acquisitions in 2011. As the second largest bank in Russia serving individual customers, VTB24 continues to form a core part of the Group's retail business. VTB Group retail banking services in Russia are also provided by the Bank of Moscow and TransCreditBank, as well as by Leto Bank, which began its operations in 2012.

At the end of 2012, VTB Group's active Russian retail customer base totalled nearly 12.6 million. At the end of the reporting period, the number of small businesses working with VTB Group in Russia amounted to more than 280,000.

At the end of the reporting period, VTB Group banks in the CIS countries (Ukraine, Armenia, Azerbaijan, Kazakhstan and Belarus) and Georgia were providing services to approximately 1.4 million individuals. The Group's retail business in Europe is also developing successfully in France and Germany, where Group activities are mainly focused on attracting retail customer funds at present.

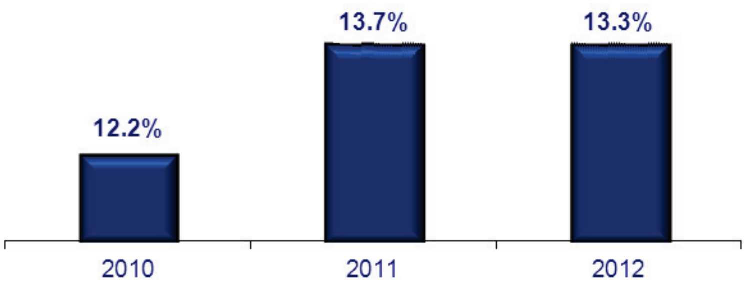
The Group continued to implement its retail banking strategy during 2012. The strategy centres on a customer-oriented approach to business development, which aims to improve customer service quality without losing sight of the Group's commitment to delivering greater profitability. In addition to expanding VTB's retail banking scale and market share, the Group's medium-term retail business plan is to intensively develop its customer relations, as well as expand and grow remote sales channels.

The most significant market factors that influenced VTB Group’s retail business performance during 2012 included rapid growth of the Russian economy compared to economies of the most developed countries, increased competition in the retail lending market in Russia, as well as the stabilisation of the level of non-performing loans.

In the context of a dynamic and growing retail lending market in 2012, VTB 24 focussed not only on extensively developing its network and growing its loan portfolio, but also on improving its customer service. VTB24’s main competitive advantages are not restricted to the wide range and attractiveness of its retail product offering, as the high level of technological development of its banking and its segmented approach to different groups of customers are also key. The combination of these factors contributed to record levels of profit being regained by the VTB retail business line in 2012.

In 2012, VTB Group’s retail loan portfolio grew by 36% to RUB 1,120 billion, compared to RUB 824 billion in 2011. Due to separate players in the market working intensively with their own client base, the volume of the retail lending market has increased, which led to a 13.3% decline in VTB Group’s market share in the Russian retail lending sector compared to 13.7% in 2011. However, for the past five years, the Group has consistently been the second-largest player in this segment of the Russian market. Going forward, Leto Bank, which started its operations in 2012, will strengthen VTB’s positions in the lower and middle client segments.

VTB Group retail lending market share, %



Source: VTB estimates based on RAS financial results of VTB Bank, VTB24, the Bank of Moscow and TransCreditBank.

Leto Bank

October 9, 2012, VTB Group held an official presentation on the new bank’s brand.

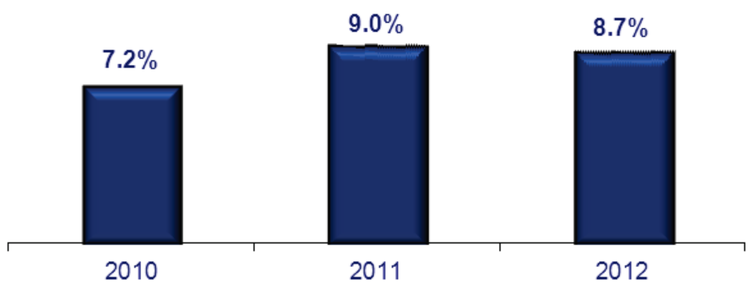
Leto Bank is VTB Group’s new strategic project aimed at the mass retail client segment.

The new bank was established as an organic addition to VTB Group's retail business to help its long-term and continued success in Russia’s financial market. Leto Bank, oriented on the mass and lower-mass retail segments of the banking market, offers high-demand services such as cash loans and POS loans. The bank intends to broaden its range of services by offering credit cards and money transfers.

The new bank is faced with the task of creating a client base of several million people over the next few years and of building long-term relationships with them. In the next 5-7 years, Leto Bank plans to develop its retail network, which will consist of at least 1,000 branches and several thousand offices in stores. It also plans to achieve significant market position in online and mobile banking.

In the reporting period, the Group demonstrated rapid growth rates in retail deposits, which corresponded to the market dynamics. At the end of 2012, VTB Group's portfolio of retail deposits reached RUB 1,436 billion, an increase of 24% compared to 2011. In an increasingly competitive environment, VTB Group was able to capitalise on its brand reputation and secure a significant organic influx of customer funds. At the end of 2012, VTB's share in the retail deposit market in Russia slightly decreased from 9.0% to 8.7%.

VTB Group retail deposit market share, %

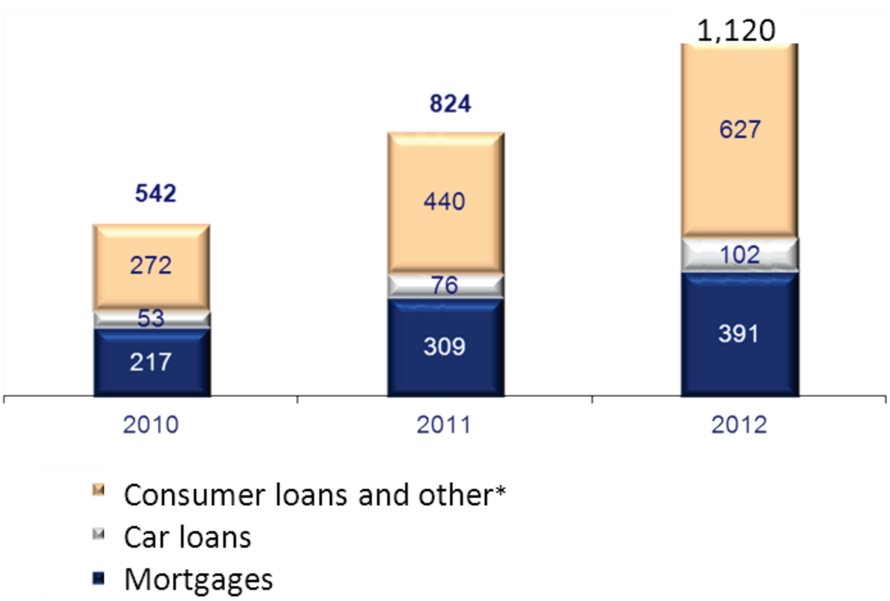


Source: VTB estimates based on RAS financial results of VTB Bank, VTB24, the Bank of Moscow and TransCreditBank.

Loan products

The development of new loan products and the effective targeting of different customer groups enabled VTB Group to increase its retail portfolio by 36% to RUB 1,120 billion in 2012, compared to RUB 824 billion in 2011. Against the background of an increase in active operations, the Group continued to focus on the effective management of non-performing loans.

Loans to individuals (in RUB, billion)



* Presented including reverse sale and repurchase agreements.

Source: VTB Group's IFRS consolidated financial statements.

Consumer loans

During the reporting period, consumer lending continued to be a key organic growth driver of VTB Group's retail loan portfolio. In accordance with the IFRS, the Group's consumer loan portfolio increased by 43% to RUB 624 billion in 2012, compared to RUB 436 billion in 2011.

In 2012, the main objectives of VTB24 in this segment were to ensure sales growth, profitability, and reduced number of non-performing loans.

VTB24 issued over 940,000 consumer loans for a sum of over RUB 250 billion in 2012. Bank of Moscow significantly increased its loan portfolio in the reporting year. In 2012, due to the optimisation of a number of business processes and improvement of customer-service, sales of cash advance loans were 2.3 times higher than the 2011 level.

TransCreditBank's consumer loan portfolio increased by 49.1% to RUB 79 billion in 2012. This dynamic growth is a result of the active promotion of pre-approved loans as part of the "Loans to Existing Clients" programme (available to the bank's existing customers as part of payroll programmes) and the "Credit of Trust" programme (offered to borrowers with good credit history).

The most important event for the development of VTB Group's consumer lending products in 2012 was the opening of Leto Bank, which specialises in two products - cash loans and credit at stores for purchasing goods. In most cases, a customer has to present his/her passport to apply for such loans. The customer then receives an SMS about the bank's decision on the application within five minutes to one hour, depending on the size of the loan.

Leto Bank provides funds through its own ATM network. Once a loan application is approved and a loan agreement is signed, a borrower receives a special bar-code (two-dimensional bar code) on paper and a PIN-code via SMS. Then the client has to scan the bar-code at a special reader at an ATM and enter the PIN-code. As a result, granting cash loans without using a cash counter decreases the bank's costs, as well as, ultimately, the cost of the final product.

VTB's consumer lending in 2012 has been actively developed not only in Russia, but also abroad. Thus, VTB Bank Belarus significantly increased a number of partner-stores, which enabled it to increase the volume of new loans, as well as to double its customer base.

In the reporting period, VTB Bank Georgia simplified the process of arranging consumer loans, and also optimised its product line. As a result, VTB Bank Georgia increased its consumer loan portfolio by more than 1.5 times.

In 2013, VTB Group plans to increase its sales and grow its market share in the consumer lending segment, primarily by optimising internal business procedures relating to the lending process, and by developing new attractive financial products focused on individual customer needs.

Car Loans

In 2012, VTB Group strengthened its leading position in the car loan market. During the course of the year, the Group's car loan portfolio increased by 35% to RUB 102 billion, compared to RUB 75.5 billion in 2011.

During the reporting period, VTB24 continued to improve car loan sales through sales channels introduced in 2011: the Internet, call-centres, by offering pre-approved loans to customers, as well as through the Bank's additional offices. In August 2012, VTB24 conducted a deal on car loans portfolio securitisation for more than RUB 13 billion.

Throughout 2012, VTB24 continued to cooperate with car manufacturers. Special loan offers jointly developed with leading motor vehicle companies represented more than half of the bank's lending sales in 2012. Schemes involving Hyundai, KIA and Lada saw a particularly high growth in sales and more than a third of these brands' cars were sold through VTB24 car loans.

Mortgage Lending

In 2012, the home loan market continued to actively develop and grew faster than in 2011, contrary to the expectations of most market participants. During the course of the year, the home loan segment grew by 30.0% compared to 25.2% in 2011. The market has been growing rapidly despite the fact that the interest rate on mortgages increased by 0.9% per annum in January 2012. High activity of the market participants, increased competition, as well as support at the state level from VEB and the Agency for Housing Mortgage Lending also had a positive impact on the market development.

As of December 31, 2012, VTB Group's mortgage portfolio grew to RUB 391 billion, compared to RUB 309 billion in 2011. VTB 24 was the main contributor to the Group's total mortgage sales.

In 2012, VTB24 continued to implement all previously existing mortgage lending schemes. During the reporting period, the mortgage lending schemes were reviewed and the terms and conditions of some of them were greatly improved to increase the availability of mortgage loans. Today, VTB24's mortgage loan product line is one of the most extensive in the market, as it encompasses all market segments and covers practically all customer needs.

In 2012, VTB24 issued a record amount of mortgage loans amounting to RUB 158 billion, while, in December 2012, the bank achieved an all-time record for monthly mortgage sales, issuing mortgage loans worth RUB 23.7 billion.

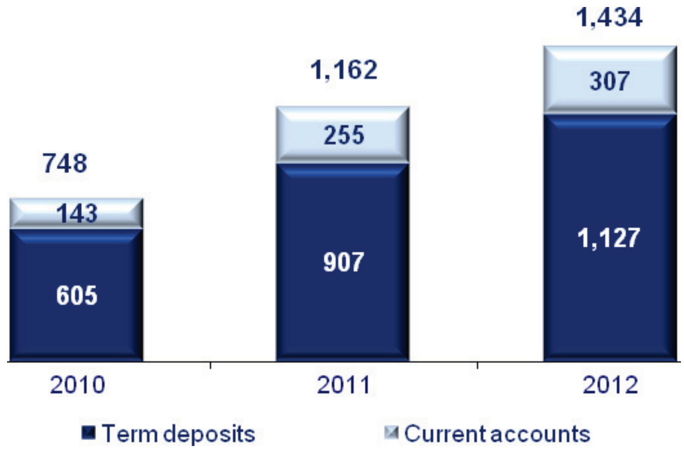
The Bank of Moscow also actively developed its mortgage lending in 2012. As part of the development of its sales infrastructure, three mortgage lending centres were opened in Moscow. In addition, mortgage lending offices were launched in 23 regions where the bank operates, and remote technology for VTB24 mortgage loans sales was introduced in the Bank of Moscow's retail outlets and vice versa.

VTB Group has a strong position in the mortgage lending market not only in Russia, but also abroad. In 2012, VTB Bank Armenia came third in a ranking of Armenian banks offering mortgages and is a leader in the mortgage lending market, where it provides mortgage loans in cooperation with real estate developers.

Deposit products

As of December 31, 2012, the account balances of VTB Group's individual customers amounted to RUB 1,434 billion, including term deposits of RUB 1,127 billion. During the course of the year, the term deposits portfolio increased by RUB 23% billion.

Deposits by individual customers (in RUB, billion)



Source: VTB Group's IFRS consolidated financial statements.

In 2012, VTB24 deposits formed the main part of the Group's total deposits. In the reporting period, the bank continued to optimise the range of deposits available for individuals, aimed at simplifying the process of choosing suitable deposits for each client. As a result, a single deposit maturity period from 1 month to 5 years, as well as common sum range and a procedure for calculating interests were introduced for all term deposits.

During the reporting period, VTB24 maintained a balanced pricing policy in line with key market trends. Interest rates on deposits of individual customers changed several times in 2012, in October and then in November 2012.

In 2013, VTB 24 will continue to optimise its range of deposits, including the expansion of the currency list, which customers can deposit in, and the introduction of new product offerings.

Bank of Moscow launched a new line of deposits in 2012, including deposits "I benefit from this" and "I'm comfortable with this", deposit lines "Platinum" and "Prime" for high net worth customers, as well as seasonal offers for depositors. In the reporting period, Bank of Moscow's portfolio of deposits of individual customers reached a record high of RUB 185 billion.

In 2012, VTB Group was in a position to continue actively expanding in the individual customers' deposit market outside of Russia. Thus, the portfolio of deposits of VTB Bank Armenia's individual customers grew by 62.0% in 2012, while the market growth rate was 36.0%. VTB Bank Georgia's deposit portfolio increased by 47.0% as a result of active sales. In addition, VTB Bank Kazakhstan's growth was no less impressive, with its deposit portfolio increasing by 267.0%.

Commission-based products

A significant proportion of the Group's retail banking income is attributable to commission-based income. VTB24 made the greatest contribution to the growth of this type of income. Commissions earned on card transactions continue be the main contributors of non-interest income. Commissions earned on settlement and cash services for small business customers, achieved by the growth of VTB24's customer base and by the bank's active transition to a principle of providing packaged banking services, also contribute to this.

Number of bank cards in circulation, million

	2011				2012			
	VTB24	Bank of Moscow	TCB	**Total**	VTB24	Bank of Moscow	TCB	**Total**
Credit	4.0	0.2	0.1	**4.3**	5.1	0.4	2.4	**7.9**
Debit	5.0	6.9	2.1	**14.0**	6.2	9.9	0.2	**16.3**
Total	**9.0**	**7.1**	**2.2**	**18.3**	**11.2**	**10.3**	**2.6**	**24.1**
Including payroll cards	*4.7*	*0.9*	*2.1*	*7.7*	*5.4*	*1.0*	*0*	*6.4*

Bank cards

In 2012, the total number of VTB24 cards in circulation grew by 26.0% year-on-year to 11.2 million, of which more than 5.0 million were credit cards with authorised overdraft (including payroll cards). This positive trend was driven by the optimisation and upgrading of VTB24's product line, as well as by improving the quality of service provided to existing cardholders by conducting various marketing campaigns together with payment system providers.

In 2012, VTB24 attracted 3,100 new payroll projects. Thus, as of January 1, 2013, the total number of businesses using the bank's services exceeded 41,000. One of the largest payroll projects implemented by VTB24 is its collaboration with the Ministry of Defence of the Russian Federation. In 2012, the Bank operated approximately 1 million payroll cards of the Ministry of Defence.

In 2013, VTB24 plans to continue developing loyalty programmes with its partners to increase the proportion of active cards in the portfolio, including the creation of new co-branded card products. The bank intends to pay particular attention to conducting activation campaigns among card holders, as well as measures to improve the bank's services.

Bank of Moscow also intensified its efforts in the retail banking segment, which enabled the bank to issue three times more credit cards during the reporting year than it did in 2011. Today, the Bank of Moscow operates 37,000 payroll projects, and the number of cards in circulation which are issued to employees stands at 662,000. In the reporting period, the Bank of Moscow optimised the terms and conditions of its products for companies which use the Bank of Moscow's employee payroll services, and set preferential rates on credit products. In addition, the bank introduced an automated process for applying for a credit card and for an overdraft on payroll cards.

At the end of 2012, the issuing volume of TransCreditBank's bank cards was 2.6 million, which is 18% more than in 2011. At the same time, the credit card portfolio increased by 404.0% to RUB 3.4 billion during the reporting period. This rapid growth is a result of actively marketing this product and running promotional campaigns aimed at increasing the use of cards.

VTB Group pays great attention to developing its card business abroad. In 2012, VTB Bank Armenia was the market leader by the number of cards in circulation, which doubled in the reporting year and exceeded 215,000. The total number of VTB Bank Georgia debit cards reached 52,700 in 2012, which is 58.0% more than in 2011.

Remote Banking Services

In 2012, VTB24 focused on the development of “Mobile Banking”, expanding its functionality in line with the customers’ wishes. In addition to iOs, this product became available on the Windows Phone, Windows Mobile and Symbian platforms. Moreover, it became possible for customers to use the application from any mobile phone via its internet browser. During 2012, a total of more than 260,000 people installed the “Mobile Bank VTB24” application on their phones, and another 172,000 customers used the bank’s mobile channel to view information on their accounts and transactions.

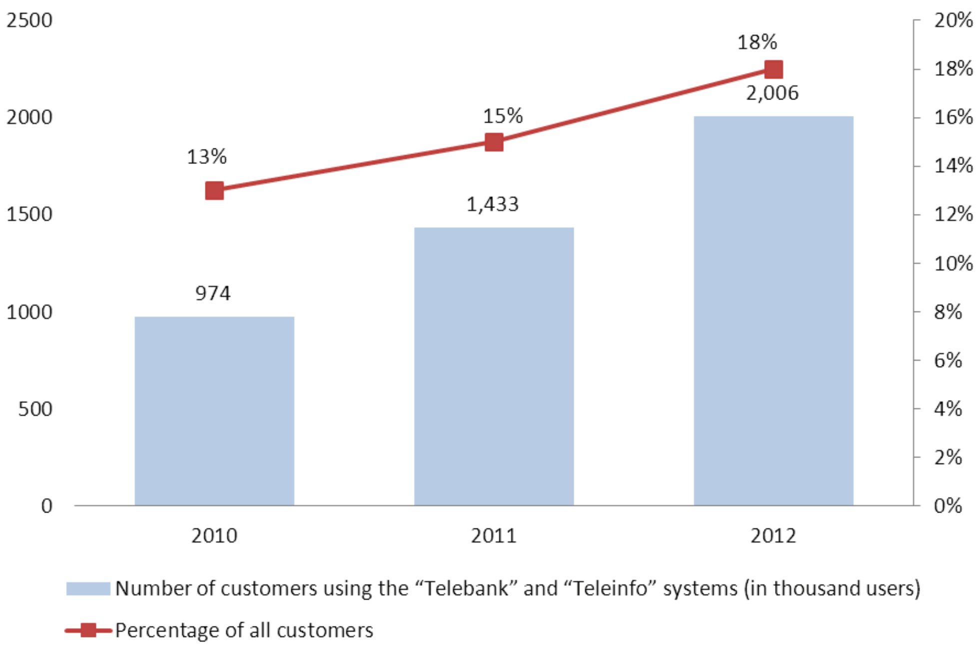
Over the reporting year, the “Telebank” system significantly increased in popularity. The number of transactions using this system grew to 16.2 million in 2012, an increase of 37.0% compared to 2011. The proportion of deposit accounts opened remotely increased by 2 p.p. year-on-year and amounted to 14.0% of the total deposits of VTB24 as of December 31, 2012.

During the reporting period, VTB24 has been developing a new online banking system, which is expected to be launched in summer 2013. This new service will enable customers to pay for the services provided by the bank’s partners by using their bank card. It also plans to enable customers to fully control their metal accounts via the online bank in summer 2013.

In 2013, VTB24 will update the user interface logic and design of its mobile channel, will begin to develop applications for tablets and fully upgrade the SMS-bank, and it will also launch a notification production system project to inform its customers in the most convenient way.

In the reporting period, TransCreditBank extended its remote banking system’s functionality. Online banking users are now able to transfer money online to any Russian bank account using the bank’s modern platform, “Transfer by a card number”. In 2012, the bank has also significantly expanded customers’ opportunities to use the SMS notification service. The total number of remote banking users in 2012 doubled and exceeded 1 million people.

VTB24 Internet banking clients



Transfers and payments for services

In 2012, VTB24 continued to develop its payment and money transfer services. Transactions carried out by individuals to pay for services provided by various organisations amounted to RUB 114 billion in the reporting period, a 37.0% increase on the 2011 figure. The total number of transactions grew by 16.0% to 38 million.

The significant growth in these transactions was driven by a higher demand for services from the bank's customers, with a higher number of organisations, whose products and services are available for purchase by individuals without having to pay commission to VTB24. In 2012, nearly 150 new organisations joined the programme and their total number was approximately 800 across Russia.

In 2012, VTB24 completed integrating its technology with CyberPlat, one of Russia's largest payment systems. Cooperating with CyberPlat will accelerate the launch of a payment service for the benefit of a variety of organisations, which are essential for customers.

In the reporting period, the bank joined the Federal Treasury of the Russian Federation's accounting system of charges and evidence of payment. Since January 1, 2013, VTB24 has been providing the Treasury with information on payments for state and local government services, as well as on payments that are the source of income generation from Russia's budget system's funds. As a result of implementing this project, in the first half of 2013 retail customers will be able to receive information through the bank about the charges (the amount of liabilities) in the Federal Treasury. This service will also facilitate the organisation of tax payments, penalties and other state payments with additional debt and payment details through the VTB24 network.

Services for high net worth customers

In 2012, VTB24 continued to be active in attracting high net worth customers to use the bank's comprehensive services. The bank offers its privileged customers the 'Privilege' package, as well as the 'Priority' package for VTB24's high net worth customers. The packaged offering consists of a range of banking products and services, exclusive services in the bank's offices and special offers provided by the bank's partners.

At the end of 2012, the number of customers subscribed to the Privilege package reached more than 23,000, compared to 14,000 in 2011. The product was improved by enhancing the service quality offered as part of the package and by extending the range of additional banking products, offered on special terms and with special rates. At the end of 2012, the number of customers subscribed to the Priority package totalled more than 65,000.

In 2013, VTB24 plans to further develop its packaged offerings by improving and expanding the quantity of banking and non-banking services included in each package.

VTB24 Private Banking

VTB24 Private Banking is a special business unit that is part of VTB24. Its purpose is to provide a tailored approach to each customer on the basis of mutual trust. VTB24 Private Banking offers a comprehensive range of investment solutions for its customers, as well as access to VTB Group's best financial instruments, thus creating unique opportunities for maintaining and growing its customers' funds. VTB24 Private Banking offices operate in Moscow, St. Petersburg, Krasnodar, Ekaterinburg, Kazan, Samara, Rostov-on-Don and Nizhny Novgorod.

In 2012, VTB24 Private Banking launched a new global service scheme for Prime package holders, which facilitated cooperation between VTB24 Private Banking and VTB Group subsidiaries in Armenia and Ukraine. To attract deposits, the bank offered Prime package holders a number of promotions for opening new Prime deposit accounts on preferential terms. In addition, in 2012, VTB24 Private Banking significantly extended the range of services it offers to customers within its "Partner Services" programme. It also started to cooperate with VTB Capital and VTB Capital plc London, enabling it to organise Eurobond offerings.

The number of VIP customers increased by 37.5% to approximately 3,000 during the reporting period. In total, they placed more than RUB 214 billion with VTB24. The average credit balance per customer grew by 8.6%, reaching RUB 75.8 million at the year-end.

Investment services for retail customers

VTB Group – represented by VTB24 – maintains its leading position among companies and banks that provide brokerage services to retail clients. The Bank is ranked number one in terms of the number of registered customers and fourth based on the number of active clients registered on the MICEX. In 2012, the volume of VTB24 customer transactions on the stock market amounted to approximately RUB 900 billion, driving the bank to seventh place in the MICEX rating of the "Leading Market Operators – Shares: Main Trading Regime". VTB24 became the undisputed leader in this category among banks providing brokerage services. In the reporting year, the Bank's brokerage services customer base increased by 1.6 times compared to 2011. As of December 31, 2012, a total of 187,959 broker accounts were registered with MICEX for VTB24 customers.

In 2012, VTB24 introduced an online Forex trading platform, which allowed its clients to trade using the MetaTrader Mobile system for iPhone and Android, leading to an increase in the number of customers. In the reporting period, the number of customers registered to trade on the Forex market grew by 1.3 times compared to 2011.

VTB24 consistently developed its investment services throughout the reporting period. Specifically, the bank introduced a new strategy "Breakeven trust management" to its trust management services segment, according to which clients were guaranteed that their assets would be managed without loss.

Today, VTB24 provides its clients with investment services in all its offices. In 2012, the bank's investment products were redefined so that the bank's regional offices could share a united approach to providing investment services.

ATMs

VTB Group has one of the largest ATM networks in Russia, and taking into account TransCreditBank's and the Bank of Moscow's infrastructure, the total number of ATMs reached 10,600 units as at the end of 2012.

By the end of 2012, VTB24's ATM network totalled more than 6,100 units, 33% of which are equipped with a cash pay-in function. Customers can withdraw and pay in money, transfer funds and open deposit accounts at the bank's ATMs. They can also make payments to more than 100 payees.

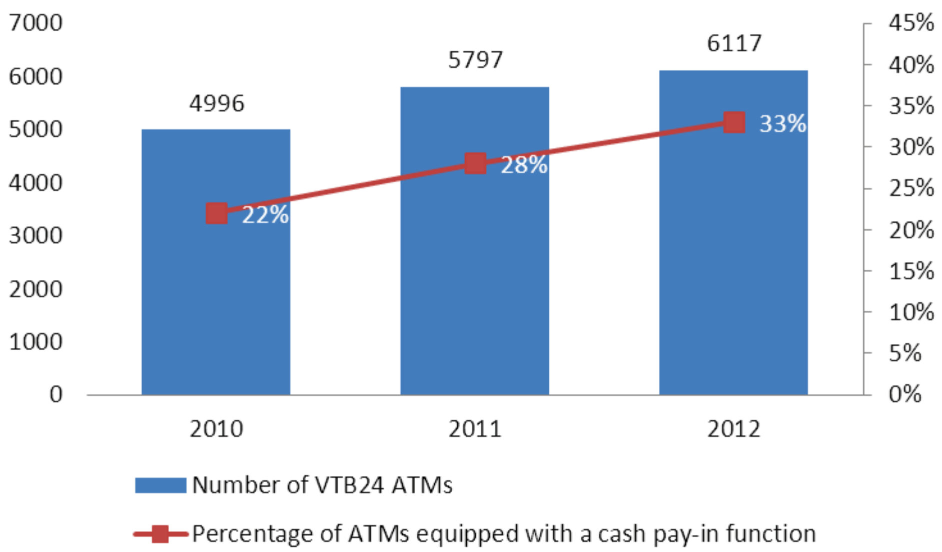
As at the year-end, the bank's ATM network had processed more than 195 million transactions. More than RUB 1,235 billion of cash was withdrawn, over RUB 270 billion was received and credited to customers' card accounts and payments of more than RUB 34.0 billion were made.

The bank is continuously improving its ATM network by enhancing service quality and expanding its size. In 2012, the bank installed 580 ATMs, 340 of which have a cash pay-in function.

In 2012, the technical availability of ATMs, defined as the ratio of time when the devices were operational to the total time for the period, increased from 92.2% to 92.6%.

In 2013, the VTB24 plans to expand its own ATM network to 6,800 units and put new devices into service, such as information and payment terminals for non-cash payments.

VTB24 ATMs



Network

VTB Group has one of the most developed networks of sales and service offices in Russia. This includes VTB and VTB24 offices, as well as offices belonging to the Bank of Moscow, TransCreditBank and Leto Bank, which, when combined, amount to 1,381 units.

In 2012, VTB24 achieved impressive growth rates in the scale and quality of its network. The retail loan portfolio per branch was RUB 1.3 billion and RUB 1.0 billion of retail deposits. During the year, business volumes per branch grew by 1.5 times. VTB24's network still remains the most efficient in the industry, with growth outperforming its main competitors by at least three times.

During the reporting period, VTB24 accomplished all of its network development plans. The bank opened the majority of its new offices in the Moscow region, St. Petersburg, the Nizhny Novgorod and the Tyumen regions, as well as the Republic of Bashkortostan. The number of VTB24 offices totalled 690 units by the beginning of 2013. Today, the bank operates sales offices in 69 regions and 233 cities in Russia, providing coverage for 73% of the country's urban population.

In 2012, VTB24 expanded by opening branches for sales and clients' payroll service in a new format across the enterprise. During the reporting period, 20 offices of this new format were opened for employees of VTB24 enterprises and its partners.

The bank confidently maintains its leading market position for customer service quality. Thus, in 2012, according to The Retail Finance magazine ranking, VTB24 was named as the best bank for the quality of its customer service for the fourth consecutive year.

As part of its network development plans, VTB24 aims to open 80 new sales points in 2013. Integrating TransCreditBank will be the most important growth factor, since this will increase the bank's total network to 1,000 offices. Further dynamic development of its own network and integration with TransCreditBank will enable VTB24 to expand into 100 new towns and three new territories of the Russian Federation in 2013.

4.3.3 Other businesses

In addition to retail and corporate and investment banking services, VTB Group provides financial services in such areas as leasing, factoring, insurance and private pensions. Establishing synergies and promoting the cross-selling of banking and non-banking products remain some of the key priorities in developing the Group.

Leasing

VTB Leasing has proved itself as a reliable partner over its 10 years operating in the leasing market, offering world class services. Today, VTB Leasing is one of the leading Russian leasing companies, with regional offices across Russia and subsidiaries in the CIS and Europe.

2012 was extremely successful for all of VTB Leasing's business lines. There was active development in both light motor vehicles and freight transportation, as well as in specialised equipment. As at the end of 2012, the combined leasing portfolio of VTB and TransCreditLeasing amounted to RUB 349.4 billion, and the volume of new leasing contracts totalled RUB 111.2 billion. Key segments of the company's leasing portfolio include rail transport, aircraft, oil production and refining equipment, as well as power generation and engineering equipment.

VTB Leasing is, according to the Russian Expert RA Rating Agency, one of the top-three companies in the Russian leasing market and, based on Leaseurope data, is among the Top-50 leasing companies in Europe. In December 2012, VTB Leasing won the following awards: "Leading positions in the railway equipment segment - 2012" and "Leading positions in the aircraft leasing segment – 2012".

The Group continues to actively develop its leasing business. It plans to pay particular attention to operating leasing in the automotive industry, with full-cycle service and gradual increase of the geographic area covered. VTB Leasing also intends to focus on leasing operations with oil and gas production equipment.

Factoring

VTB Factoring Limited is the leader in the Russian factoring market by the size of its portfolio. The scope of the company's activity includes 17 of Russia's largest cities. Attracting customers for the factoring service also takes place through VTB branches. As of the end of 2012, the company's portfolio comprised 633 customers and 1,302 borrowers.

One of the key priorities of the company's strategy is to focus on working with Russia's largest goods and services enterprises.

In 2012, VTB Factoring (including TransCreditFactoring) was the top factoring firm in the Russian market by all key indicators. Turnover reached RUB 340 billion and the factoring portfolio was over RUB 72 billion. Using these indicators, the company is ranked first among factoring firms by the size of its portfolio and by assigned receivables, as well as by revenue. In 2012, the company's market share increased to 24%.

In 2012, VTB Factoring financed more than 968,000 deliveries of goods and services. As part of the company's strategic development plan, VTB Factoring significantly increased the volume of sales of factoring products to industrial enterprises, expanded the product line, and updated the factoring infrastructure and servicing technologies.

***NPF VTB Pension Fund*.**

NPF VTB Pension Fund is a dynamically developing non-state pension fund, which provides a full range of services for mandatory pension insurance and non-state retirement benefits, including the development and offering of corporate pension programmes.

In 2012, the fund's assets grew by more than 2.2 times, reaching RUB 36.8 billion.

By the end of the reporting year, more than 950,000 people had signed contracts with VTB Pension Fund for mandatory pension insurance. The fund actively cooperated with both the VTB Group's banks and regional banks in order to attract new clients.

In 2012, the Fund was one of the first to accept applications to pay out the funded part of labour pensions in all the branches of VTB24 bank.

As of the end of 2012, VTB Pension Fund had moved up from seventh to fifth position in the ranking compiled by the Pension Fund of the Russian Federation, which is based on the number of contracts signed for mandatory pension insurance during the year. It also moved up 3 positions to 9th in the rating of the Federal Financial Markets Service, which is based on the total pension assets under management.

The Expert RA Rating Agency upgraded the Fund's rating to "A++" ("Exceptionally high (highest) level of reliability"), with a "stable" outlook. The Fund won the "Non-state Pension Fund of the year for mandatory pension insurance" award at the Financial Elite of Russia Awards 2012. The Expert RA agency also awarded NPF VTB Pension Fund for the high quality of its risk monitoring.

Insurance

For more than 10 years VTB Insurance has been providing private and corporate clients with a full range of insurance services: property insurance, civil and professional liability insurance, and personal insurance.

The company saw significant growth in 2012 and became one of the most dynamic players in the market. VTB Insurance's sales more than doubled, reaching RUB 23.1 billion (+144% on the previous year). This success allowed the company to climb the ranking of market leaders and to enter into the Top-10 Russian insurers by volume of premiums. In only the last five years, VTB Insurance's business volumes have increased by more than 10 times.

VTB Insurance continued to develop its key business lines – banking and corporate insurance. In addition, in 2012, the largest contract on the market was won by the company, which was for the mandatory personal insurance of employees of the Ministry of Internal Affairs. The high growth rate of the business, along with the company's focus on high-margin market segments, enabled the company to become one of the most profitable in the market. VTB Insurance's net profit according the Russian Accounting Standards was RUB 4.3 billion in 2012, which is twice that of the previous year. The Company's capital base increased by 1.5 times and amounted to RUB 6.5 billion as of the end of 2012.

In the reporting period, VTB Insurance confirmed its position as one of the most reliable insurance companies in Russia. In 2012, the international rating agency, Fitch Ratings, confirmed the company's "BBB-" (Outlook: "Stable") financial strength rating, while the Expert RA Rating Agency maintained the company's "A++" ("Exceptionally high level of reliability") rating.

VTB Insurance continues to develop its retail network. The Company now has 35 branches and 224 sales outlets in 58 regions of the Russian Federation, primarily based on the offices of VTB, VTB24, TransCreditBank and the Bank of Moscow.

4.3.4. BUSINESS OUTSIDE OF RUSSIA

VTB Group has a significant presence outside of the country. The Group's international network enables it to provide banking services in Europe, Asia, North America and Africa. VTB's international presence also assists businesses from Russia and the CIS to cooperate with and expand their presence into international markets. VTB's international operations also enable the Group to diversify its business and increase its profitability by providing access to high-margin markets.

Outside Russia, VTB Group operates through 15 subsidiary banks in the CIS (Armenia, Ukraine (two subsidiary banks), Belarus (two subsidiary banks), Kazakhstan and Azerbaijan), in Europe (Austria, Cyprus, Germany, France, Great Britain and Serbia), in Georgia and Africa (Angola), as well as through two representative offices located in Italy and China, two VTB branches in China and India, as well as through two branches of VTB Capital plc in Singapore and Dubai. The Group's investment banking division conducts broker-dealer operations in the United States, conducts securities transactions and provides financial advice in Hong Kong, and also carries out investment banking activities in Bulgaria. In addition, VRB bank operates in Vietnam, which was jointly established by VTB and the Bank for Investment and Development of Vietnam.

Business in the CIS and Georgia

The development of VTB's business in the CIS countries is the key priority of the Group's international strategy. The Bank's active presence in the financial markets of the former Soviet Union states facilitates the strengthening of economic relations between the countries, and enables VTB to provide a broader range of services to its corporate clients.

As a result of active growth in the retail lending business, in 2012, *PJSC VTB Bank (Ukraine)* climbed 4 places to 10^{th} position by number of loans to individuals. The portfolio of loans to individuals, excluding reserves, grew by 45% to UAH 3.6 billion (USD 446 million). Demonstrating a stable net interest income, the bank increased its net commission income by 37%. The total net commission income reached UAH 464 million (USD 57 million) by the end of 2012.

Despite all the difficulties faced by the Belarusian economy and its financial sector in 2012, *CJSC VTB Bank (Belarus)* reported good results in 2012 across main business performance indicators. During the reporting period, the bank continued to develop its corporate business segment, expanding its presence in the food, trade and construction industries. The bank actively cooperated with resource-intensive companies, engaged in R&D in engineering sciences, transportation of oil products, engineering services and design. In 2012, the bank actively attracted funds of its corporate clients, almost doubling the volume of deposits in this segment, whilst growing its market share from 2.8% to 4.3%.

In 2012, *CJSC VTB Bank (Armenia)* continued to develop as a universal bank, significantly strengthening its position across main indicators and retaining its leading position in the market.

In 2012, the bank managed to achieve its targets and by the end of the year kept its leading position in the market of active banking transactions. VTB Bank (Armenia) is gradually diversifying its resource base, improving its asset structure, increasing its profitability and the quality of the products and services it offers. The bank's credit policy aims to comprehensively facilitate Armenia's sustainable economic development. In 2012, the bank's credit portfolio increased by 31.3% to AMD 168.1 billion (USD 417 million).

At the end of 2012, the volume of funds deposited from individuals amounted to AMD 72.6 billion (USD 180 million), which is a 54.3% increase from 2011. As at the end of the reporting period, the bank ranked 4th place by amount of retail deposits.

In 2012, *JSC VTB Bank (Kazakhstan)* delivered high growth rates exceeding the Bank's forecasts, as detailed in its business plan.

VTB Bank (Kazakhstan) was able to significantly increase the volume of its active banking transactions by intensively attracting new customers and further developing its relations with current clients. In 2012, the bank's loan portfolio increased to 84% of its asset structure, while absolute size of the portfolio grew by 77% and amounted to KZT 80.8 billion (USD 538 million).

In 2011, the bank began to issue international payment cards, and in December 2012, it was awarded with the VISA certificate, "For the active development of the bank card business in Kazakhstan".

JSC VTB Bank (Georgia) continued its active development during 2012. Today, the bank is among the ten largest banks in the country.

As at the end of 2012, the bank held 6th position in terms of assets size, credit portfolio size and amount of retail deposits. The bank rose to 5th place by the amount of corporate deposits it has attracted.

In 2012, VTB Bank (Georgia)'s assets rose by 28.6% to GEL 545.1 million (USD 329 million). During the reporting period, the bank mostly developed its retail business segment, including servicing small businesses. The loan portfolio of this segment grew by 41.7%. The credit portfolio growth was supported by the opening of six new sales outlets and by aligning the existing sales outlets to a standard level of service. The bank also expanded its alternative sales channels and introduced a new sales model in the small business segment.

According to an independent survey conducted by the international research company, IPM, in 2012, the bank became one of the leaders (top-3) by the quality of customer service among Georgian banks.

OJSC VTB Bank (Azerbaijan) is a universal bank providing corporate as well as retail banking services in the Republic of Azerbaijan. The bank has been demonstrating high growth rates, exceeding the forecasts set out in the bank's business plan.

As at the end of 2012, the bank's credit portfolio grew by 71%, including the retail segment, which more than tripled.

In May 2012, VTB Bank (Azerbaijan) approved its development strategy for 2012-2014. According to the strategy, the bank will develop as a universal credit organisation. The development of its retail network will enable the bank to achieve its business objectives. In December 2012, VTB Bank (Azerbaijan) opened its third branch. In 2013, the bank's network will be expanded to seven outlets, and by 2014, the bank intends to comprise nine sales outlets.

Business in Europe

In 2012, the Group's European sub-holding continued to strengthen its market position in servicing export and import operations of the largest Russian and CIS exporters. Overall, the reporting period saw a continued growth in the corporate lending sector. In 2012, VTB's European sub-holding developed two main areas of its business with local corporate customers. These included growing its lending operations to European companies and implementing the VTB Direct project. During the reporting period, the European sub-holding's loan portfolio grew by 11% to EUR 6.5 billion (USD 8.6. billion).

In February 2012, *VTB Bank (Deutschland) AG* participated in an LTRO (longer-term refinancing operations) tender carried out by the European Central Bank (ECB). As a result, the bank attracted long-term funds of EUR 450 million for a period of three years at the ECB interest rate. VTB Bank (Deutschland) AG has been offering clearing services since April 2012 for the retail clients of the VTB Bank (Austria) branch in Frankfurt am Main. In June 2012, VTB Bank (Deutschland), for the first time in its history, was the leading organiser (MLA) and bookrunner (the organiser, which is in charge of the books) of a syndicated loan for a large German company, Sachtleben, in which VTB Bank (Deutschland)'s share amounted to nearly 10% of the total volume. In addition, in 2012, the bank acted as MLA in syndicated loans for a range of Russian banks.

In 2011, *VTB Bank (Austria)* and *VTB Bank (France)* launched an innovative retail product for VTB Group – VTB Direct, an electronic savings deposit account. The results for the reporting year show that almost 4,800 customers are already using this service in France, with more than 111,400 customers using it in Germany. The total number of deposits amounted to nearly EUR 180 million and EUR 2.3 billion respectively (USD 228 million and USD 3 billion). VTB plans to develop this product further by widening its client base and introducing innovative ideas.

A pilot project on issuing credit cards for corporate clients was launched in 2012. A cash pooling product was also introduced as part of the Group's transaction business development.

2012 was a period of active growth for VTB Bank's subsidiary in Cyprus - *Russian Commercial Bank*. The bank's assets grew by one-third to USD 18 billion within the reporting year.

As part of the annual Russia-Germany congress, organised by the Council of the Russian Economy in Germany, the Trade Representative of Russia in Germany and the Eastern Council of the Economy of Germany, VTB Bank (Deutschland) AG was awarded the diploma and the "Successful bank" prize for its active work in the German and European Union markets.

Business in Asia and Africa

The main objective of VTB Group's banking operations in Asia and Africa is to establish strong partner relationships with companies from Russia and the CIS that operate in these markets, and with local businesses looking to expand into the CIS.

VTB Bank Branch in Shanghai is the only bank from Russia and the CIS, which has a banking licence in China. It aims to provide support to VTB's large corporate clients in China and facilitate access to the Chinese market for CIS companies and banks. The branch has been active in trade finance transactions, servicing Russian importers and exporters, and in lending to the subsidiaries of Russian businesses in China. In 2012, the branch successfully entered into a new client segment, starting to service Chinese enterprises, which form part of large Chinese state holdings, and which also cooperate with strategically important clients of VTB Group.

The VTB Bank Branch in Shanghai placed particular emphasis on the development of operations in national currencies. The branch has had market maker status since 2010, which allowed it to participate in the setting of rouble/yuan exchange rates and conduct operations on the China Foreign Exchange Trade System (CFETS). During 2011-2012, the VTB Bank Branch in Shanghai maintained its leading position on the local foreign exchange market for transactions in the rouble/yuan pair.

The branch plays a major role in maintaining rouble liquidity in the Chinese market, providing Chinese banks with a full range of services for rouble-denominated bank accounts and foreign exchange operations within China. Since 2012, the branch has been actively developing rouble-denominated interbank lending transactions of Chinese financial institutions.

In December 2012, the VTB Bank Branch in Shanghai obtained permission from the China Banking Regulation Commission to conduct transactions in the yuan currency. As a result, VTB Bank Branch in Shanghai increased its capital by CNY 100 million. Yuan-denominated client transactions are planned to become effective in May 2013.

The joint Russian-Angolan bank, *Banco VTB Africa S.A. (VTB-Africa)*, has been a success since its launch in 2007. The bank is actively working to attract new clients and develop the transaction banking business, primarily international settlements, trade finance, currency exchange and working capital loans.

As part of its established development framework, the bank formed a new organisational structure, and also highlighted its priority business lines. As a result of taking these measures, the bank was able to increase the size of its client business, and to form a high-quality loan portfolio. Moreover, VTB Group lent USD 1 billion to the Ministry of Finance of the Republic of Angola and intends to play an active role in developing Angola’s capital markets.

In 2012, new grounds were established to further develop the Vietnam-Russia Joint Venture Bank (VRB), whose mandate is to provide reliable support to Russian companies operating in the Southeast Asian markets. To increase its market representation and create a convenient infrastructure to service Russian and Vietnamese companies, VRB has been focusing on the development of its sales network. Currently, it consists of the head office in Hanoi, five branches in Vung Tau, Ho Chi Minh, Da Nang, Nha Trang and Hai Phong; it has centres that deal with specific transactions and card requests; as well as an extensive network of additional offices in the country’s economic centres of Hanoi, Ho Chi Minh, Vung Tau; and it also has a wholly-owned subsidiary bank in Mosc ow. VRB is a universal commercial bank providing an extensive range of banking products and services for Vietnamese and Russian companies, such as debt and project financing, import and export financing, trade finance and other products, including those, which are new to the Vietnamese market.

VTB Bank Branch in New Delhi (India) is the flagship of Russian banking in the country. Its key objective is to become an intermediary between both countries’ businesses in their cooperation and collaboration, the development of new projects and the opening of new markets. The branch focuses on the foreign trade operations of Russian companies that operate in India, as well as their subcontractors, and it also serves Indian companies with interests in Russia. The branch’s business is developing steadily.

Today, VTB Bank Branch in India examines opportunities to participate in Russian-Indian joint projects in India in sectors covering technical military projects, chemicals, metals, energy, agriculture, telecommunications, the development of infrastructure and more. The branch is also considering the prospect of conducting export and import settlements in national currencies and opportunities are being evaluated to help the branch to structure payments and arrange project financing, involving VTB’s subsidiary banks in Ukraine, Belarus, Kazakhstan and Armenia.

4.4 Financial Report

Financial highlights

- VTB Group's 2012 net profit was RUB 90.6 billion, corresponding to earnings per share of 0.817 Russian kopecks and an ROE of 13.7%. In the fourth quarter 2012, the Group posted a record quarterly net profit of RUB 30.4 billion, corresponding to an annualised quarterly ROE of 16.8%;

- The Group's core business segments, Retail Banking and Corporate and Investment Banking (CIB), posted a profit before tax of RUB 66.0 billion and RUB 52.4 billion in 2012, contributing 57.8% and 45.9% respectively to the Group's total pre-tax profit before intersegment eliminations;

- Net interest income for 2012 amounted to RUB 246.0 billion, up 8.4% from 2011;

- Net fee and commission income was up 23.2% year-on-year to RUB 48.3 billion;

- Net interest margin for 2012 amounted to 4.2% compared to 5.0% in 2011;

- Cost of risk was at 1.2% of average gross loans in 2012, versus 0.9% in 2011;

- Balance sheet improved due to organic growth: total gross loan portfolio (including provisions) increased by 10.8% to RUB 5,084.8 billion and customer deposits were up 2.1% to RUB 3,672.8 billion;

VTB Group key financial indicators

In RUB, billion	2011	2012	Change
Net interest income	227.0	246.0	8.4%
Net fee and commission income	39.2	48.3	23.2%
Operating income before provisions[5]	286.6	369.5	28.9%
Net profit	90.5	90.6	0.1%
Total gross loans and advances to customers	4,590.1	5,084.8	10.8%
Customer deposits	3,596.7	3,672.8	2.1%
Net interest margin	5.0%	4.2%	-80 b.p.
Provision charge for loan impairment / Average gross loan portfolio	0.9%	1.2%	+30 b.p.
Non-performing loans ratio[6]	5.4%	5.4%	-

[5] Here and below, operating income before provisions is calculated before provisions for impairment of debt financial assets and impairment of other assets, contingencies and credit-related commitments.
[6] Ratio is calculated to total gross loans including financial assets classified as loans and advances to customers pledged under repurchase agreements.

Profit & Loss statement analysis

Net interest income

Net interest income is the main source of income for VTB Group. In 2012, net interest income contributed RUB 246.0 billion to operating income, which was 8.4% higher compared to 2011 (RUB 227.0 billion).

The Group receives its interest income from lending to customers, from transactions with securities and from interbank lending. The table below shows the main elements of VTB Group's interest income in 2011 and 2012.

in RUB, billion	2011	2012	Change
Interest income			
Financial assets at fair value through profit or loss	**28.3**	**27.5**	**-2.8%**
Loans and advances to customers	376.7	513.3	36.3%
Due from other banks	8.8	9.8	11.4%
Other financial assets, including securities	2.9	5.1	75.9%
Financial assets not at fair value through profit or loss	**388.4**	**528.2**	**36.9%**
Total interest income	**416.7**	**555.7**	**33.4%**
Interest expense			
Customer deposits	(112.6)	(166.0)	47.2%
Debt securities issued	(36.8)	(56.0)	52.2%
Subordinated debt	(17.2)	(19.3)	12.2%
Due to other banks and other borrowed funds	(23.1)	(68.4)	196.1%
Total interest expense	**(189.7)**	**(309.7)**	**63.3%**
Net interest income	**227.0**	**246.0**	**8.4%**

Source: VTB Group's IFRS consolidated financial statements for 2011 and 2012

In 2012, VTB's interest income increased by 33.4% to RUB 555.7 billion. The key contributing factors to this were organic growth in the Group's loan portfolio, higher profitability of the retail loan portfolio and releases of provisions, booked on the balance of the Bank of Moscow before its consolidation with the Group.

As at the end of the reporting period, interest income from lending to customers amounted to RUB 513.3 billion, up 36.3% compared to 2011. At the same time, interest income from the retail banking business grew more rapidly than that from corporate and investment banking. This was primarily due to a greater share of high-margin customer lending services. In 2012, the Group's income from interbank lending increased to RUB 9.8 billion, compared to RUB 8.8 billion in 2011.

During the reporting period, the Group's interest expenses grew at higher rates than interest income. At the year-end, VTB's interest expenses totalled RUB 309.7 billion, up 63.3% compared to 2011. Interest expenses increased primarily due to liabilities on customer deposits, as well as due to liabilities to banks and other institutions, the costs of which were up 196.1% to RUB 68.4 billion. This was the result of the organic growth of the Group's customer base with simultaneous growth in interest rates.

In 2012, the Group's costs of funding increased by 4.8%, compared to 4.0% in 2011.

Net interest spread and margin

The Group's net interest margin shrank by 80 b.p. year-on-year to 4.2% in 2012.

Net interest spread and margin

in RUB, billion	2011	2012	Change
Average interest rate on interest earning assets	9.2%	9.5%	+30 b.p.
Average interest rate on interest bearing liabilities	4.3%	5.2%	+90 b.p.
Net interest spread	4.9%	4.3%	-60 b.p.
Net interest margin	5.0%	4.2%	-80 b.p.

Source: VTB Group's IFRS consolidated financial statements for 2011 and 2012

Net fee and commission income

One of the Group's strategic objectives is to create a strong transaction banking business through an enhanced product offering and an improved sales system of commission-based products tailored to the needs of each customer segment. During the reporting period, VTB achieved notable success in this regard, with a 23.2% increase in net fee and commission income to RUB 48.3 billion.

Gross fee and commission income in 2012 increased by 29.1% to RUB 61.2 billion, compared to RUB 47.4 billion in 2011. The bulk of fee and commission income (60.6%) is generated by settlements and cash transactions. Aggregate fee and commission income received by VTB Group from settlements and cash transactions in the reporting period was RUB 37.1 billion, an increase of 49.6% year -on-year.

Similarly to 2011, during the reporting period, the Group demonstrated a significant increase in fee and commission income generated from the provision of customer services in the sphere of trade finance and the issue of guarantees. Revenues for this item were up by 39.4% to RUB 9.2 billion in 2012, driven by the rapid development of the trade finance business.

In 2012, the Group's fee and commission expenses grew by 57.3% to RUB 12.9 billion, compared to RUB 8.2 billion in 2011. In parallel with this, commission expenses on settlement and cash transactions amounted to RUB 10.6 billion, up by 53.6% year-on-year. This increase is related to the growing volume of operations conducted by the Bank.

in RUB, billion	2011	2012	Change
Commission on settlement transactions	24.8	37.1	49.6%
Commission on guarantees issued and trade finance	6.6	9.2	39.4%
Commission on cash transactions	5.3	6.1	15.1%
Commission on operations with securities and capital markets	5.9	6.4	8.5%
Other	4.8	2.4	-50.0%
Total fee and commission income	**47.4**	**61.2**	**29.1%**
Commission on settlement transactions	(5.0)	(9.2)	84.0%
Commission on cash transactions	(1.9)	(1.4)	-26.3%
Other	(1.3)	(2.3)	76.9%
Total fee and commission expense	**(8.2)**	**(12.9)**	57.3%
Net fee and commission income	**39.2**	**48.3**	**23.2%**

Source: VTB Group's IFRS consolidated financial statements for 2011 and 2012

Net gains arising from financial instruments

In 2012, net gains arising from financial instruments amounted to RUB 15.0 billion, whereas, in 2011, the Group's losses net of gains arising from financial instruments amounted to RUB 26.7 billion. Cumulative gains less losses from transactions with foreign currencies and foreign exchange translation amounted to RUB 6.8 billion in 2012, compared to a net loss of RUB 0.4 billion in 2011.

Provision charge for impairment

During the reporting period, VTB Group was able to increase the provision charges for impairment. The provision charge for impairment of debt financial assets in 2012 increased to RUB 59.4 billion (compared to RUB 31.6 billion in 2011), 34% of which occurred in the first quarter of 2012 as part of the Group's conservative countercyclical provisioning policy. During the reporting period, contributions to the provision charge for loan impairment grew to 1.2% of the average gross loan portfolio, compared to 0.9% in 2011.

In 2012, the total allowance for loan impairment increased to RUB 323.3 billion from RUB 288.5 billion in 2011. The biggest contributor to this is the allowance for corporate loan impairment, which decreased to 80.8% of the total allowance for loan impairment in 2012, compared to 84.5% in 2011.

As a result of the higher provision charge for loan impairment in 2012, the ratio of the allowance for loan impairment to the total loan portfolio was up to 6.4% from 6.3% at the end of 2011.

Staff costs and administrative expenses

VTB Group's staff costs and administrative expenses increased by 35.4% in 2012 to RUB 191.6 billion, primarily due to the consolidation of the Bank of Moscow, as well as the intensive development of the key retail businesses of the Group.

The cost-to-income ratio before provisions grew to 51.9% in the reporting period, compared to 49.4% in 2011.

Net profit

VTB Group generated a record net profit for the third consecutive year, which was RUB 90.6 billion, compared to RUB 90.5 billion for the previous year. This positive financial result was mainly driven by the income growth in the Group's core businesses.

Analysis of VTB Group's financial position

Assets

As at the end of 2012, VTB Group's total assets stood at RUB 7,415.7 billion, compared to RUB 6,789.6 billion at the end of 2011. Asset growth in the reporting period was a result of organic growth of the business.

The Group's gross loan portfolio increased by 51.8% to RUB 5,084.8 billion in 2012. VTB's corporate loan portfolio increased by 5.3% to RUB 3,964.6 billion.

In 2012, the growth in retail lending was higher than in corporate lending. As at the year-end, the retail loan portfolio had increased by 35.9% and had reached RUB 1,120.2 billon. The key growth drivers of the retail loan portfolio were mortgages and consumer loans, which increased by 26.4% and 43.1% respectively over the year.

In 2012, the Group's securities portfolio shrank in value by 4.1% to RUB 930.0 billion. In the reporting year, the Group significantly scaled down its investments in equity securities: the equity portfolio decreased by 61.7% or by RUB 167.8 billion in real terms and amounted to RUB 104.0 billion.

Assets

in RUB, billion	31.12.2011	31.12.2012	Change
Cash and short-term funds	407.0	569.0	39.8%
Mandatory reserve deposits with central banks	71.9	63.8	-11.3%
Financial assets at fair value through profit or loss	571.5	528.8	-7.5%
Financial assets pledged under repurchase agreements and loaned financial assets	198.6	302.9	52.5%
Due from other banks	424.6	358.6	-15.5%
Loans and advances to customers	4,301.6	4,761.5	10.7%
Assets of disposal group held for sale	10.3	15.3	48.5%
Financial assets available-for-sale	167.7	97.4	-41.9%
Investments in associates and joint ventures	32.5	48.3	48.6%
Investment securities held-to-maturity	32.4	0.9	-97.2%
Premises and equipment	116.8	142.5	22.0%
Investment property	122.5	148.0	20.8%
Intangible assets and goodwill	141.2	137.3	-2.8%
Deferred tax asset	42.7	42.9	0.5%
Other assets	148.3	198.5	33.9%
Total assets	**6,789.6**	**7,415.7**	**9.2%**

Source: VTB Group's IFRS consolidated financial statements for 2011 and 2012

Liabilities

The Group's total liabilities in 2012 increased by 7.9% to RUB 6,649.6 billion, mainly as a result of the issuance of bonds and promissory notes, an increase in funding from customer deposits and the development of interbank lending. As at the year-end, VTB's deposit portfolio had increased by RUB 198.6 billion and amounted to RUB 3,672.8 billion. Customer funds remain the major contributor to the Group's resource base. In 2012, the proportion of customer deposits within the Bank's liabilities was down by 3.1 p.p. to 55.2%.

The reduction in the proportion of customer deposits within the Bank's resource base was driven by the Group's extensive activity in the debt capital markets and interbank lending, as well as by greater liabilities to the Bank of Russia. In the reporting period, the Group continued to diversify its funding sources across instruments, geographies, currencies and investor bases.

The amount due to other banks increased by 8.6% to RUB 759.9 billion during the reporting period. The Bank's liabilities to central banks in countries where the Group is present, including the Bank of Russia, grew by RUB 67.1 billion over the year to RUB 433.0 billion.

Liabilities

in RUB, billion	31.12.2011	31.12.2012	Change
Due to other banks	699.7	759.9	8.6%
Customer deposits	3,596.7	3,672.8	2.1%
Liabilities of disposal group held for sale	8.5	6.1	-28.2%
Other borrowed funds	734.6	806.2	9.7%
Debt securities issued	664.5	894.5	34.6%
Deferred tax liability	10.0	12.3	23.0%
Other liabilities	209.4	212.0	1.2%
Total liabilities before subordinated debt	**5,923.4**	**6,363.8**	**7.4%**
Subordinated debt	241.1	285.8	18.5%
Total liabilities	**6,164.5**	**6,649.6**	**7.9%**

Source: VTB Group's IFRS consolidated financial statements for 2011 and 2012

Total capital and capital adequacy

In 2012, the Group continued to improve its capital adequacy ratios. In August 2012, VTB successfully issued a USD 1 billion Tier 1 perpetual bond, which provided the Group with a cost effective, non-dilutive means of raising capital. The bond was designed to achieve capital treatment under Basel I and II, as well as to accommodate anticipated changes to the Russian regulatory system in the light of the transition to Basel III.

In November 2012, VTB increased the total issue size by USD 1.25 billion to USD 2.25 billion. In October, the Group also issued a USD 1.5 billion Subordinated Lower Tier 2 6.95% Eurobond, due in 2022.

During the reporting period, the Group considerably enhanced capital utilisation efficiency through acquisitions and organic growth of operations. At the year-end, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio stood at 14.7% and 10.3% respectively, compared to 13.0% and 9.0% in 2011.

Total capital and capital adequacy

in RUB, billion	31.12.2011	31.12.2012	Change
Tier 1 capital	509.0	640.4	25.8%
Tier 2 capital	245.4	293.4	19.6%
Less: deductions from total capital	(21.0)	(23.0)	9.5%
Total capital	**733.4**	**910.8**	**24.2%**
Risk weighted assets	5,655.9	6,219.3	10.0%
Tier 1 capital ratio	9.0%	10.3%	130 b.p.
Capital adequacy ratio	**13.0%**	**14.7%**	**170 b.p.**

Source: VTB Group's IFRS consolidated financial statements for 2011 and 2012

4.5. Risk management

Risk management policy, organisation and structure

VTB Group-level risk management

The principal risks facing VTB Group's business are credit risk, liquidity risk, market risk (including securities portfolio risk, interest rate risk and currency risk), and operational risk. Risk management at the Group level includes risk evaluation and monitoring, control over the size, structure and distribution of risks, and the identification of efficient methods to optimise and minimise risks (including maintaining the optimal balance between the risks and benefits of operations).

The main risk management principles that have been adopted by VTB Group are:

- The analysis and management of the Group's financial risks on a consolidated basis, covering all VTB Bank's Russian and international subsidiary banks and the key financial companies of VTB Group;
- The separation of the Group members' sphere of duties, and the clear allocation of responsibilities between collective bodies and individual officers in the decision-making process;
- The independence of risk assessment and control functions from operational banking functions;
- The application of state-of-the-art risk assessment methods;
- A rigorous reporting system at each level of management.

In light of VTB Group's expansion, the process of integrating and unifying the risk management systems within the Group continued throughout 2012. To support and co-ordinate this process and facilitate a timely exchange and analysis of information, as well as to implement and improve risk management procedures, a number of collective bodies functioned under VTB Group's Management Committee, in particular:

- The Risk Management Committee;
- The Credit Committee;
- The Assets and Liabilities Committee.

VTB's risk management system has been developed and implemented in accordance with the set strategies of its global business lines ("Corporate and Investment Banking" and "Retail Banking").

In 2012, the risk management policy of the VTB Group was implemented in compliance with approaches and procedures designed to restrict the growth of "risk appetite" in a reasonable way, taking into account the likely impact of negative risk factors, including those arising from the fragility of the global economy and financial recovery following the crisis in 2008-2009.

Control over risk management policies in the Group's companies is carried out consistently through the Bank's representation in VTB subsidiaries' Supervisory Councils and Boards of Directors, and through the coordination of their internal control and audit units.

In the reporting period, VTB provided the implementation and further development of procedures and methods of consolidated risk management at the Group level, including:

- A unified system within the Group for industry and country risk control;
- Databases of interconnected counterparties and non-performing debtors;
- Consolidated risk reporting systems;

- Automation of risk management processes, including the introduction of a number of programmes such as Kamakura Risk Manager, Misys Kondor Global Risk and SAS eGRC / OpRiskVAR;
- Procedures for calculating the Group's "economic capital" (Capital-at-Risk), and for allocating it according to subsidiaries and types of risks;
- Project for implementing Basel II standards;
- Centralised control over major transactions entered into by VTB's subsidiaries and the setting of consolidated limits related to borrowers and groups of borrowers that are clients of several companies within VTB Group.

VTB Bank-level risk management

VTB Bank's risk management policy is aimed at creating an integrated risk management system that is adequate for the nature and scale of the Bank's activities and risk profile, but which also falls into line with the need for further business development at the Bank. The development and improvement of risk management in the Bank is carried out in accordance with banking best practices, the regulations and recommendations of the Bank of Russia, recognised international standards and the recommendations of the Basel Committee on Banking Supervision.

In terms of organisation, VTB Bank's risk management system comprises various collective bodies (the Management Board, the Assets and Liabilities Committee, the Credit Committee, the Small Credit Committee, the Moscow Branch Credit Committee, the Credit and Small Credit Committees of the North-West Regional Centre, and the branches' Credit Committees) and the Bank's structural units.

VTB Bank Risk Department

The division that is responsible for developing the risk management system and controlling the credit, market and operational risks within VTB Group and VTB Bank is the VTB Bank Risk Department. As at the end of 2012, it comprised the following structural units:

a) Operating units for risks and/or credit procedure functions:

- Credit Risk Division;
- Market Risk Division;
- Operational Risk Division;
- Credit Applications Examining Service.

b) The Strategy, Methodology and Consolidated Risk Analysis Division (SMCRAD), which is responsible for risk management at the Group level, implementation of the Basel II – III standards and general Group-wide standards.

Credit Risk

Credit risk is the risk of financial loss, or performance risk and/or risk of additional expenses should a borrower/ counterparty fail to meet its contractual obligations. VTB Group and VTB Bank are primarily exposed to credit risk through their loan portfolios, securities portfolios, guarantees and letters of credit, derivatives portfolios and other credit- related contractual commitments.

VTB Group-level credit risk management

The key approaches and procedures are defined by the Basic Principles and Provisions of VTB Group's Credit Policy for 2011-2012, approved by the Group's Management Committee.

The management of credit risk within the Group is based on a combination of the following approaches:

- Local credit risk management at the Group company level;
- Consolidated credit risk management at the VTB Group level.

Within the framework of the local credit risk management system, the Group's companies assume and manage credit risks independently (including insurance and hedging risks), within the scope of their authority and limits with regard to risk indicators, and in accordance with national regulations and the standards of VTB Group. The Group's companies are responsible for the results of their lending activity, for the quality of their loan portfolios, and for the monitoring and control of credit risks associated with their portfolios.

Consolidated credit risk management includes the following functions:

- Consideration and approval of Group-wide standards for lending procedures and credit risk management;

- Development of a unified lending policy for VTB Group and its regular review, and ensuring that the lending policies of subsidiaries are harmonised with the Group's lending policy;

- Development and application of unified principles and methods within the Group for borrower assessment (rating systems for large corporate clients and credit institutions; scoring systems for retail clients), setting the fees for lending transactions, security, monitoring, provisioning, etc.;

- Control over the Group's combined credit portfolio and the level of risk taken by the Group with regard to counterparties and/or groups of related counterparties, as well as countries and industry sectors, through the establishment of consolidated limits and other types of limits (restrictions) within the Group;

- Assessment of the "economic capital" (Capital-at-Risk) necessary to cover the Group's credit risks;

- Preparation of consolidated reports on the Group's credit risks and their submission to the management bodies for review.

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

There is a separate policy for the Group's credit risk management relating to lending operations with individual borrowers and small business clients. VTB subsidiary banks that operate in the retail lending sector are guided by a set of documents approved by the Group's Management Committee and which establish the standards and approaches for managing retail risks at the level of each subsidiary bank and at Group level.

Various specialised units of VTB Bank, which are not part of the Risk Department (including the Corporate Business Support Directorate and the Non-Performing Loans Management Division under the Legal Department) works to identify, monitor and resolve potential problems and bad debt at the Group level.

Credit quality by class of loans and advances to customers as at 31 December 2012

(in RUB, billion)	Not Impaired			Impaired		
	Pass	Watch	Sub-standard	Doubtful	Loss	Total
Loans to legal entities	3,111.1	323.2	251.7	43.7	234.9	3,964.6
Financial assets classified as loans and advances to customers	244.8	0.7	-	-	-	245.5
Loans to individuals	1,014.8	1.8	27.4	19.0	57.2	1,120.2
Total loans and advances to customers	**4,370.7**	**325.7**	**279.1**	**62.7**	**292.1**	**5,330.3**

Source: VTB Group's IFRS consolidated financial statements.

VTB Group loan portfolio quality as at 31 December 2012

Total gross loans and advances to customers (in RUB, billion)	5,084.8
NPL ratio (%) [7]	5.4%
Allowance for loan impairment (in RUB, billion)	323.3
Allowance for loan impairment / Total gross loans (%)	6.4%
Allowance for loan impairment / NPLs (%)	112.4%

Source: VTB Group's IFRS consolidated financial statements.

VTB Bank-level credit risk management

VTB Bank manages credit risk by:

- Setting limits on the basis of the Bank's existing system of consolidated limits in relation to decisions regarding the concentration of credit risk for individual borrowers; regular reviews of credit limits by the VTB Risk Management Department, which are approved by the Credit Committee and comply with the regulations, set by the Bank of Russia;

- Coverage of credit risk by taking collateral and insurance, charging adequate fees for the risk, and establishing reserves to compensate for potential losses on loans;

- Assessment of the credit risk assumed by the Bank for individual borrowers, as well as within the framework of regular monitoring of the credit portfolio, individual customers, transactions and collaterals (including the ranking of borrowers);

- Prevention of credit risk at the loan application review stage, and by taking prompt measures as soon as credit risk factors have been identified during the course of monitoring.

[7] NPL ratio is calculated to total gross loans including financial assets classified as loans and advances to customers pledged under repurchase agreements.

The Group continued to undertake measures to improve the credit risk management system in 2012:

- Introduced a number of changes to the organisation of the Bank's credit process: credit processes for clients of large and medium businesses were separated; and credit processes in the head office and the Bank's regional offices (in particular, a dedicated project team deals with credit applications for large business clients at the head office) were revised and functions of the Credit Division were specified; VTB divisions' work with clients' documents was optimised by introducing a single resource for storing the documents provided by the client; the amount of documents provided by the client and the list of obligatory examinations were reduced and as a result, the time from the initiation of the transaction to making a decision on it has decreased;
- Introduced a new approach to setting credit limits on banks and non-bank credit organisations;
- Validated the Bank's current rating system;
- Approved new methods for stress-testing the Bank's credit portfolio;
- Improved approach to managing industry, regional and country risks;
- Introduced methods to assess risk concentration;
- Further developed the pricing system for transactions, which carry credit risk – the regulatory capital value allocated for a transaction is taken into account while determining credit risk premium;
- Enlarged the powers of the Small Credit Committee;
- Authorised the Commission for credit portfolio monitoring to delay the closing of new credit transactions within the limits and to suspend granting loans on completed credit transactions in case credit risk factors were identified.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturity dates of assets and liabilities, which may result in the VTB Group's inability to liquidate a position in a timely manner at a reasonable price to meet funding obligations (including the non-utilisation of funds at an above-average market rate).

VTB Group-level liquidity risk management
VTB's liquidity management policy was applied in 2012 not only within VTB Bank, but across the Group as a whole, based on internal regulations approved by the Group's Management Committee.

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

- Each bank/company of the Group manages its own liquidity on a separate basis in order to meet its obligations and to comply with the requirements of the national regulator and the recommendations of VTB Bank;
- VTB manages Group liquidity on the basis of centralised control and management of the key measures taken by the Group;
- The Group's medium-term and long-term financing programme is developed and implemented under the supervision of VTB Bank.

VTB Bank-level liquidity risk management

The Bank separates current and forecasted liquidity risk management.

Management of current liquidity is one of the essential tasks handled by the Bank as part of its operational management of assets and liabilities, and entails short-term forecasting and control of fund flows in terms of currencies and timings. In this way, the Bank ensures that it meets its obligations, completes settlements on behalf of its customers and funds active operations.

Current liquidity management is carried out by the Treasury Finance Department based on real-time (intraday) determination of the Bank's current payment position and forecasted future payment position, taking into account the payments schedule and other scenarios.

The main task in forecasted liquidity management is to develop and implement a number of instruments for managing assets and liabilities, aimed at supporting the Bank's instant funding capability, and to plan increases in its asset portfolio by optimising the ratio of liquid assets and profitability.

The Bank achieves this by making long-term liquidity forecasts and by adhering to internal liquidity standards (standards for liquid and highly-liquid assets and a standard for the Treasury securities portfolio), as formulated by the Assets and Liabilities Management Committee. The liquidity accounting standards of the Bank of Russia are also applied when carrying out forecasted liquidity management.

Long-term liquidity forecasts and risk analysis across VTB Group and within VTB Bank are carried out by the Market Risk Division, which presents the results in a consolidated report to the Bank's Assets and Liabilities Committee, the VTB Management Committee and the Assets and Liabilities Commission operating under the Management Committee.

Each forecast includes receivables and payments according to the contractual terms for operations, while also taking into account the following:

- planned transactions;
- possible extensions in terms of clients' funds (deposits and promissory notes);
- possible outflows of unstable "on-demand" capital (clients' current accounts and Loro accounts).

In addition, the Risk Division conducts stress-testing that allows for risk factors liable to influence the Bank's forecast liquidity and takes into consideration the Bank's additional opportunities to raise finance.

The following table illustrates VTB Group cash flows as at 31 December 2012, categorised according to time periods to contractual maturity/ payment on assets and liabilities.

Liquidity risk and contractual maturity analysis as at 31 December 2012 (in RUB, billion)

Time band	Inflow	Outflow	Gap	Gap cumulative	FX Swap cumulative	Dynamic gap (total) cumulative
RUB position						
Opening balance	–	–	231.3	231.3	–	231.3
Up to 1 month	379.5	(995.0)	(615.5)	(384.2)	(432.1)	(816.3)
From 1 to 3 months	329.2	(593.8)	(264.6)	(648.8)	(505.7)	(1,154.4)
From 3 months to 1 year	1,146.6	(843.7)	302.9	(345.9)	(531.2)	(877.1)
From 1 to 3 years	2,078.1	(638.3)	1,439.8	1,093.8	(561.5)	532.3
More than 3 years	2,191.2	(875.2)	1,316.0	2,409.8	(561.5)	1,848.4
Other currency positions						
Opening balance	–	–	370.6	370.6	–	370.6
Up to 1 month	744.1	(756.8)	(12.7)	357.9	429.9	787.8
From 1 to 3 months	166.9	(366.6)	(199.7)	158.2	499.0	657.2
From 3 months to 1 year	690.1	(996.3)	(306.2)	(148.0)	521.9	373.9
From 1 to 3 years	1,092.0	(1,362.8)	(270.8)	(418.8)	548.4	129.6
More than 3 years	778.6	(787.2)	(8.6)	(427.4)	548.4	121.0
Total						
Opening balance	–	–	601.9	601.9	–	601.9
Up to 1 month	1,123.6	(1,751.8)	(628.2)	(26.3)	(2.1)	(28.4)
From 1 to 3 months	496.1	(960.4)	(464.3)	(490.6)	(6.6)	(497.2)
From 3 months to 1 year	1,836.6	(1,840.0)	(3.4)	(494.0)	(9.3)	(503.3)
From 1 to 3 years	3,170.1	(2,001.2)	1,168.9	674.9	(13.1)	661.8
More than 3 years	2,969.8	(1,662.4)	1,307.4	1,982.3	(13.1)	1,969.2

Source: VTB Group's IFRS consolidated financial statements.

Liquidity gaps are closed by new borrowing and the renewal of existing deposits. The Group's medium-term liquidity is managed by attracting interbank loans and customer deposits and the Bank of Russia's secured loans, as well as repo transactions.

VTB also has a number of additional opportunities to raise finance to cover medium-term negative liquidity gaps, such as Eurobonds and bonds traded on stock exchanges in Russia. The currency structure of liquidity is managed by conducting "conversion swap" transactions.

A significant proportion of VTB Group's liabilities is represented by customer deposits, promissory notes, bonds, the current accounts of corporate and retail customers, Federal Treasury deposits, Eurobonds and syndicated loans.

Despite the fact that a considerable portion of customer liabilities are short-term deposits and "on-demand" accounts, diversification of these liabilities and VTB's past experience indicate that these liabilities are consistently refinanced by customers, and for the most part they are a stable source of funding. The stable element of short-term customer liabilities is determined for various currencies on the basis of a statistical trend analysis of the cumulative balances of these accounts over time.

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

Market risk

Market risk is the risk of downward pressure on financial results of the Group's operations in response to the revaluation of balance-sheet assets and liabilities, off balance-sheet demands and liabilities and derivative financial instruments, due to unfavourable changes in market parameters, such as interest rates (interest rate risk), exchange rates (currency risk) and the prices of securities (price risk).

Interest rate risk

Interest rate risk management is conducted on the basis of internal regulations adopted by the Group's Management Committee and includes:

- Setting standard interest rates for deposits and internal rates for funding, which take the current state of the market into consideration;
- Calculating interest rate risk indicators (CaR, EaR);
- Setting capital limits for covering interest rate risk for VTB Group and individual banks.

The basic parameters used to assess interest rate risk are:

- The sensitivity of the Group's interest position to a change in interest rates, determined in relation to (1) the size of the reduction in the net present value of the interest position and (2) to net interest income under an unfavourable parallel movement of the yield curves by 100 basis points;
- The economic capital for covering interest rate risk, evaluated using the IRRC indicator (Interest Rate Risk Charge), and an assessment of a reduction in the net present value of the Bank's position in case of potentially unfavourable movements of interest rates.

The table below shows the sensitivity of the Group's annual net interest income to a parallel shift of the yield curves, broken down by currencies as at 31 December 2012.

VTB Group interest rate sensitivity analysis as of 31 December 2012 (in RUB, billion)

	Interest rate increase, b.p.	Effect on net interest income	Interest rate decrease, b.p.	Effect on net interest income
RUB	109	(12.8)	(109)	12.8
USD	5	0.2	(5)	(0.2)
Total		**(12.6)**		**12.6**

Source: VTB Group's IFRS consolidated financial statements.

Currency risk

The Group manages its currency risk on the basis of internal regulations adopted by the Group's Management Committee, by matching the currency of its assets with that of its liabilities and by maintaining an open currency position (OCP) in each of the Group's banks within established limits, including internal OCP and VaR limits and regulatory OCP limits set by the Bank of Russia.

A quantitative risk assessment is carried out using the VaR (Value-at-Risk) method, which estimates the largest potential negative effect (within a specified confidence interval) of changes in the value of foreign exchange positions on the financial result. The VaR assessment is based on an historical modelling approach over a period of two years with a ten trading day time horizon and a confidence interval of 99%.

VTB Group currency risk indicators as of 31 December 2012 (in RUB, billion)

Open currency position	(40.1)
VaR	4.2

Source: VTB Group's IFRS consolidated financial statements.

<u>*Price risk*</u>

The general principles for managing price risk at VTB Group are as follows:

- Restricting the size of the price risk that is taken on by setting limits across instruments, portfolios and types of transactions;
- Controlling adherence to established limits and restrictions for taking on price risk (e.g. a minimum discount size on "reverse repo" operations and margin call conditions);
- Organisation of ongoing monitoring, analysis and reporting of price risk.

A quantitative risk assessment is carried out using the VaR method and the parameters described above for currency risk. Historical data was used for instruments with a quote history of at least 100 trading days in the previous year, no more than ten successive trading days without quotes, and an issue date no later than the beginning of the reporting year. The vast majority of such instruments in the Group's portfolio had a history of 250 trading days in the reporting year.

For instruments not satisfying these criteria (but nevertheless circulating in the market and carrying market risk), the price history used was that of equivalent (proxy) instruments, expertly selected using the following criteria:

- the proxy instrument is the same type of financial instrument as the original instrument (bonds/ Eurobonds);
- the issuer of the proxy instrument is in the same sector and the same country as the original instrument, and the issuers have comparable credit ratings;
- the proxy instrument and original instrument are denominated in the same currency;
- the proxy instrument and original instrument have comparable durations.

Proxy instruments are used for the VaR calculation in respect of approximately a quarter of the securities in the portfolio (a VaR assessment method was implemented in 2010 and is based on the full historical revaluation, which allows adjustments for risk diversification).

Operational risk

Operational risk is the risk of loss resulting from human factors, possible flaws in internal processes or inconsistency between them and legislative requirements, breakdowns in IT and other technological systems, or damaging external events (such as natural disasters).

VTB Bank's operational risk management system is designed to prevent potential losses and to reduce the possibility of business process failures and the inability to provide high-quality services to the Bank's clients caused by staff errors, system breakdowns, internal or external fraud or violations of the law.

In managing operational risk, the Bank adheres to the principles established by the Bank of Russia regulations, as well as the recommendations of the Basel Committee on Banking Supervision (including Basel II). To implement its operational risk strategy, VTB carries out regular procedures to identify, assess, control and limit operational risk. All significant deficiencies from a risk perspective, identified within the internal control system, are subjected to rigorous analysis. Based on the analysis, measures are developed and implemented to eliminate the causes and sources of the risk.

To monitor and assess the consolidated operational risk, the Bank and its subsidiary financial companies have implemented unified mechanisms to collect information on incidents of operational risk and related operating losses, as well as key risk and control indicators.

The procedure used by the Group's subsidiaries to submit regular operational risk indicator updates to VTB Bank's centralised risk management service is supported by the Report on Operational Risk module on the Group's Corporate Information System (CIS). This module provides multi-level control over the quality of downloaded data and the possibility for creating intra-group analytical reports with an optional level of consolidation.

The key methods for limiting operational risk are:

- Maintaining a complex system of current and follow-up internal control that is common to all business units and operations throughout the Bank;
- The regulation of all key operations by internal standards and codes of practice;
- The registration and documentation of banking operations and transactions and consistent control over primary documents and operating accounts;
- The application of the principles of dividing and limiting the functions, authorities and responsibilities of employees; the implementation of dual controls; collective decision-making;
- The setting of limits on the terms and scale of operations;
- The automation of banking operations based on the use of high-performance IT systems that are constantly monitored, and repaired promptly in case of breakdown;
- Good systems of physical and information security and control over access to the Bank's facilities;
- A well-managed HR policy, good staff training and education.

These risk limitation strategies are supported by insurance programmes diversified in accordance with the various types and scopes of operations. In 2012, the Group's total operational risk insurance amounted to approximately RUB 140 billion, including RUB 15 billion coverage of the Bank's risks. These insurance programmes have traditionally included insurance against criminal acts (including electronic and computer crime) under the Financial Institution's Blanket Bond scheme and Electronic &Computer Crime, insurance of valuables during transit and while in storage, liability insurance, and the insurance of the "card business", including cash machines and cover against bank card fraud.

An independent survey of the Bank's business processes assessing the effectiveness of control measures that have been implemented at the Bank, conducted in 2012, confirmed the high level of risk security.

Programme for implementing Basel II standards

As of December 31, 2012, Basel II standards were not fully incorporated into Russian banking legislation and regulations, in particular, procedures under Pillar 1 (Foundation internal ratings based approach) and Pillar 2 (Evaluation of capital adequacy).

VTB has been independently developing methods stipulated by the Basel II standards. These methods are designed to assess the capital adequacy by introducing the concept of “economic capital”, based on the so-called “advanced approaches”. Implementing this concept step-by-step will enable the Bank to assess the level of capital and the acceptable risk ratios with a high level of accuracy, while taking into account the specifics of Russian business.

VTB Bank is participating in a pilot scheme run by the Bank of Russia, which is aimed at using an approach based on internal ratings for regulation and supervision after 2015, when the Basel II standards will be applicable to the major lending institutions in the Russian Federation.

In August 2012, the Group launched a project to implement the Basel II standards. During the first stage of the project, a correspondence analysis between VTB Bank and VTB24 was conducted based on internal ratings and a quantitative impact study (QIS), which assess the potential impact of the Basel II standards for capital calculation. A plan to introduce Basel II standards at VTB Bank and VTB24 will be prepared during 2013.

The actual stage of implementation of the Basel II standards at VTB Bank and VTB24 will commence in 2013, and VTB24 seeks to ensure full compliance with this approach based on its internal ratings in 2015, while VTB Bank will do so in 2016. In the future, VTB plans to develop procedures for the implementation of Basel II standards in other banks of the Group, including Bank of Moscow, where the aim is to ensure compliance with the Basel II standards after 2016.

Key priorities in 2013

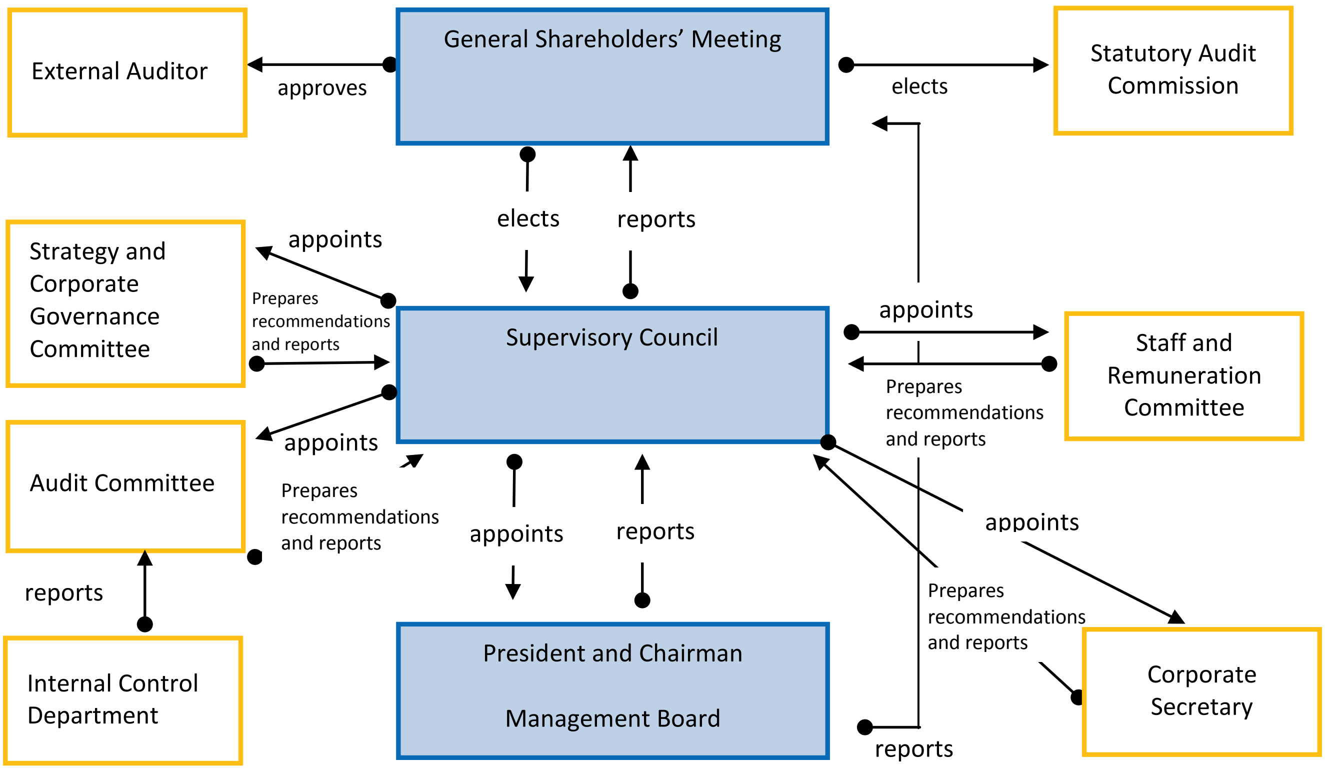
The Group plans to improve its risk management system in 2013 by implementing the following measures:

- Further unification of risk management methods and approaches applied by the VTB Group companies;
- Phased implementation of the Group’s "risk appetite" models which are in line with best practice, and ensuring their effective incorporation into the system and processes of establishing portfolio limits and other restrictions on the risk, which the Group takes on;
- Development of risk-oriented approaches to business planning within VTB Group;
- Implementation, development and wide application of modern methods of quantitative risk assessment, classification of approaches to building and validating the models and methods used, including rating borrowers, determining the probability of default, and creating provisions according to IFRS;
- Intensive work on the automation of key processes and analytical risk management tasks, including testing and commissioning specialised software for operational risk control.

5. CORPORATE GOVERNANCE

5.1. OVERVIEW OF THE CORPORATE GOVERNANCE SYSTEM

VTB Bank corporate governance structure



VTB Bank's corporate governance system is founded on the principle of unconditional compliance with the requirements imposed by Russian legislation and the Bank of Russia, and the recommendations of the Russian Federal Financial Markets Service. It also takes into account international best practice, including the globally recognised principles of corporate governance developed by the Organisation for Economic Co-operation and Development (OECD). VTB Bank guarantees that all its shareholders are treated equally, and gives them the opportunity to participate in the management of the Bank via the General Shareholders' Meeting and to exercise their right to receive dividends and information about the Bank's operations.

The General Shareholders' Meeting is VTB Bank's highest governing body. The Bank's Supervisory Council, elected by the shareholders and accountable to them, provides strategic management and oversight of the work of the executive bodies, namely the President and Chairman of the Management Board and the Management Board. The executive bodies are responsible for the day-to-day management of the Bank and carry out the tasks entrusted to them by the shareholders and the Supervisory Council.

VTB Bank has built an effective system of corporate governance and internal control of its financial and economic affairs as a means of safeguarding the rights and lawful interests of its shareholders. The Supervisory Council oversees the Audit Committee which, in conjunction with the Internal Control Department, supports the management function in ensuring the smooth running of the Bank's operations. The Audit Commission monitors the Bank's compliance with the relevant laws and regulations and the legality of its business transactions.

VTB contracts an external auditor, who has no connection to the Bank's or its shareholders' proprietary interests, to inspect and verify the Bank's financial reports.

The Staff and Remuneration Committee reports to the Supervisory Council and drafts recommendations on key appointments and incentives for members of the Supervisory Council and the Bank's executive and control bodies.

The Strategy and Corporate Governance Committee under the Supervisory Council considers and recommends on strategic development issues and on improvement of VTB corporate governance, as well as on streamlining the management of the Bank's own stock. In March 2012, the Strategy and Corporate Governance Committee considered the results of the assessment of VTB's corporate governance system, which was held by the members of the Supervisory Council in compliance with the Bank of Russia's recommendation. The Committee also approved a plan of action to develop the Bank's corporate governance system.

VTB Bank operates a policy of full and timely disclosure of reliable information, including details of its financial position, economic performance and ownership structure, thereby giving shareholders and investors the opportunity to make properly informed decisions. Information is disclosed in compliance with Russian legislation and the requirements of the UK financial regulator, the Financial Services Authority (FSA). VTB Bank introduced its own Regulation on Information Policy which, inter alia, establishes rules for the protection of confidential and insider information.

5.2. DEVELOPMENT OF THE CORPORATE GOVERNANCE SYSTEM IN 2012

During the reporting period, the Bank continued to develop its corporate governance system in line with best practice.

In 2012, the main activities in this area included:

- Approval by the Supervisory Council of the results of the corporate governance system assessment, which was conducted using methodology recommended by the Bank of Russia;

- Increase in the number of Independent members on the Supervisory Council, as well as the inclusion of three Independent members to the Staff and Remuneration Committee;

- Approval of a new edition of the VTB Bank Charter, which includes an extended remit of the Supervisory Council for internal control procedures and risk management;

- Improvement of information disclosure in accordance with corporate governance best practice;

- Creation of a separate section on VTB Bank's corporate website, which covers the Supervisory Council's activities and includes information on the agenda of each Supervisory Council meeting;

- Approval by the Bank of a number of key internal documents: Corporate Social Responsibility Policy, Regulation on the use of non-public information relating to VTB's activities, VTB's securities and transactions involving them, disclosure of which may influence the share price performance of VTB securities; rules of communication between employees regarding committed or potential misconduct, “Hotline for violations and abuses”; Regulation on settlements of conflicts of interests, Anti-Corruption Policy, and Compliance Policy.

As a result of the Bank’s continuous efforts to improve its corporate governance, VTB’s corporate governance rating was upgraded by an independent review. The National Corporate Governance Score (NCGS) of “7+” on the National Corporate Governance Scale, which was assigned to VTB, corresponds to the level of “Developed Corporate Governance Practice”. At the moment, VTB is the only Russian bank that has been granted the national corporate governance award.

The Bank’s improvement in the field of information disclosure was also recognised by an award as the best public company in the ‘best website for corporate information disclosure’ category. The competition was organised by the National Association of Corporate Secretaries (NACS) and the magazine “Joint-Stock Company: Corporate Governance Issues”.

5.3. THE GENERAL SHAREHOLDERS’ MEETING OF JSC VTB BANK

The General Shareholders’ Meeting is VTB Bank’s highest governing body. A decision to convene a General Shareholders’ Meeting is taken by the Supervisory Council. By voting on each point of the agenda of shareholders’ meetings, the Bank’s owners exercise their right to participate in its management. General Shareholders’ Meetings can be annual or extraordinary. The Annual General Shareholders’ Meeting must be held once every year. According to the applicable Russian law, the Annual General Shareholders’ Meeting must be held no earlier than the 1st of March and no later than the 30th of June. The Meeting’s procedure is governed by the Regulation on Procedures for Preparing and Holding the General Shareholders’ Meeting.

In accordance with the applicable Russian law and the Bank’s charter, information about the location and date of the Annual General Shareholders’ Meeting, as well as the cut-off date for a list of shareholders eligible to participate in the meeting is published in Rossiyskaya Gazeta and is available on VTB Bank’s official website.

The 2012 Annual General Shareholders’ Meeting of VTB Bank (“AGM”) was held on 8th June in Moscow by Sergey Dubinin, the Chairman of the Supervisory Council. The Meeting was attended by approximately 600 shareholders and their representatives. For the first time the event was broadcast live online via VTB Bank’s official website, allowing everyone, including those shareholders living in other regions, to attend the meeting online. 817 Internet users took advantage of this opportunity.

During the meeting, Andrey Kostin, VTB’s President and Chairman of the Management Board; Herbert Moos and Andrey Puchkov, Deputies of the President and Chairman of the Management Board; and Olga Avdeeva, Chief Accountant addressed shareholders with reports on agenda items.

The shareholders held discussions and voted on 15 matters, including:

1. Approval of VTB Bank’s Annual Report
2. Approval of VTB Bank’s annual accounts, including profit and loss statements (profit and loss accounts);
3. Approval of the distribution of profits for 2011;
4. Approval of the amount, terms, form and timing of the dividend payment for 2011;
5. Approval of remuneration payments to those Supervisory Council members that are not state employees in relation to their duties in the amount determined by the internal regulations;
6. Approval of the size of the Supervisory Council of VTB Bank;

7. Election of members of the Supervisory Council;
8. Approval of the size of the Statutory Audit Commission;
9. Election of members of the Statutory Audit Commission;
10. Approval of the auditor;
11. Approval of new editions of the VTB Bank Charter;
12. Approval of new edition of the Regulation on the Supervisory Council;
13. Approval of new edition of the Regulation on the Management Board;
14. Termination of the Bank's membership in the Russian Europay Members Association;
15. Approval of interested party transactions, which VTB Bank may enter in the future.

For the first time, in 2012, VTB Bank calculated the votes and published the results of voting on the day of the shareholders' meeting.

The AGM approved the distribution of profits for 2011 in the following order:

- Net profit to be allocated - a total of RUB 24,405,980,766.55;
- Dividend payment allocations - RUB 9,205,276,376.86, representing 37.72% of net profit;
- Retained net profit - RUB 15,200,704,389.69, which represents 62.28% of net profit.

The shareholders approved the dividend payment for 2011 of RUB 0.00088 per ordinary registered share of JSC VTB Bank with a nominal value of RUB 0.01.

The results of the AGM of VTB Bank have been published in Rossiyskaya Gazeta. Results of the ballot are available on the VTB website at: http://www.vtb.ru.

In addition to the Annual Meeting, shareholders are entitled to hold Extraordinary General Shareholders' Meetings. In 2012, no Extraordinary Shareholders' Meetings' were held.

5.4. THE SUPERVISORY COUNCIL OF JSC VTB BANK

The Supervisory Council is one of the most important elements of VTB Bank's corporate governance system. Acting on the basis of Russian legislation, the Bank's Charter and the Supervisory Council Regulation[8], it provides general oversight of the Bank's operations and formulates its long-term strategy.

Members of the Supervisory Council are elected at the General Shareholders' Meeting and hold their positions until the next annual meeting. The right to nominate candidates to the Supervisory Council is open to shareholders holding in aggregate no less than two percent of the Bank's voting shares. The election of members to the Supervisory Council takes place at the General Shareholders' Meeting by means of a cumulative ballot.

The Supervisory Council at the end of 2012 was elected at the Annual General Shareholders' Meeting on 8 June 2012. As of 31 December 2012, the Supervisory Council consisted of 11 members, ten of whom were Non-executive Directors and five of whom were Independent Directors. The combination of Executive and Non-executive Directors, and the inclusion of Independent Directors, is in line with international best practice and ensures that all shareholders' interests are represented at Board level. The composition of the Supervisory Council is reviewed annually to ensure that it accords with the Bank's current objectives, and that it is able to meet them effectively.

[8] New editions of the Bank's Charter and the Supervisory Council Regulation are approved by the AGM on 8 June 2012 (Protocol N41 dated 8 June 2012)

The appointment of Independent Directors is an important component of VTB Bank's corporate governance. According to the Bank's Code of Corporate Conduct, the Supervisory Council should include at least two Independent Directors who have expertise in the financial sector. The independent members of the Supervisory Council must not have any relationship with the Bank that would prevent them from fairly and impartially making decisions with regard to the strategy and current activity of VTB Bank. The Group observes the recommendations of the Federal Financial Markets Service's Code of Corporate Conduct, as well as other internationally recognised standards, to determine the criteria for independence.

Responsibility of the Supervisory Council members is insured under the director's liability insurance programme (Director's and Officer's Liability, D&O). In accordance with the D&O, compensable losses (including legal expenses), incurred due to unintentional wrongful acts, negligence or omission of the members of the Supervisory Council during the financial operations of the Bank, shall be reimbursed in relation to the claims, filed during the insurance period by investors, shareholders or government bodies. The ground for a claim could be personal responsibility of the Bank's Supervisory Council members for mistakes made during the decision-making process, for shortfall of financial control and risk management, which led to losses, decrease of the share price, asset value, or damages caused to third parties.

In accordance with the decision taken at the Annual General Shareholders' Meeting on 8 June 2012, the remit of the Supervisory Council has been extended to include the following matters:

- approving the risk management policy, considering reports on status and efficiency of risk management;
- approving the Regulation on internal control at the Bank;
- approving the Regulation on the Bank's internal control division, assisting governing bodies in ensuring the efficient performance of the Bank and appointing the Head of the aforementioned division;
- reviewing work plans and reports on the activity of the Bank's business unit responsible for internal control, and assisting governing bodies in ensuring the efficient performance of the Bank;
- considering Quarterly Reports of the Controller of the Bank's professional activity in the securities market;
- considering Quarterly Reports of the Controller of the Bank's Specialised Depository;
- considering Quarterly Reports on the results of internal control over insider trading and market manipulation prevention;
- assessing the Bank's corporate governance system;
- approving the Bank's Corporate Code of Conduct;
- approving the Bank's Code of Ethics;
- deciding on the participation and termination of the Bank's ownership in subsidiary companies.

The main functions of the Supervisory Council are defined in the Supervisory Council Regulation, which can be viewed on the Bank's website at http://www.vtb.ru/group/documents/.

Chairman of the Supervisory Council

The Supervisory Council's Chairman is elected by members of the Supervisory Council by a majority vote. The Bank's Supervisory Council has the right to re-elect its Chairman at any time by a majority vote.

The Chairman of the Supervisory Council is not permitted to combine this role with the position of President and Chairman of the Management Board. Moreover, the Chairman of the Supervisory Council cannot be a member of VTB Management Board nor have any type of employment relationship with the Bank.

The Chairman of the Supervisory Council organises the Council's work, convenes and chairs its meetings, and also presides over General Shareholders' Meetings of the Bank. In the absence of the Supervisory Council's Chairman, his or her duties are assumed by one of the Supervisory Council members, as decided by the Supervisory Council.

Sergey K. Dubinin has been the Chairman of VTB Bank's Supervisory Council since June 2011.

Composition of the Supervisory Council

On 8 June 2012, the Annual General Shareholders' Meeting elected four new members to the Supervisory Council: Leonid A. Kazinets (Independent member), Gennadiy G. Melikyan, Leonid A. Melamed (Independent member) and Alexey K. Uvarov.

In 2012, new members of the Supervisory Council were provided with an Induction Pack, which included, amongst other things, information about their duties and the Bank's activities.

Grigory Y. Glazkov, Ivan V. Oskolkov, Pavel M. Teplukhin and Muhadin A. Eskindarov left the Supervisory Council in June 2012 after a new Supervisory Council was elected by the Annual General Shareholders' Meeting.

Sergey K. Dubinin
Chairman of the Supervisory Council of VTB Bank since 16 June 2011
Member of the Supervisory Council of VTB Bank since 3 June 2011

Member of the Supervisory Board of JSC ALROSA, member of the Board of Directors of OTKRITIE Financial Corporation JSC, CJSC VTB Capital, VTB Capital IB Holding Ltd., CJSC VTB Capital Holding, member of the Committee for Investment Strategy under the Supervisory Council of the Russian Corporation of Nanotechnologies; member of the Advisory Council on Monetary Policy, Banking Regulation and Supervision under the Chairman of the Bank of Russia.

Previous positions:
2005-2008 – Member of the Board of Directors, Chief Financial Officer of RAO UES;
2004-2005 – Member of the RAO UES Board of Directors;
2001-2004 – Deputy Chairman of the RAO UES Board of Directors;
1998-2001 – Deputy Chairman of OJSC Gazprom Management Board;
1995-1998 – Chairman of the Bank of Russia;
1995-1995 – Member of OJSC Gazprom Management Board;
1994-1995 – First Deputy Chairman of the Management Board of Imperial Commercial Bank;
1994 – Acting Minister of Finance of the Russian Federation;
1993-1994 – First Deputy Minister of Finance of the Russian Federation;
1992-1993 – Deputy Chairman of the Russian State Committee for Economic Cooperation with the CIS countries;
1991-1992 – Economics Expert in the Executive Office of the USSR President;
1981-1991 – Associate Professor of Foreign Economies and Foreign Economic Relations of the Department of Economics, Lomonosov Moscow State University;
1977-1981 – Assistant Professor of Foreign Economies and Foreign Economic Relations of the Economics, Lomonosov Moscow State University.
1976-1977 – Teaching Assistant of Foreign Economies and Foreign Economic Relations of the Department of Economics, Lomonosov Moscow State University.

1975-1976 – Junior Research Associate at Lomonosov Moscow State University.
1974-1975 – Secretary of the Komsomol Committee in the Department of Economics, Lomonosov Moscow State University.

Awards:
- Medal ‘In Commemoration of the 850th Anniversary of Moscow’;
- Honorary Diploma of the Government of the Russian Federation and Honorary Badge “For achievements in the electric power industry of Russia”.

Born in 1950 in Moscow. Graduated in 1973 from Lomonosov Moscow State University, and in 1976 as an extramural postgraduate of Moscow State University. Higher Doctorate in Economics.

Holds shares equivalent to 0.00203% of the authorised capital of the Bank.

David Bonderman
Independent member of the Supervisory Council of VTB Bank since 3 June 2011

Founding Partner and President of Texas Pacific Group Investment Fund (TPG); member of the Boards of Armstrong Worldwide Industries Inc., CoStar Group Inc., General Motors Company; Chairman of the Board of Directors of Ryanair Holdings plc.; Member of Board of Directors of the following non-profit organisations: The Wilderness Society, The Grand Canyon Trust, The University of Washington Foundation, and The American Himalayan Foundation.

Previous positions:
1992 to date - Founder of Texas Pacific Group Investment Fund;
1983-1992 – Chief Operating Officer of the Robert M. Bass Group, Inc. (now Keystone, Inc.);
Prior to 1983 – Partner in the law firm of Arnold & Porter in Washington, D.C., where he specialised in corporate, securities, bankruptcy and antitrust litigation;
1969-1970 – Fellow in Foreign and Comparative Law, studied Islamic Law at the American University in Cairo in conjunction with Harvard University;
1968-1969 – Special Assistant to the U.S. Attorney General in the Civil Rights Division;
1967-1968 – Assistant Professor at Tulane University School of Law in New Orleans;

Born in 1942 in Los Angeles, California (USA). Graduated in 1963 from the University of Washington and from Harvard Law School in 1966.

Holds no shares in the Bank as of 31 December 2012.

Matthias Warnig
Independent member of the Supervisory Council of VTB Bank

2006 to date – Managing Director of Nord-Stream AG (Switzerland). Chairman of the Board of Directors of JSC Transneft and UC RUSAL; Board member of JSC Bank Rossiya and JSC Rosneft Oil Company; President of the Board of GAZPROM Schweiz AG; member of the international consultative committee of Crédit Agricole S.A., member of the Supervisory Board of Verbundnetz Gas AG.

Previous positions:
2005-2006 – Chairman of the Board of Directors of CJSC Dresdner Bank;
2004-2005 – Chairman of the Management Committee of Dresdner Kleinwort for Russia and the CIS;
2002-2005 – President of CJSC Dresdner Bank;

2000-2002 – Chief Coordinator of Dresdner Bank Group in Russia;
1999-2000 – Managing Director of the BNP-Dresdner Bank branch in St. Petersburg, later renamed Dresdner Bank;
1997-1999 – Deputy Manager of the Moscow branch of BNP-Dresdner Bank;
From 1990 – Management Board Advisor, Head of the Trade Finance Division of Dresdner Bank;
1981-1990 – Officer at Cabinet of Ministers of the German Democratic Republic and Ministry of Foreign Trade, the German Main Intelligence Directorate. Retired in 1989 in the rank of Major.

Born in 1955. Graduated in 1981 from the Higher School of Economics (Berlin), majoring in Economics.

Holds no shares in the Bank as of 31 December 2012.

Grigory Y. Glazkov
Independent member of the Supervisory Council of VTB Bank until 8 June 2012

2004 to date – Independent consultant. Member of the National Register of Independent Directors under the Russian Union of Industrialists and Entrepreneurs (RSPP).

Previous positions:
2002-2004 – Director of the Viewpoint Psychological Consulting Centre, Consultant Psychologist;
1997-2002 – Head of the International Financial Institutions Department of the Ministry of Finance of the Russian Federation;
1995-1997 – Regional Representative of the European Bank for Reconstruction and Development (EBRD) in St. Petersburg & Advisor to the EBRD Russian Department in London;
1992-1995 – Advisor to the Russian Director at the International Monetary Fund, Washington D.C.

Acting State Advisor of the Russian Federation, Class 3.

Born in 1953. Graduated in 1979 from Leningrad State University (now St. Petersburg State University), and in 2006 from the Higher School of Psychology. Mr. Glazkov is an economist and psychologist.

Holds no shares in the Bank as of 31 December 2012.

Leonid A. Kazinets
Independent member of the Supervisory Council of VTB Bank since 8 June 2012

2009 to date - Chairman of the Board of Directors of CJSC Barkli; Board member of OJSC All-Russian Exhibition Center (GAO VVC); Chairman of the Expert Council for pricing in the construction sector under the Government of the Russian Federation; Board member of the Russian Union of Industrialists and Entrepreneurs (RSPP), Co-Chairman of the RSPP's Committee on the development of self-regulation; Head of the working group of the Agency for Strategic Initiatives, which implements the initiative 'To simplify the procedure of obtaining an approval for construction' within the framework of the National Entrepreneurial Initiative to improve the investment climate in Russia; project coordinator of the anti-corruption training for business representatives and their professional unions, which exists within the framework of the International Anti-Corruption Academy (IACA); Deputy Chairman of the Community Board at the Ministry of Regional Development; member of the Council, chaired by the Prime Minister, on issues related to housing construction and facilitation of the development of housing and public utilities.

Previous positions:

2008 – President (sole executive body) of CJSC Barkli;
1993-2008 – General Director of the construction company CJSC Barkli;

Awards:
- Honoured Constructor of the Russian Federation.

Born in 1966. Graduated in 1989 from Moscow State University of Geodesy and Cartography (MIIGAiK), and in 2010 from Moscow State University of Civil Engineering. In 2009 obtained an MBA degree from INSEAD Business School (Paris). Ph.D. in Economics.

Holds no shares in the Bank as of 31 December 2012.

Andrey L. Kostin
Member of the Supervisory Council of VTB Bank

2002 to date – President and Chairman of the VTB Management Board. Chairman of Supervisory Councils of CJSC Bank VTB 24 and PJSC VTB Bank (Ukraine); Chairman of the Board of OJSC Bank of Moscow; Board member of CJSC VTB Capital, CJSC VTB Capital Holding, VTB Capital IB Holding Ltd., and Konstantinovskiy Congress-Centre LLC. Member of the Council of the Association of Russian Banks; President of the Non-commercial Partnership Financial and Banking Council of the CIS and the All-Russian Public Organisation Gymnastics Federation of Russia; member of the Bureau of the Board of Directors of the Russian Union of Industrialists and Entrepreneurs; member of Presidium of Non-profit partnership National Council on Corporate Governance.

Previous positions:
1996-2002 – Chairman of Vnesheconombank;
1995-1996 – First Deputy Chairman of the Management Board of the National Reserve Bank.

Born in 1956. Graduated with Honours in 1979 from the Economics Department of Lomonosov Moscow State University. PhD in Economics.

Holds shares equivalent to 0.00183% of the authorised capital of the Bank.

Nikolay M. Kropachev
Independent member of the Supervisory Council of VTB Bank

2008 to date – Rector of St. Petersburg State University. Head of St. Petersburg and Leningrad region Bar Associations and Presidium member of the Association of Lawyers of Russia.

Previous positions:
2006-2008 – First Vice Principal of St. Petersburg State University;
2000-2005 – President of the Statutory Court of St. Petersburg.

Acting State Advisor of St. Petersburg, Class 1.

Received numerous awards from the President of Russia, the Russian Government, the Russian Ministry of Education.

Born in 1959. Graduated in 1981 from the Legal Department of Leningrad State University (now St. Petersburg State University). Doctor of Law and Professor.

Holds no shares in the Bank as of 31 December 2012.

Leonid A. Melamed
Independent member of the Supervisory Council of VTB Bank since 8 June 2012

2012 to date – Chairman of the Board of Directors of CJSC Team Drive

Previous positions:
2011-2012 – Deputy Chairman of the Board of Directors, Chairman of the Nomination, Remuneration and Corporate Governance Committee of JSFC Sistema;
2010-2012 – Chairman of the Board of Directors of OJSC RussNeft Oil Company;
2008-2011 – President, Chairman of the Management Board, member of the Board of Directors of JSFC Sistema;
2006-2008 – President, Chairman of the Management Board, member of the Board of Directors of OJSC Mobile TeleSystems;
2004-2006 – Head of the Expert Council on insurance legislation in the State Duma Committee on Credit Institutions and Financial Markets;
1991-2006 – OJSC ROSNO Insurance Company, since 2003 – General Director and Chairman of the Management Board.

Awards:
- Best Top Manager in the financial sector according to Kommersant Publishing House 2010 Rating of Top Managers;
- Best Top Manager of 2009, a laureate of the ARISTOS Award 2009 in the 'Top Manager' category, organised by the Association of Managers and Kommersant Publishing House;
- Included in the Russian President's Top 100 Managerial Pool in 2009;
- Named as one of the top 250 'Young Global Leaders' by the World Economic Forum in 2007;
- A laureate of the national award 'Person of the year 2005' in the 'Insurance Company Manager' category.

Born in 1967. Graduated in 1992 from Sechenov Moscow Medical Academy. Doctor of Medicine.

Holds no shares in the Bank as of 31 December 2012.

Gennadiy G. Melikyan
Member of the Supervisory Council of VTB Bank since 8 June 2012

2012 to date - member of the Advisory Council under the Chairman of the Bank of Russia. Member of the Board of Directors of the AVTOTOR Group of Companies.

Previous positions:
2003-2011 – Deputy Chairman of the Bank of Russia, since 2007 – First Deputy Chairman of the Bank of Russia;
1997-2003 – Deputy Chairman of the Management Board of OJSC Sberbank of Russia.
1992-1997 – Minister of Labour of the Russian Federation, since 1996 – Minister of Labour and Social Development of the Russian Federation, simultaneously between 1993 -1995 – member of the State Duma of the RF Federal Assembly.

1991-1992 – Vice President, member of the Management Board of the International Fund of Economic and Social Reforms;
1991 – Deputy Chairman of the State Council on the Economic Reform under the Cabinet of Ministers of the USSR;
1989-1991 – Deputy Head, Head of the Joint Department for the Economic Reform of the State Economic Reform Committee of the USSR Council of Ministers;
1986-1989 – Assistant to Deputy Chairman of the USSR Council of Ministers;
1977-1986 – Leading Economist, Head of Labour, Salary and Living Standards Department under the State Committee for Labour and Social Matters of the USSR Council of Ministers; Assistant to Committee Chairman, Deputy Head of Labour Organisation, Standardising and Efficiency Unit under the State Committee for Labour and Social Matters of the USSR Council of Ministers;
1974-1977 – Postgraduate student of political economy department of Lomonosov Moscow State University;

Awards:
- Order 'For Merit to the Fatherland', Class 4;
- Letter of Acknowledgement from the President of the Russian Federation;
- Diploma of the Government of the Russian Federation;
- Honoured Economist of the Russian Federation.

Born in 1947. Graduated from Lomonosov Moscow State University in 1974, and in 1977 graduated from the Economics Department of Lomonosov Moscow State University. PhD in Economics.

Holds no shares in the Bank as of 31 December 2012.

Ivan V. Oskolkov
Member of the Supervisory Council of VTB Bank until 8 June 2012

2011-2012 - Director of Innovation Development and Corporate Governance Department of the Ministry for Economic Development of Russia. Member of the Board of Directors and member of the HR Committee and Strategy Committee at OJSC RVC; member of the HR and Remuneration Committee of the Board of Directors of the Russian Corporation of Nanotechnologies (RUSNANO).

Previous positions:
2007 – Director of the Corporate Governance Department, the Ministry for Economic Development of Russia;
2007 – Associate Professor of Finance and Accounting, St. Petersburg State University;
2003-2007 – Assistant Professor of Finance Theory of the Management Department, St. Petersburg State University;
1997-2003 – Teaching Assistant, Assistant Professor of Economic Cybernetics, St. Petersburg State University;
1996-1999 – Postgraduate of the European University at St. Petersburg.

Acting State Advisor of the Russian Federation, Class 3.

Awards:
- Letter of Acknowledgement from the Government of the Russian Federation (2009);

Born in 1973 in Primorsk, the Leningrad Region. Graduated in 1996 from St. Petersburg State University, majoring in Economics; in 1998, from the European University at St. Petersburg; and in 2001, from the Interdisciplinary Institute of Advanced Training for Executive Staff at St. Petersburg State Engineering and Economic University. Ph.D in Economics.

Holds no shares in the Bank as of 31 December 2012.

Alexey L. Savatyugin
Member of the Supervisory Council of VTB Bank

2010-2012 – Deputy Finance Minister of the Russian Federation; Board member of the State Corporation - Deposit Insurance Agency.

Previous positions:
2004-2009 – Director of the Department of Financial Policy at the Ministry of Finance of the Russian Federation;
1992-2004 – Assistant and senior lecturer in the Department of Economic Theory and Economic Policy at St. Petersburg State University.

Acting State Advisor of the Russian Federation, Class 3.

Born in 1970. Graduated in 1992 from St. Petersburg State University, majoring in Political Economy.

Holds no shares in the Bank as of 31 December 2012.

Pavel M. Teplukhin
Member of the Supervisory Council until 8 June 2012

2012 to date – Chief Country Officer for Deutsche Bank in Russia.

Board member of GeoProMining Ltd and the Russian Managers Association; Chairman of the Investment Policy Committee under the Supervisory Council of the Russian Corporation of Nanotechnologies (RUSNANO), Chairman of the Board of Directors of Forex Club.

Previous positions:
1997-2010 – Managing Director of Troika Dialog Asset Management;
2007-2008 – member of the Board of Directors of OJSC Volga TGC (TGC-7);
1994 – Head of the Moscow office of the London School of Economics;
1993 – Economic Advisor in Jeffrey Sachs' Task Force, and Expert Economist in the Russian-European Centre of Economic Policy;
1991-1993 – Senior Research Associate at the Institute for Economic Policy, headed by Yegor Gaidar;
1990-1991 – Executive Director of the USSR's first private consulting company, Academia Inc., participated in a number of pioneering privatisation projects in many former USSR republics;
1989-1990 – Senior Research Associate and Research Associate under Professor Yasin in the Soviet Academy of Sciences at the Central Institute of Economics and Mathematics.

Born in 1964. Graduated in 1986 from Lomonosov Moscow State University, majoring in Economics. In 1993 graduated from the London School of Economics. PhD in Economics.

Holds no shares in the Bank as of 31 December 2012.

Alexey K. Uvarov
Member of the Supervisory Council of VTB Bank since 8 June 2012

2012 to date – Director of the Department of industry and infrastructure under the Government of the Russian Federation.

Previous positions:
2008-2012 – Director of Department of the Ministry of Economic Development of the Russian Federation;
2004-2008 – Head of Division of the Federal Property Management Agency;
2002-2004 – Deputy Head of Division, the Ministry of Property Relations of the Russian Federation.
2000-2002 –Head of Department of the Ministry of Property Relations of the Russian Federation.

Awards:
- Order 'For Merit to the Fatherland', Class 2;

Born in 1975. Graduated from Academy of the Federal Tax Police Service of the Russian Federation, Russian Academy of State Service.

Holds no shares in the Bank as of 31 December 2012

Alexey V. Ulyukaev
Member of the Supervisory Council of VTB Bank

2004 to date – First Deputy Chairman of the Central Bank of the Russian Federation. Deputy Chairman of the Supervisory Council of JSC Sberbank, Chairman of the Supervisory Council of the Russian Direct Investment Fund (RDIF).

Previous positions:
2000-2004 – First Deputy Minister of Finance of the Russian Federation;
1999-2000 – Deputy Director of the Institute for the Economy in Transition Foundation;
1998-1999 – Deputy Director of the Institute for Problems of the Economy in Transition;
1996-1998 – member of the Moscow City Duma.

Acting State Advisor of the Russian Federation, Class 1.

Born in 1956. Graduated from the Economics Department of Lomonosov Moscow State University in 1979. PhD in Economics and Professor.

Holds no shares in the Bank as of 31 December.

Muhadin A. Eskindarov
Member of the Supervisory Council until 8 June 2012

2006 to date – Principal of the Federal Institute of the Higher Professional Education - Financial University under the Government of the Russian Federation. Board member of OJSC TMK, OJSC Moscow Industrial Bank; OJSC Bank Vozrozhdenie; member of the Supervisory Board of OJSC Russian Agricultural Bank.

Previous positions:

1996-2006 – Vice Principal for Economic Affairs; Vice Principal for Academic Affairs; First Vice Principal for Academic Affairs; and First Vice Principal of the Financial Academy under the Government of the Russian Federation.

Born in 1951. Graduated from the Moscow Financial Institute in 1976. Doctor in Economics, Professor and Fellow of the Academy of Management and Markets of the Russian Federation.

Holds no shares in the Bank as of 31 December 2012.

Meetings of the Supervisory Council

Meetings of the Bank's Supervisory Council are convened at the initiative of its Chairman, or at the request of a member of the Supervisory Council, the Audit Commission, the auditor, the Management Board, or the President and Chairman of the Management Board. A quorum for meetings of the Bank's Supervisory Council is formed by the attendance of half of the elected members of the Supervisory Council. Decisions at Supervisory Council meetings are made by a majority vote of the participating members, except where otherwise provided in the Charter and the Supervisory Council Regulation. For decision-making purposes at Supervisory Council meetings, each member of the Council has one vote.

Meetings of the Supervisory Council are held on a scheduled basis, however, they may be held outside the schedule, using postal ballots.

The work schedule for the Supervisory Council is compiled for the period between the Annual General Meetings of Shareholders and is approved by the Supervisory Council. Meetings of the Supervisory Council are scheduled in advance, based on the business cycle of the Bank.

VTB Bank's regulations do not establish a minimum number of meetings of the Supervisory Council. Nevertheless, meetings and postal ballots are held an average of six times a quarter. Members of the Supervisory Council receive the agenda and supplementary materials for the meeting no later than 15 days prior to the meeting. The Supervisory Council meetings may be held by postal ballot.

In 2012, the Supervisory Council held nine meetings and 14 postal ballots. During the reporting period, the Supervisory Council reviewed 260 different issues in total, which exceeds the number of issues considered in 2011 by more than twofold.

	2011	**2012**	**Change**
Number of meetings in presentia	7	9	+28%
Number of meetings conducted by postal ballots	10	14	+40%

Supervisory Council member	**Number of meetings / postal ballots attended by each Supervisory Council member in 2012**
Sergey K. Dubinin	23 out of 23
David Bonderman	22 out of 23
Matthias Warnig	14 out of 23
Grigory Y. Glazkov (left office on 08.06.2012)	9 out of 9
Leonid A. Kazinets (elected on 08.06.2012)	14 out of 14

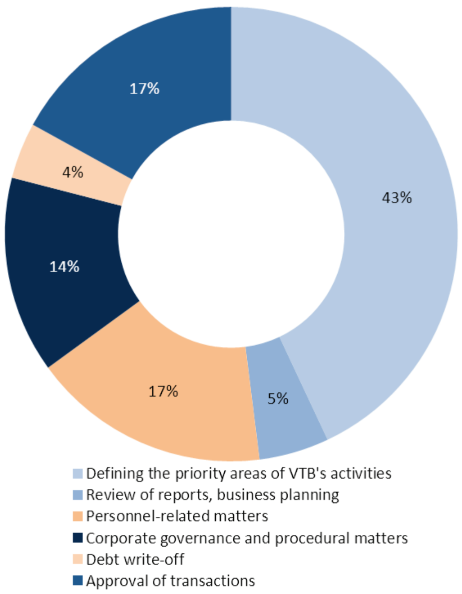
Leonid A. Melamed (elected on 08.06.2012)	14 out of 14
Gennadiy G. Melikyan (elected on 08.06.2012)	14 out of 14
Andrey L. Kostin	20 out of 23
Nikolay M. Kropachev	22 out of 23
Ivan V. Oskolkov (left the office on 08.06.2012)	9 out of 9
Alexey L. Savatyugin	21 out of 23
Pavel M. Teplukhin (left the office on 08.06.2012)	8 out of 9
Alexey K. Uvarov (elected on 08.06.2012)	14 out of 14
Alexey V. Ulyukaev	20 out of 23
Muhadin A. Eskindarov (left the office on 08.06.2012)	9 out of 9

During the reporting period, the Supervisory Council made a number of decisions on priority areas of the Bank's activities, including a review of the risk management system; approval of the core and non-core assets disposal programme; review of the main parameters for the Bank's share buyback programme; placement of bonds, acquisition / disposal of shares in the Bank's subsidiaries; the reorganisation of the Bank's branch network; adoption of mechanisms for voluntary environmental responsibility.

In addition, the Supervisory Council considered the following matters in 2012:

- review of the report on interaction with Bank's shareholders in 2011 and approval of plans for activities with shareholders in 2012;
- review of the report on the Bank's sponsorship and charity activities, as well as approval of the plans for corporate social responsibility activities in 2013;
- review of the reports on the activities of the Supervisory Council Committees;
- review of the quarterly reports by inspectors of the Bank's professional activity in the securities market and specialised depositary, as well as by the inspector on the prevention of misuse of insider information and manipulation of the market;
- review of activity reports and approval of the plans of the Bank's Internal Control Department;
- approval of the agenda for the Annual General Shareholders' Meeting, preliminary approval of the Annual Report, determining the auditor's fee and drafting recommendations on the level of dividends;
- approval of interested party transactions;
- election of the President and Chairman of the Management Board and members of the Management Board of VTB Bank;
- election of the Chairman of the Supervisory Council and members of the Supervisory Council;
- approval by the Supervisory Council of directorship positions for the President and Chairman of the Management Board and members of the Management Board of VTB Bank within other organisations;
- approval of the Regulation on the Bank's procurement of goods, works and services.

The issues which were considered by the Supervisory Council in 2012



In 2012, the Supervisory Council assessed the state of the Bank's corporate governance system. The methodology for the assessment of the Bank's corporate governance system was developed based on the main principles of the Russian legislation on joint stock companies, the Bank of Russia's recommendations (Letter of the Central Bank of the Russian Federation from 7 February 2007 No. 11-T "About the list of issues regarding the assessment of the state of corporate governance by credit institutions"), as well as on the Corporate Code of Conduct recommended by the Federal Commission on Securities Market from 4 April 2002 No. 421/p.

The assessment also included self-assessment of the Supervisory Council's work based on a survey of the Bank's Supervisory Council members.

As a result of the assessment of VTB Bank's corporate governance system, the Annual General Shareholders' Meeting has extended the remit of the Supervisory Council to include the following matters:

- Approval of the risk management policy, review of reports on the state and efficiency of the risk management;

- Review of the scope of work and reports on the activities of each Bank's division, which carries out internal control, and assisting the management bodies in ensuring efficient performance of the Bank; approval of the Regulation on Bank's Internal Control; approval of the Regulation on the Bank's division, which carries out internal control and assists the management bodies in ensuring the Bank's efficient performance, and the appointment of the Head of this division;

- Review of the quarterly reports by inspectors of the Bank's professional activity in the securities market and specialised depositary, as well as by the inspector on the prevention of misuse of insider information and manipulation of the market;

- Approval of the Bank's Corporate Code of Conduct and Code of Ethics;

- Carrying out an assessment of the Bank's corporate governance system;

- Taking decisions regarding the Bank’s ownership or termination of ownership of subsidiary companies.

In 2012, the Bank created a section about the activities of the Supervisory Council on its corporate website, where detailed information on the Supervisory Council’ meetings, on issues discussed and decisions made, can be found (http://www.vtb.ru/ir/governance/council/activity/).

Committees of the Supervisory Council

The Supervisory Council has standing committees, which support the effective implementation of the Council’s managerial and supervisory functions and provide preliminary detailed analysis and recommendations regarding the issues that the Council deems most important. As at the end of 2012, these were:

- Audit Committee
- Staff and Remuneration Committee
- Strategy and Corporate Governance Committee

The Supervisory Council committees are not governing bodies of the Bank, and cannot act in the name of the Supervisory Council.

Audit Committee

The Audit Committee performs an analysis and support function to ensure that the Bank's internal control system works adequately and effectively. The Committee's exclusive remit includes the appraisal of candidates for VTB Bank's external audit team, review of the audit report, assessment of the effectiveness of the Bank's internal control procedures and drafting of proposals for their improvement. The Audit Committee is headed by an independent member of the Supervisory Council.

The Audit Committee operates in accordance with the Regulation approved by the Supervisory Council on 4 April 2007 (Protocol N5 dated 04.04.2007).

As of 31 December 2011, the Audit Committee comprised the following members:

- Matthias A. Warnig, Committee Chairman, independent member of the Supervisory Council of VTB Bank
- Gennadiy G. Melikyan, Committee Member, member of the Supervisory Council of VTB Bank
- Alexei L. Savatyugin, Committee Member, member of the Supervisory Council of VTB Bank
- Aleksey V. Ulyukaev, Committee Member, member of the Supervisory Council of VTB Bank

Members of the Audit Committee of the Supervisory Council	*Number of meetings / postal ballots attended by the member of the Audit Committee of the Supervisory Council*
Matthias A. Warnig	13 out of 13
Gennadiy G. Melikyan (since 08.06.2012)	9 out of 9
Alexey L. Savatyugin	13 out of 13
Alexey V. Ulyukaev	13 out of 13

During the reporting period, a total of three meetings and ten postal votes were organised by the Audit Committee in which matters covering all priority areas of the Bank's activity were considered.

Considerable focus was placed on improving internal control procedures within the Bank and VTB Group, on the financial and operational activities with the Bank and VTB Group and on developing the risk management system. The work of the Committee was based on the approved action plan, in accordance with the established roles of the Committee, as well as with global best practice regarding the work of audit committees.

During the Committee meetings, the following topics were addressed:

- Regulatory framework, which sets out the procedure for conducting the Bank’s internal control;
- Results of the tender for an external auditor;
- Plan and activity report of the Bank's Internal Control Department, including information on significant violations, errors and shortcomings that had been detected at VTB Bank and its subsidiaries, and on measures taken to address those violations.
- Regular consolidated financial reporting in compliance with International Financial Reporting Standards (IFRS);
- Reports by VTB Group’s independent auditor on the Bank’s annual report, as well as on the results of the audit of VTB Group’s consolidated IFRS reporting;
- Strategic development and risk management of individual segments of VTB Group business.

Staff and Remuneration Committee

The Staff and Remuneration Committee’s role is to assist the Supervisory Council in the sphere of appointments and remuneration for members of the Bank’s governing bodies and the Statutory Audit Commission.

The Committee is comprised of members of the Supervisory Council who have relevant expertise and experience in this area. The Staff and Remuneration Committee is chaired by an independent member of the Supervisory Council.

The Staff and Remuneration Committee operates in accordance with the Regulation approved by the Supervisory Council on 30 June 2009 (Protocol N7 dated 30.06.2009).

As at 31 December 2012, the Staff and Remuneration Committee comprised the following members:
- Nikolai M. Kropachev, Committee Chairman, independent member of the Supervisory Council;
- Leonid A. Kazinets, Committee member, independent member of the Supervisory Council;
- Leonid A. Melamed, Committee member, independent member of the Supervisory Council;

Members of the Staff and Remuneration Committee of the Supervisory Council	*Number of meetings / postal ballots attended by the member of the Staff and Remuneration Committee of the Supervisory Council*
Nikolai M. Kropachev	4 out of 4
Leonid A. Kazinets (since 08.06.2012)	2 out of 2
Leonid A. Melamed (since 08.06.2012)	2 out of 2
Ivan V. Oskolkov (until 08.06.2012)	1 out of 2
Pavel M. Teplukhin (until 08.06.2012)	2 out of 2
Muhadin A. Eskindarov (until 08.06.2012)	2 out of 2

In 2012, a total of one meeting and three postal votes were organised by the Staff and Remuneration Committee, in which matters concerning the composition and remuneration of the members of the Management Board, as well as other matters were considered. The Committee's activities were based on the approved plan of work in accordance with the main functions assigned to it.

Strategy and Corporate Governance Committee

The Strategy and Corporate Governance Committee assists the Supervisory Council in the sphere of the Bank's strategy and corporate governance. The Committee's main tasks are the determination of the Bank's short-, medium- and long-term strategic objectives and priorities and monitoring the Bank's progress on achieving them; the support and improvement of VTB's corporate governance system; and improvement of activities on the strategic management of the Bank's stock.

The Strategy and Corporate Governance Committee operates in accordance with the Regulation approved by the Supervisory Council on 5 March 2011 (Protocol N3 dated 05.03.2011).

As of 31 December 2012, the Strategy and Corporate Governance Committee comprised of the following members:

- Sergey K. Dubinin, Committee Chairman, Chairman of the Supervisory Council;
- David Bonderman, Committee member, Independent member of the Supervisory Council;
- Leonid A. Kazinets, Committee member, Independent member of the Supervisory Council;
- Andrey L. Kostin, Committee member, President and Chairman of the Management Board, member of the Supervisory Council;
- Alexey L. Savatyugin, Committee member, member of the Supervisory Council;
- Alexey K. Uvarov, Committee member, member of the Supervisory Council;
- Alexey V. Ulyukaev, Committee member, member of the Supervisory Council.

Members of the Strategy and Corporate Governance Committee of the Supervisory Council	*Number of meetings / postal ballots attended by the member of the Strategy and Corporate Governance Committee of the Supervisory Council*
Sergey K. Dubinin	4 out of 4
David Bonderman	4 out of 4
Grigory Y. Glazkov (until 08.06.2012)	1 out of 1
Leonid A. Kazinets (since 08.06.2012)	3 out of 3
Andrey L. Kostin	4 out of 4
Ivan V. Oskolkov (until 08.06.2012)	0 out of 1
Alexey L. Savatyugin	4 out of 4
Pavel M. Teplukhin (until 08.06.2012)	1 out of 1
Alexey K. Uvarov (since 08.06.2012)	3 out of 3
Alexey V. Ulyukaev	4 out of 4

During the reporting year, the Committee held a total of three meetings and one postal ballot, during which a range of matters were considered, including the disposal of the Bank's core and non-core assets; the results of the assessment of the corporate governance system, conducted by the members of the Supervisory Council in accordance with the Bank of Russia's recommendations and the results of the independent review of the corporate governance system; the distribution of income according to 2011 financial results, as well as the issue on the Bank's participation in its subsidiary companies.

More information on the Supervisory Council and its Committees can be obtained on the VTB Bank's website at: http://www.vtb.ru/ir/governance/council/.

Corporate Secretary

The Corporate Secretary of VTB Bank ensures that the rules and procedures of corporate governance, which guarantee the rights and interests of shareholders of the Bank and cooperation between the Bank and its shareholders, are followed by the Bank and its employees. The Corporate Secretary performs its duties in accordance with Russian legislation, the Bank's Charter and VTB's Regulation on the Corporate Secretary.

The Corporate Secretary of VTB Bank is elected by, and reports on a functional basis to, the Supervisory Council. In relation to administrative procedures, the Corporate Secretary also reports to the President and Chairman of the Management Board of VTB Bank. The Supervisory Council's Strategy and Corporate Governance Committee reviews the candidates for the position of Corporate Secretary, and provides recommendations to the members of the Supervisory Council.

The objective of the Corporate Secretary's activity is to maintain and ensure efficient operation of the General Shareholders' Meeting and the Bank's Supervisory Council, as well as to facilitate the exercise of rights and interests of its shareholders in accordance with the requirements provided by the applicable law.

The main responsibilities of the Corporate Secretary include the following:

- Supervision over the preparations for and proceedings of General Shareholders' Meetings, and their compliance with the requirements of the applicable Russian legislation, the Bank's Charter and its other internal regulations;
- Administration of the operations of the Bank's Supervisory Council;
- Supervision over the disclosure of information about the Bank;
- Coordination and control over interaction between the Bank and its shareholders.

Since September 2011, Evgeniy G. Ignatyev has been serving as the Corporate Secretary of VTB Bank.

5.5. The Management Board of JSC VTB Bank

The Management Board is the collective executive body of VTB Bank, which, together with the President and Chairman, oversee the Bank's day-to-day operations. The Management Board reports to the General Shareholders' Meeting and the Supervisory Council.

The Management Board acts on the basis of Russian legislation, the Charter of VTB Bank and the Regulation of the Management Board of VTB Bank, which has been approved by a resolution of the General Shareholders' Meeting.

The Supervisory Council is responsible for determining the size and composition of the Management Board and for electing its members and for the early termination of their powers. The members of the Management Board are appointed by the Supervisory Council at the proposition of the President and Chairman, and cannot serve for longer than five years.

The Management Board is in charge of the day-to-day operations of VTB Bank, with the exception of matters which fall within the exclusive remit of the General Shareholders' Meeting and the Supervisory Council, and it implements decisions handed down by these bodies. More detailed information on the powers of the Management Board is provided in the Regulations of the Management Board of VTB Bank, which is available on the Bank's website.

Composition of the Management Board

Andrey L. Kostin
President and Chairman of the Management Board, member of the Supervisory Council

(For a detailed biography see the Supervisory Council section on p. 69)

Yuri A. Soloviev
First Deputy President and Chairman of the Management Board

Mr. Soloviev joined VTB in April 2008. Since May 2011, he has been First Deputy President and Chairman of the Management Board.

He is also Chairman of the Board of Directors of CJSC VTB Capital, CJSC Holding VTB Capital, VTB Capital IB Holding Ltd., VTB Capital Investment Management Ltd., and JSC VTB-Leasing; a member of the Supervisory Council of PJSC VTB Bank (Ukraine); a member of the Board of Directors of VTB Capital Investment Management Holding AG, VTB Capital Private Equity Holding AG, OJSC TransCreditBank, JSC United Aircraft Corporation, VTB Capital Russia & CIS Equity Fund Ltd. and VTB Capital Russia & CIS Fixed Income Fund Ltd.

Previous positions:
2008–2011 – Senior Vice President of JSC VTB Bank; CEO of CJSC VTB Capital;
2006–2008 – Head of Investment Business, First Deputy Chairman of the Management Board, Deutsche Bank Russia;
2002–2006 – Director, Head of Global Markets in Russia and the CIS at Deutsche Bank AG, London;
1996–2002 – Analyst, Executive Director at the Emerging Markets Department of Bank Lehman Brothers, London;
1994–1996 – Dealer, Senior Dealer at the Currency Trading Department at JSC INCOMBANK.

Born in 1970. Graduated in 1994 from Plekhanov Russian Academy of Economics, specialising in International Economic Relations, and in 2002 from London Business School with an MBA degree.

He holds shares equivalent to 0.00341% of the authorised capital of the Bank.

Vasily N. Titov
First Deputy President and Chairman of the Management Board

Mr. Titov joined VTB Bank in 2002 and assumed his current position in August 2009. Before August 2009, he was Deputy Chairman and a member of the Management Board, Senior Vice President and Vice President.

He is also Chairman of the Supervisory Council of VTB Bank (Austria) AG and JSC VTB Bank (Georgia); Chairman of the Board of Directors of CJSC VTB Bank (Belarus) and CJSC Moscow Dynamo Football Club; Deputy Chairman of the Supervisory Council of PJSC VTB Bank (Ukraine); member of the Supervisory Council of EuroFinance Mosnarbank, CJSC Bank VTB 24 and OJSC Bank Moscow – Minsk; member of the Coordinating Committee of the Non-commercial Partnership "Financial and Banking Council of the CIS"; and Council Member of the non-profit organisation "Association of Regional Banks of Russia".

Previous positions:
1998–2002 – Deputy Head of the Administrative Department, External and Public Relations Director, Head of the Information and Communications Division of USSR Vnesheconombank, and member of the Board of Directors of Vnesheconombank;
1996–1998 – Deputy Managing Director of the All-Russian Automobile Alliance;
1996 – Assistant to the First Deputy Prime Minister of the Russian Federation.

Born in 1960. Graduated in 1983 from the A.A. Zhdanov Leningrad State University, and in 2002 from the Financial Academy under the Government of the Russian Federation.

He holds shares equivalent to 0.00139% of the authorised capital of the Bank.

Herbert Moos
Deputy President and Chairman of the Management Board

Mr. Moos joined VTB Bank in 2009 and was appointed Deputy President and Chairman of the Management Board in November 2009. Until November 2009, he was Senior Vice President.

He is also Chairman of the Board of Directors of VTB Capital Plc; member of the Board of Directors of JSC VTB-Leasing, CJSC VTB Debt Centre, VTB Factoring Ltd, VTB Capital IB Holding Ltd., CJSC VTB Capital, OJSC Hals-Development, OJSC Bank of Moscow, OJSC TransCreditBank and VTB DC Ltd.; member of the Supervisory Council of CJSC Bank VTB24, CJSC Holding VTB Capital, OJSC Leto Bank and PJSC VTB Bank (Ukraine).

Previous positions:

2008–2009 – CEO at VTB Capital plc, London;
2007–2008 – CFO at Lehman Brothers Asia-Pacific, Hong Kong;
2002–2007 – Head of Asset and Liability Management and Treasurer at Lehman Brothers Asia-Pacific, Tokyo;
1995–2002 – Debt Management, Capital and Transaction Planning, Asset and Liability Management, Lehman Brothers Bank, London.

Born in 1972. Graduated in 2002 from London Business School with a Masters Degree in Finance.

He holds shares equivalent to 0.00341% of the authorised capital of the Bank.

Mikhail E. Oseevskiy
Deputy President and Chairman of the Management Board

Mr. Oseevskiy joined VTB Bank in 2012. Until August 2012, he served as Advisor to the President and Chairman of the Management Board.

Previous positions:
2011-2012 - Deputy Minister of Economic Development and Trade of Russia;
2010-2012 - Vice Governor of Saint Petersburg and Head of Saint Petersburg City Administration
2006-2010 - Vice Governor of Saint Petersburg
2001 – 2003 – First Deputy Chairman of the Management Board of JSC Industrial and Construction Bank
1999 -2001 - Deputy Chairman of the Management Board of JSC Industrial and Construction Bank
1993-1999 – Deputy Managing Director and later Managing Director of the Saint Petersburg Currency Exchange (SPCEX).

Awarded the Medal of the Order of Services to the Fatherland, 2nd class, and the Order of Friendship.
Born in 1960. Graduated in 1983 from the M. I. Kalinin Polytechnic Institute in Leningrad. Ph.D. in Economics.

He holds no shares in the Bank.

Andrey S. Puchkov
Deputy President and Chairman of the Management Board

Mr. Puchkov joined VTB Bank in 2002 and was appointed Deputy President and Chairman of the Management Board in December 2008. He has held the following positions in the Bank's legal department: Deputy Head of Department, Head of Department, Vice President (Head of Department), Senior Vice President (Head of Department), Senior Vice President and member of the Management Board.

He is also member of the Supervisory Councils of PJSC VTB Bank (Ukraine), CJSC Bank VTB24 and CJSC VTB-Development; Chairman of the Board of Directors of CJSC VTB Debt Centre and VTB DC Ltd.; and member of the Board of Directors of the Russian Commercial Bank (Cyprus) Ltd., OJSC Hals-Development and OJSC Bank of Moscow.

Previous positions:
1999–2002 – Member of the Moscow City Bar;
1996–1997 – Legal consultant in the Central Economic Department of the Bank of Russia.

Born in 1977. Graduated in 1998 from the Law Department of Lomonosov Moscow State University. Lawyer.

He holds shares equivalent to 0.00037% of the authorised capital of the Bank.

Denis A. Bortnikov
Member of the Management Board

Mr. Bortnikov joined VTB in January 2006. Since November 2011, he has been a member of VTB Bank Management Board.

Previous positions:
2011 – Head of the North-West Regional Centre of VTB Bank, Senior Vice President of JSC VTB Bank;
2007–2011 – Deputy Chairman of the Management Board, First Deputy Chairman of the Management Board, Chairman of the Management Board of JSC VTB Bank North-West;
2006–2007 – Deputy Head of the JSC Vneshtorgbank Branch in Saint Petersburg;
2004–2006 – Advisor to the General Manager of the North-West Branch of GUTA-BANK, Deputy General Manager of the North-West Branch;
1996–2004 – Consultant with the Liquidity Management Department, Consultant with the Transfer Operations Department, Consultant with the Department of Financial Instruments, Senior Consultant with the Brokerage Department, Chief Acquiring and Authorisation Expert, Head of the Acquiring and Authorisation Department at JSC Industry and Construction Bank.

Born in 1974. Graduated in 1996 from Saint Petersburg State University of Economics and Finance with a degree in National Economy.

He holds no shares in the Bank.

Victoria G. Vanurina
Member of the Management Board

Ms. Vanurina joined VTB Bank in October 2009. Since August 2011, she has been a member of the Management Board.

She is also a member of the Board of Directors of CJSC Holding VTB Capital and CJSC VTB Specialized Depository.

Previous positions:
2009–2011 – Senior Vice President of JSC VTB Bank; Chief Operating Officer, member of the Management Board of CJSC VTB Capital;
2008–2009 – Managing Director, Head of the Business Support Division at CJSC VTB Capital;
1998–2008 – Head of the Fixed Income Securities Transactions Unit, Head of the Forex Transactions and Fixed Income Transactions Unit, Head of the Operational Division at Deutsche Bank Ltd;
1994–1998 – Economist, Head of Back Office, Head of the Interbank Transactions Unit of the Forex Transactions Division at JSCB Avtobank;
1992–1994 – Forex Transactions Economist at Rosvooruzhenie.

Born in 1972. Graduated in 1995 from the International Relations Department of Moscow State Institute of International Relations (University) of the MFA of Russia.

She holds no shares in the Bank.

Chaba L. Zentai
Member of the Management Board

Mr. Zentai joined VTB Bank in 2011. Since October 2012, he has been a member of the Management Board.

Previous positions:
2011 -2012 - Head of the Regional Network Department, Senior Vice President of JSC VTB Bank;
2010 -2011 – Head of the medium-sized and regional corporate business segment at OJSC Alfa Bank;
2008 -2012 – Head of the small and medium-sized business segment at OJSC Alfa Bank;
2007 – 2008 – Director of the small and medium-sized corporate business division of "Corporate Bank", the small and medium-sized business development segment of OJSC Alfa Bank;
2000 -2007 – Director, a member of the Management Committee of the Corporate Bank, Head of Commercial Banking and a top manager of Citibank, Hungary;
1998 -2000 – Chairman of the Board of ABN AMRO Equipment Leasing and member of the Board of Directors of ABN AMRO Pension Fund, Hungary;
1995 -1998 -Client manager at GE Capital, Hungary, Deputy Chairman of the Hungarian Leasing Association.

Born in 1970. Graduated in 1997 from GE Capital University (USA), and in 2000 from Buckinghamshire Chilterns University College (Great Britain) with a degree in research management, and then in 2005 with a MBA degree.

He holds no shares in the Bank.

Valery V. Lukyanenko
Member of the Management Board

Mr. Lukyanenko joined VTB Bank in 2002 and was appointed a member of the Management Board in December 2008. Before 2008, he was Head of the First Corporate Business Division and Senior Vice President; Senior Vice President and Head of Mid-Size Business in the First Corporate Business Division; Senior Vice President in the First Corporate Business Division; Vice President and Head of Large Corporate Business in the First Corporate Business Division; Vice President; and Advisor to the President and Chairman of the Management Board of VTB.

Previous positions:
2001–2002 – Chairman of the Council of Experts in Project Financing and Forecasting at Lanta Bank;
1994–2002 – Deputy Head of the State Programmes Division, Head of the Foreign Economic Relations Division at the Office of the President of the Russian Federation;
1993–1994 – Director, Chairman of the GagarinStroi Industrial and Investment Centre.

Born in 1955. Graduated from Novosibirsk Agricultural Institute. Ph.D. in Economics, Professor of Economics and Finance Department of the Russian Presidential Academy of National Economy and Public Administration, Member of the Ph.D. Council.
He holds shares equivalent to 0.00058% of the authorised capital of the Bank.

Erkin R. Norov
Member of the Management Board

Mr. Norov joined VTB Bank in 2002 and was a Management Board member from 2002 to 2007.
He has again been a VTB Bank Management Board member from September 2009 to date.

He is also a member of the Board of Directors of OJSC Bank of Moscow.

Previous positions:
2007–2009 – Senior Vice President, Management Board member of JSC NOMOS-BANK;

2002–2007 – Vice President, Senior Vice President, Management Board member of the Bank for Foreign Trade of the Russian Federation (JSC Vneshtorgbank);

1999–2002 – Development Director, Development and Strategic Planning Director, USSR Bank for Foreign Economic Activities;

1999 – Department Head, Calculation of Taxable Base and Tax Revenue Planning Department, Russian Ministry of Taxes and Duties;

1992–1999 – Deputy Chairman of the Management Board for Development of JSC AvtoVAZ servicing – Lada Service; Marketing and Trade Director, General Director of the Economy and Finance Department at AvtoVaz Corporation.

Born in 1954. Graduated in 1976 from Lomonosov Moscow State University, and in 2001 from the Academy of National Economy under the Government of the Russian Federation. Ph.D. in Economics.

He holds no shares in the Bank.

President and Chairman of the Management Board of VTB Bank

The President and Chairman of the Management Board of VTB Bank oversees the Bank's day-to-day operations, and ensures that its targets are met and its strategy is put into effect. The Management Board President and Chairman reports to the General Shareholders' Meeting and the Supervisory Council of the Bank. Andrei L. Kostin has been the President and Chairman of the Management Board of VTB Bank since June 2002.

5.6 Remuneration of the members of the Supervisory Council and the Management Board

In accordance with a resolution of the General Shareholders' Meeting, the members of VTB Bank's Supervisory Council may, during their term in office, receive remuneration and be compensated for expenses incurred in the course of their duties.

VTB Bank's Regulations on remuneration and compensation for expenses of the members of the Supervisory Council have been in force since 2010. According to the Regulations, the total amount of remuneration of a member of the Supervisory Council over a reporting period is determined by taking into account their actual participation in Council activities, both as a member of the Supervisory Council and as a member and/or Chairman of a Supervisory Council committee. In accordance with current Russian legislation, members of the Supervisory Council who are civil servants do not receive any remuneration.

The decision to pay remuneration and compensation is made by the Annual General Shareholders' Meeting (AGM) of VTB Bank. On 8 June 2012, the AGM approved the following:

a) To pay remuneration as follows to VTB Bank Supervisory Council members who are not state employees:

- for their work in the VTB Bank Supervisory Council – RUB 4,600,000 each;
- for chairmanship of a VTB Bank Supervisory Council – RUB 1, 380,000;
- for chairmanship of a VTB Bank Supervisory Council committee – RUB 920,000 each;
- for membership of a VTB Bank Supervisory Council committee – RUB 460,000 each.

b) To provide compensation to JSC VTB Bank Supervisory Council members who are not state employees for expenses they incur whilst carrying out their duties, namely: accommodation, travel expenses including VIP lounge services, other duties and fees for travelling via air or rail.

In 2012, the amount paid to the independent members of the Bank's Supervisory Council was RUB 43,094,000. Other members of the Supervisory Council did not receive any remuneration in 2012.

The Supervisory Council is responsible for determining the amount of the remuneration and compensation paid to members of the Management Board of VTB Bank. Salaries, including compensation and incentive payments, are fixed in the contracts of employment of the Management Board members.

In 2012, the members of the Management Board received remuneration (salaries and bonus) in the sum of RUB 1,325,669 thousand.

5.7 VTB Group's Internal Control and Audit

VTB Group's internal control and audit system is integral to its corporate governance practice and is one of the most important factors in ensuring that the Bank performs effectively. The internal control and audit departments support the stable development of the Group and ensure the protection of shareholders' and investors' interests, which increases the attractiveness of VTB to investors.

The internal control and audit functions within VTB Group operate in compliance with international best practices, the requirements of Russian legislation and the applicable legislation in the countries where the Group's subsidiaries and affiliates are present. The arrangements for interaction between the various functions, and the order of priority between them, provide the necessary level of independence, which enables the entire system to function effectively.

VTB's internal control system ensures:

- Efficient transactions and delivery of results;
- Effective management of assets and liabilities, including the safekeeping of assets;
- Reliability and timeliness of financial and management information and reporting;
- Security of information;
- Compliance with the requirements of legislation, regulations and standards;
- Avoidance of involvement of the Bank and its employees in unlawful activity;
- Management of banking risks on a consolidated basis.

The key requirements in respect of the organisation of the internal control and audit systems, the main standards and principles of operation of internal audit within VTB Group, and the allocation of accountabilities and responsibilities are established in the Group's internal regulatory documents. The Coordination Commission for Internal Control and Audit was established by the VTB Group Management Committee to provide the effective coordination of internal control and audit of the Group, as well as to enable practical interaction between experts.

The main objectives of the internal control and audit functions at VTB Bank include:

- Independent assessment of the effectiveness of the internal control system, the risk management system, accounting reports, business processes and the activities of departments and individual employees;
- Ongoing monitoring of key risk areas and mechanisms to control risks, with a view to identifying shortcomings in the internal control system, emerging risks and trends, and to also create mechanisms to prevent these risks;
- The development of recommendations to improve the efficiency of systems, processes, procedures and departmental activities;
- The control of compliance with legislation, professional standards of activity and VTB Group internal regulations, as well as assistance in the development of the necessary regulations that comply fully with current legislation and global best practices;
- The organisation of efficient communications with external regulatory bodies and external auditors.

VTB Bank's internal control and audit

In accordance with the VTB Group's Charter, the Bank's system of internal control shall comprise of the following:

- Governance bodies (General Shareholders' Meeting, Supervisory Council, Management Board, and a single-person executive body – the President and Chairman of the Management Board);
- Statutory Audit Commission;
- The Bank's Chief Accountant (his/her deputies);
- Branch Managers (their deputies) and Chief Accountants (their deputies) of the Bank's branches;

- Other operational divisions and managers in charge of internal control, in accordance with powers granted by the Bank's by-laws.

Audit Committee

Responsibility for the smooth running of the internal control system lies with the Supervisory Council of VTB Bank. The Audit Committee was set up under the aegis of the Supervisory Council to ensure that this task is carried out effectively. Its objectives also include the detailed analysis and support of an effective and adequate functioning of the internal control system. The Committee's activity is governed by the Regulations of the Audit Committee of the Supervisory Council of VTB Bank.

More detailed information about the composition and activity of the Audit Committee can be found in the Supervisory Council section.

Statutory Audit Commission

The Statutory Audit Commission, operating within the Bank, verifies the Bank's compliance with the applicable legislation and other statutory instruments that govern its activity, the proper functioning of the Bank's internal controls, and the legality of transactions carried out by the Bank.

The Statutory Audit Commission is elected at the Annual General Shareholders' Meeting of the Bank, which determines its size and composition for the period to the next Annual General Shareholders' Meeting.

The composition of the Statutory Audit Commission, elected at the Bank's Annual General Shareholders' Meeting on 8 June 2012, is as follows:

- Zakhar B. Sabantsev - Chairman of the Statutory Audit Commission; Head of the Banking Sector Monitoring, Consolidation and Analytics Unit of the Financial Policy Department of the Russian Ministry of Finance;

- Marina A. Kostina – Member of the Statutory Audit Commission; Deputy Head of the Consolidation and Analytics Unit, Department for Organisations in the Non-productive Sector and Foreign Property of the Federal Agency for State Property Management;

- Ivan I. Rodionov – Member of the Statutory Audit Commission; Professor of NRU Higher School of Economics; member of the Boards of Directors of a number of large Russian companies; Doctor of Economics;

- Dmitry V. Skripichnikov – Member of the Statutory Audit Commission; Deputy Head of Financial and Economic Division of the Central Office of the Russian State Duma;

- Nikita V. Tihonov – Member of the Statutory Audit Commission; Deputy Head of Division of the Financial Policy Department of the Ministry of Finance of the Russian Federation;

- Maria A. Turuhina – Member of the Statutory Audit Commission; Head of Financial and Credit, External Economical, Land Surveying and Tax organisations Division of the Department for Organisations of the Social and Cultural Sector and Foreign Property of the Federal Agency for State Property Management.

Members of the Statutory Audit Commission did not receive any remuneration in 2012.

More detailed information about the Statutory Audit Commission can be found on VTB Bank's website.

Internal Control Department

The Internal Control Department (ICD) operates within the Bank to provide direct support to its governing bodies, in order to ensure that VTB Group works effectively. The ICD monitors internal control systems, conducts targeted and Group-wide inspections, and provides impartial recommendations on how banking operations and control procedures may be improved.

The ICD is an independent structural department that operates under the direct supervision of the Supervisory Council of VTB Bank, which approves its plans and monitors their implementation. The Supervisory Council also reviews reports on the results of ICD audits and its monitoring of internal control systems, as well as on the implementation of the ICD's recommendations and the measures taken to address issues that have been identified. The Supervisory Council also considers matters related to the resourcing of the ICD, including the appointment of the Department's Head.

The Department's organisational structure comprises a number of units responsible for the day-to-day monitoring, the coordination of internal control systems across the VTB Group and auditing, as well as a Control Group, which supervises the Bank's activities as a participant in the securities market. To increase the effectiveness with which internal control systems are monitored in the Bank's branches, the ICD structure includes dedicated internal control teams at branch level.

The Internal Control Department is responsible for:

- Auditing and assessing the effectiveness of the internal control system;
- Monitoring the operation of the Bank's risk management system;
- Verifying the reliability, completeness, objectivity and timely preparation of accounting and management reports;
- Verifying the compliance of self-regulating institutions with statutory requirements and standards;
- Verifying the adequacy and reliability of internal control over the use of computerised information systems;
- Establishing uniform approaches to the organisation of internal control systems in subsidiary organisations, reporting on the state of the internal control system and providing recommendations for further improvements.

Within its terms of reference, the ICD liaises with the Bank's Audit Committee and external auditors, providing information on the internal control system and reporting any deficiencies identified by the department during the period being audited.

Compliance Control Department

The Compliance Control Department operates within the Bank in order to minimize any risks arising from regulatory and judiciary authorities and risks of loss to reputation the Bank may suffer as a result of its failure to comply with laws and other legal acts, internal regulations, standards of self-regulatory organisations, and the business practice of banking activities ("compliance risks").

The Compliance Control Department is responsible for:

- Identifying areas of the Bank's activities with increased levels of compliance risk; making a decision on monitoring these compliance risks on a constant basis or taking other measures to control and minimize compliance risks;

- Implementing the ongoing monitoring and control of the Bank's compliance risks through representative testing and provision of findings and recommendations on the results of this monitoring to the Bank's management;

- Developing and implementing appropriate policies and procedures related to compliance control;

- Identifying conflicts of interest and developing internal documents aimed at prevention of such conflicts;

- Assisting with drafting internal documents of VTB Bank, containing the rules of corporate conduct, and advising the Bank's employees on applicable rules of the professional ethics;

- Supporting the Bank in its cooperation with the regulatory authorities, investors, self-regulatory organisations, associations and the Bank's international partners in the nature of compliance.

The main requirements of the compliance system, the standards and principles of its operations within the VTB Group, and the distribution of powers and areas of responsibilities are set out in the Group's internal documents. The Coordination Commission for compliance and internal control operates under the Group's Management Committee and provides effective operation of the system aimed at combating money laundering and terrorist financing in the Group, as well as provides practical cooperation between relevant professionals.

VTB Bank's independent auditor

VTB Bank appoints an independent professional firm of auditors to externally audit and verify the compliance of its annual financial statements.

In accordance with the applicable legislation, the auditor is chosen by means of an open tender, which is based on the following selection criteria:

- Qualifications and impartiality;
- Work plan and the scope of the auditing procedures, including the proposed duration of the external auditor's services for auditing the Bank's financial statements;
- Independence of the auditor and potential conflicts of interest, including whether or not the external auditor has proprietary interests in the Bank (except for receiving payment for auditing services), and whether or not there is any affiliation between the external auditor and the Bank or members of the Bank's governing bodies;
- The level of remuneration payable by the Bank to the external auditor;
- The provision or otherwise by the external auditor of consulting services to the Bank as defined in Article 1, paragraph 6 of the Federal Law on Auditing.

The Audit Committee has the responsibility for overseeing the tender process and for drafting recommendations on the award of the role of independent auditor for presentation to the Bank's

Supervisory Council. It is the Supervisory Council that approves the appointment, which is endorsed at the Annual General Shareholders' Meeting.

Based on its inspection of the financial and commercial operations of VTB Bank, the independent auditor prepares a report, which is submitted to the Audit Committee for preliminary review. The final audit report is submitted to the Bank's Supervisory Council and is also presented to the Annual General Shareholders' Meeting.

Ernst & Young Vneshaudit JSC, a Russian subsidiary of one of the world's leading auditing firms, was appointed external auditor to VTB Bank in 2012.

Ernst & Young Vneshaudit JSC has been VTB Bank's external auditor since 2003. Besides the payment it receives for auditing services, the company has no other proprietary interests in VTB Bank, has no relationship of affiliation with the Bank, with members of its governing bodies or VTB subsidiaries, and has not provided consultancy services to the Bank as defined in Article 1, paragraph 6 of the Federal Law on Auditing.

Prevention of Money Laundering

VTB Group attaches great importance to the implementation of measures aimed at combating money laundering and terrorist financing. The Group's internal documents for regulating activities in this area are based on the principle of "know your client", national legislation and international best practice. In 2012, VTB Bank strengthened the coordination of activities between units and increased monitoring for fulfilment of requirements in order to improve standards of programmes and internal control standards related to the prevention of money laundering.

In the year under review, VTB Group ensured the effective risk management related to money laundering and terrorist financing. During 2012, none of the Group's departments received any complaints from regulatory authorities.

5.8 Relations with individual shareholders

One of the key principles of VTB Bank's operations is its open and effective communications with its shareholders. VTB's Shareholder Relations Department is responsible for communications with individual shareholders.

In 2012, the following projects became priorities in the Group's communications with individual shareholders:

- Share buyback from the shareholders that participated in the Group's IPO in 2007;
- Annual General Meeting of shareholders (for more details see "Corporate Governance");
- Trainings and workshops for shareholders in different regions;
- Shareholders' site visit to drilling rigs owned by VTB Leasing.

Share buyback from shareholders that participated in the IPO

The share buyback from the Bank's shareholders who acquired shares during the IPO was one of the key corporate highlights of 2012. Approximately 114,000 shareholders were offered the chance to participate in the share buyback programme and redeem their VTB shares at a price equal to the market value of the shares at the time of the IPO (RUB 0.136/ share). Shareholders were eligible to take part in the offer on condition that they acquired VTB Bank shares during the IPO in 2007 and held these shares on February 1, 2012. The maximum number of shares to be purchased from each seller has been set at 3,676,471 shares, which is equivalent to RUB 500,000. In addition, the amount of shares repurchased could not exceed the number of shares held by a shareholder as at May 24, 2007 and as at February 1, 2012. The shares were repurchased by VTB Pension Administrator Ltd, a subsidiary of VTB Group.

The share buyback offer was valid from March 12 until April 13, 2012. During this period, any shareholder, who met the terms and conditions of the offer, could apply for participation in the share buyback programme in one of 600 Bank VTB24 offices. The heirs of those individuals who acquired the Bank's shares during the IPO could also participate in the share buyback programme if they realised their rights of inheritance prior to expiration of the offer.

VTB used all possible communication channels in order to inform shareholders about the share buyback programme:

- Publishing the offer in Rossiiskaya Gazeta newspaper;
- Mailing the offer to shareholders, including relevant terms and conditions;
- E-mailing the offer through available email contact list;
- Creating a dedicated section on the websites of VTB, VTB 24, VTB Registrar;
- Publishing information in the national media;
- Informing shareholders during workshops;
- Setting up a dedicated telephone line.

74,302 shareholders of VTB Bank participated in this share buyback programme, and more than 40% of applications to participate in the offer were received during the first week of the programme. As during the IPO, the majority of applications for redemption of shares were received from shareholders in the regions. The average value of the redemption application was RUB 182,000 in the Moscow region, RUB 142,000 in Saint Petersburg and RUB 129,000 on average in the other regions. Settlements with the shareholders participating in the programme were completed by April 30, 2012, while settlements with their heirs were completed by the end of June 2012 due to required additional review of the provided documents.

Shareholder enquiries

In 2012, the Investor Relations department received approximately 30,000 enquiries from shareholders through various means of communication: mail, phone and call centre service, and e-mail. Shareholders also had the opportunity to contact Shareholders' Support Centres, or ask their questions during regular workshops with the representatives of the Bank and Open Day events.

All enquiries from individual shareholders are reviewed and answered in the shortest amount of time, and are also analysed in order to further improve communications with the Bank's shareholders.

VTB Leasing's Drilling Rigs

One of the issues raised by the shareholders at VTB's annual meetings in 2011 and 2012, was the value of the acquisition of drilling rigs by VTB Leasing. During the Annual General Shareholders' Meeting in 2012, VTB President and Chairman of the Management Board, Andrey Kostin, invited all interested shareholders to visit the rigs and to see that they are working and delivering profit.

VTB shareholders Yelena Popova, Tatyana Buravtseva, Vladimir Sinyakov, Dmitry Udalov and Leonid Volkov, as well as several bloggers and journalists, accepted the invitation to visit the drilling rigs. The site visit was organised on September 4 – 6, 2012. During these three days, guests visited all active drilling rigs owned by VTB Leasing in the Orenburg region and the Yamal-Nenets Autonomous Area. Shareholders also inspected equipment that is currently at the stage of installation or dismantling, and visited a storage depot in Purpe village (Yamal-Nenets Autonomous Area), where four drilling rigs are currently stored.

During the site visit, the shareholders were able to confirm that the drilling rigs were in operation. They also received a complete set of documents on leasing transactions, including contracts, legal documentation and financial reports. Following this trip, shareholders did not have any further questions to VTB and VTB Leasing. During the 16th meeting of the Shareholders' Consultative Council (SCC) held in September 2012, the matter was closed.

Meetings with individual shareholders

Since 2009, VTB Bank has been holding regular meetings with its shareholders, where they can receive all the information about the activities of VTB Group, shares and dividend policy, the Group's financial reporting and other products for shareholders. In 2011, this interaction practice was also complemented by meetings with shareholders in different regional centres and was recognised as a successful and effective way to communicate with stakeholders.

In 2012, the Group continued holding workshops in different regions of Russia. Meetings with shareholders were held in nine cities: Kaliningrad, Ekaterinburg, Moscow, Khabarovsk, Rostov-on-Don, Kazan, Ufa, St. Petersburg and Nizhny Novgorod. In the reporting period, the average number of workshop participants significantly increased compared to 2011. Meetings dedicated to the share buyback programme held in Kaliningrad, Ekaterinburg and Moscow, as well as a workshop in St. Petersburg, were in great demand and were attended by a record number of 497 shareholders.

During the reporting period, VTB continued to host its traditional Open Day events, where shareholders are provided with individual consultations by the Group's experts on a wide range of questions. These events were attended by experts from the VTB Bank Shareholders' Support Centres, members of the Shareholders' Consultative Council, as well as by representatives of the subsidiaries VTB Registrar, VTB Insurance and VTB 24.

Newsletters

VTB Bank informs shareholders about all relevant news and the latest developments of the Group through the Bank's electronic mailing lists. The VTB Shareholder Newsletter is distributed to everyone registered on the VTB website or to shareholders who have registered their email address on a VTB24 Depositary form.

The VTB Shareholder Newsletter contains the most up-to-date and relevant information for the Bank's shareholders, including the Group's financial performance, information about the AGM and dividend payments, invitations to meetings with other shareholders and reports on events that have taken place, news on VTB Group companies and information on the activities of the SCC. The subscriber base comprises approximately 22,000 VTB shareholders.

VTB notified its shareholders about upcoming meetings in the regions by means of direct newsletter mailing. Information letters were also sent to the shareholders whose unclaimed dividends were subject to cancellation in the event of failure to provide their bank account details.

Prompt advice

VTB shareholders can receive prompt consultation in Shareholders' Support Centres and by telephone. The Bank's website and all its printed materials also provide contact details. The Bank's advisers provide the most up-to-date information on matters related to ownership and disposition of VTB shares, the current share price and dividends. They handle more than 2,000 email enquiries and phone calls per month. Individual shareholders can also receive support through the VTB Unified Information Service, where call-centre operators and an automated menu provide information about VTB shares.

Shareholders' Consultative Council (SCC)

The Shareholders' Consultative Council (SCC) is an independent advisory body consisting of ten shareholders, which advises the VTB top management team on the Group's current issues and makes suggestions for improvement of business processes and communications with shareholders.

In 2012, the SCC held four meetings, where fundamental questions relating to shareholders' interests were discussed. Among the key issues addressed in these meetings were the following:

- Share buyback from the shareholders that participated in the Group's IPO in 2007;
- VTB Group's financial statements under IFRS;
- Outcome of the site visit to drilling rigs owned by VTB Leasing;
- Dividend amount;
- Performance of the Bank of Moscow;
- VTB Group's credit policy;
- Progress of the VTB's development strategy in 2010-2013;
- Recommendations on a new development strategy, which is expected to be approved in 2013.

In 2012, as in previous years, the SCC took part in preparing and holding the AGM. Special places were allocated to members of the SCC to interact with shareholders during this meeting. The SCC also discussed how to elect the new members of the council, since the current acting members' powers are due to expire. The SCC elections will be held in the second quarter of 2013. VTB shareholders can offer themselves as candidates or vote for other candidates to the SCC by sending their application together with all required documents to KSA@vtb.ru.

Printed publications for individual shareholders

The SCC's activities are extensively covered in VTB's quarterly newspaper for its shareholders called "The Controlling Interest", a corporate publication which provides updates on the current activities of VTB Bank and its subsidiaries. The newspaper also covers new appointments across the Group, product updates, as well as reports on the SCC's and Shareholders' Support Centres' work.

In 2012, the newspaper's circulation was 15,000 copies. The newspaper was distributed not only to shareholders at corporate events, but also through the offices of Bank VTB24 in 37 regions of Russia. In the reporting period, new columns were added to the content of "The Controlling Interest" newspaper, including sections on the VTB Group's activities, as well as forecasts and commentaries from leading analysts. The number of articles covering business topics was also increased. As a result, newspaper's readership has been expanded to potential investors of VTB Bank.

In 2013, VTB plans to increase the circulation of the newspaper from 15,000 to 17,000 -18,000 copies in order to expand the audience of the newspaper. VTB intends to make the newspaper freely available in VTB24's offices so that any customer can review the information contained in the "The Controlling Interest" newspaper while waiting to be served.

Investor Relations section on the VTB Bank website

VTB shareholders and investors can access the most up-to-date information on the Bank's official website ww.vtb.ru. In 2012, the Investor Relations section of the website was significantly redeveloped and updated. The section contains information on the Group's share issues and share price performance, financial results, corporate governance system, the dividend policy and the most important information on the activities of the Group. During the reporting period, a new subsection, "Shareholder News", was created.

Following this transformation, the website became more user-friendly for shareholders, as evidenced by the increasing number of visitors. Thus, the Investor Relations section is visited by an average of nearly 77,000 people every month. During the year, the number of shareholders registered on the website reached 3,200, which is almost double the 2011 figure.

More information about VTB Bank's communications with its individual shareholders can be found in the Shareholder Relations Department's report for 2012, published on the website www.vtb.ru.

5.9 Relations with institutional investors

In 2012, VTB Group continued to communicate actively with the international investment community.

The main channels of communication with international institutional investors in the reporting period were:

- Participation in investment conferences;
- Organisation of road shows for investors;
- VTB Group's Annual Investor Day;
- Organisation and participation in personal and group meetings with investors;
- Group conference calls for investors and analysts to discuss VTB's quarterly and annual financial results under the International Financial Reporting Standards (IFRS);
- Disclosure of insider information by publishing press releases on the London Stock Exchange and the Moscow Stock Exchange;
- Preparation of presentations for investors and the necessary documentation related to share issuance;
- Preparation of the Annual Report of VTB Group in compliance with the disclosure and transparency requirements set by the Financial Service Authority (UK) and by the regulators of the Russian stock market;
- Distribution of news announcements to investors;
- Support of the Investor Relations section on VTB's website by updating information necessary for institutional investors and analysts.

In 2012, the Group paid great attention to personal meetings with investors. VTB Bank held 347 meetings with investment funds and participated in 15 conferences with investors from the USA, Europe and Asia. A number of meetings were held as part of the Bank's traditional eight roadshows to major global financial centres, including London, Moscow, New York, Hong Kong and Singapore, in which top management actively participated. Andrey Kostin, President and Chairman of the Management Board, held meetings with 98 investment funds; Herbert Moos, CFO, with 164 funds; Yuri Soloviev, First Deputy President and Chairman of the Management Board, with 80 funds; and Mikhail Zadornov, President of Bank VTB24, with 50 funds.

One of the most important tools in investor relations is the publication of reports, including the Annual Report. In 2012, VTB received the "Best Annual Report in the financial sector" award by the Expert RA rating agency. The decision was taken by a qualified jury, which consisted of representatives of Expert RA, the Ministry of Economic Development of the Russian Federation, Russian Institute of Directors, National Securities Market Association, the All-Russian Public Opinion Research Centre and representatives of other public organisations, as well as design studios.

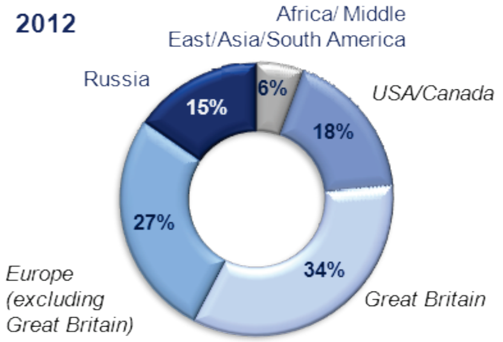
	2012	*2011*	*2010*
Total number of meetings with investment funds *	**347**	**374**	**286**
A.Kostin	*98*	*178*	*80*
H.Moos	*164*	*197*	*113*
Y. Soloviev	*80*	*183*	*69*
M. Zadornov	*50*	*154*	*73*
Investor Relations team	*296*	*374*	*282*

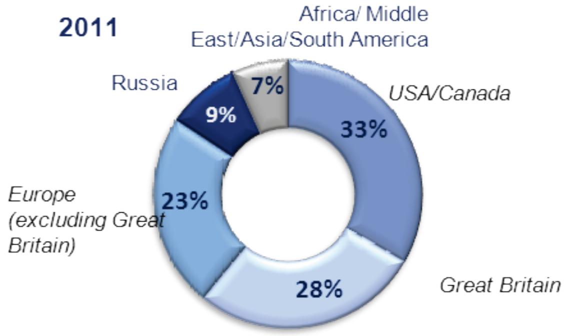
** Meetings and conference calls, excluding recurring meetings*

The VTB Investor Day was one of the most important events in the Group's investor relations activities during the reporting year. For the first time the Group's Investor Day was held at two locations - in Moscow and London, which ensured maximum coverage of current and potential institutional investors. The event was attended by 83 participants in London and 54 in Moscow.

Among the top managers representing the Group at the VTB Investor Day were Andrey Kostin, President and Chairman of the Management Board, Yuri Soloviev, First Deputy President and Chairman of the Management Board, Herbert Moos, CFO, Mikhail Zadornov, President of Bank VTB24, Alexei Yakovitsky, CEO of VTB Capital, Riccardo Orcel, Head of Client Coverage and Global Banking, and Gurinder Nihal, Head of Global Transaction Banking. A presentation by Igor Shuvalov, First Deputy Prime Minister of the Russian Federation, prompted great interest and lengthy discussion during the VTB Investor Day in London. Mr. Shuvalov answered investors' urgent questions on the Russian government's privatisation programme, on macroeconomic conditions and the Russian banking sector.

Geographical breakdown of the meetings' participants





In 2012, VTB's management and investor relations teams focused on communications with European investors, which accounted for 61% of all meetings, and increased their cooperation with Russian investors.

Relations with debt investors

In 2012, VTB continued borrowing, both on the traditional debt market and the local currency debt market.

During the reporting year, the Bank actively developed relationships with credit analysts, and as a result, currently has 13 banks covering VTB. In 2012, to facilitate direct communication with debt investors, VTB arranged two roadshows and participated in seven investment conferences.

As a result, in 2012 VTB attracted an equivalent of USD 7.4 billion in financing on the international capital markets, including a syndicated loan of USD 3.75 billion, in such currencies as the Singapore Dollar, the Swiss Franc, the Chinese Yuan, and was the first Russian issuer to attract financing in the Australian Dollar. VTB was also the first bank in Russia to place tier-1 subordinated perpetual Eurobonds for USD 2.25 billion.

Measures to improve the investor relations strategy in 2012

In addition to the top management's greater involvement in communication with the investment community and the geographic expansion of the Investor Day, VTB increased its disclosure and transparency levels through better communication of its financial reporting under IFRS, including:

- Optimisation of the segment analysis disclosure presented in the Group's financial statements in accordance with IFRS. With regard to its main business segments, the Group defined its global business lines and its operating segments as follows: Corporate and Investment Banking (including Investment Banking, Loans and Deposits, Transaction Banking sub-segments), Retail Banking and Others;

- Disclosure of the amount of non-performing loans which are more than 90 days overdue and the share of such loans in the total loan portfolio in the Group's financial statements in accordance with IFRS;

- Disclosure of the calculation of the Tier 1 capital ratio of VTB Group in accordance with the Basel Accords.

5.10. Management of VTB Group

VTB Bank has a management system based on the "strategic holding" model, which means there is a common single development strategy for all companies within the Group, a single brand, centralised management of financial performance and risk, unified control systems, and a focus on interaction in order to disseminate best practices and create common standards.

In accordance with VTB's current management model, the Group is governed along two key lines:

1. Administrative management – this relates to managing subsidiary companies within the Group's organisational structure. This is done by using the mechanism of corporate governance, whereby VTB participates in the management bodies of its subsidiaries as a major shareholder.

2. Functional management – this relates to managing the Group's business areas and other functional divisions within the Group as a whole. Functional coordination is a supplementary governance mechanism that enables cooperation and consultation between various parts of the Group in the early stages of the decision-making process.

At a Group level, the main coordination and advisory body is the VTB Group Management Committee (VTB GMC), which analyses the development strategies of various business areas, the business plans for the Group and its subsidiaries, examines reports on their implementation, assesses liquidity and risks, oversees the implementation of priority projects, and approves the standards, approaches and principles of the Group's operations. In 2012, a Presidium was set up within the VTB GMC to resolve operational issues.

As of 31 December 2012, the VTB Group Management Committee consisted of the following members:

Andrey L. Kostin – Chairman of the GMC, President and Chairman of VTB Bank Management Board;

Yuri A. Soloviev – member of the GMC, First Deputy Chairman of VTB Bank Management Board;

Vasily N. Titov – member of the GMC, First Deputy Chairman of VTB Bank Management Board;

Herbert Moos – member of the GMC, Deputy President and Chairman of VTB Bank Management Board;

Mikhail E. Oseevskiy – member of the GMC, Deputy President and Chairman of VTB Bank Management Board;

Andrei S. Puchkov – member of the GMC, Deputy Chairman of VTB Bank Management Board;

Denis A. Bortnikov – member of the GMC, member of VTB Bank Management Board;

Victoria G. Vanurina – member of the GMC, member of VTB Bank Management Board;

Valery V. Lukyanenko – member of the GMC, member of VTB Bank Management Board;

Erkin R. Norov – member of the GMC, member of VTB Bank Management Board;

Riccardo Orcel – member of the GMC, Head of the Client Coverage Department, Senior Vice-President of VTB Bank;

Igor I. Piun – member of the GMC, Head of the Strategy and Corporate Development Department, Senior Vice President of VTB Bank;

Stanislav N. Belov – member of the GMC, acting Head of the Risk Department, Senior Vice President of VTB Bank;

Mikhail M. Zadornov – member of the GMC, President and Chairman of VTB24 Management Board;

Alexei V. Krokhin – member of the GMC, President of OJSC TransCreditBank;

Mikhail V. Kuzovlev – member of the GMC, President of the Bank of Moscow;

Vadim V. Pushkarev – member of the GMC, Chairman of VTB Ukraine Management Board;

Dmitry V. Rudenko – member of the GMC, President and Chairman of OJSC Leto Bank Management Board;

Alexei A. Yakovitskiy – member of the GMC, CEO of VTB Capital Holding;

Dmitry Y. Olyunin – member of the GMC, First Vice-President of OJSC TransCreditBank;

Ekaterina V. Petelina – member of the GMC, Deputy President and Chairman of the VTB24 Management Board, Director of the Retail Business Department of VTB24

Alexander G. Yastrib – First Deputy President and Chairman of the Bank of Moscow Management Board.

GMC meetings and the Presidium are held regularly on the basis of quarterly work plans. In 2012, the GMC and Presidium of VTB held 21 meetings.

In order to discuss VTB Group's performance, the Management Committee has set up 12 Coordination Commissions along the Bank's main business lines (corporate and investment business, retail business, business with financial institutions, planning and reporting, assets and liabilities, internal control and audit, compliance and internal control for the prevention of money laundering and the financing of terrorism, branding and marketing/external communications, personnel, property management, IT and security). The Commissions are managed by the heads of the relevant divisions of the Bank. Members of the Commissions are experts drawn from all of the banks and companies in the Group. The Commissions are responsible for identifying best practices and finding ways to implement them, prior to their final approval by the Management Committee.

In addition to the Coordination Commissions, the Group Credit Committee, which oversees the management and control of credit risk, also functions as an element of the Management Committee. In the reporting period, the Risk Management Committee was also created, which oversees the implementation of the consolidated risk management system, along with the Finance Committee, which oversees the strategic management of the Group's finance policy.

In 2012, work continued on improving the Group's management system and on building a global bank with the Group Management Committee's approval. The main objective in this field is to improve coordination and cooperation between VTB Group's companies in various key business and support functions.

In relation to these specified goals, two global business lines have been established within the Group:

1. The Corporate and Investment Banking business line, which is responsible for the financial results of VTB Group's corporate banking business in all the geographical areas in which it is present. Y. A. Soloviev is the Head of this business line.

2. The Retail Banking business line, which is responsible for the financial results of the retail banking services provided by VTB Group to individuals and small businesses in all the geographical areas in which it is present. M. M. Zadornov is the Head of this business line.

Taking the introduction of global business lines into account, in 2012, VTB Group Management Committee identified separate banks and Group companies, which then entered into the circle of the existing business lines.

In the reporting period, the centralisation of responsibility and the integration of management of the key functions of support and control continued to be strengthened, primarily the management of risks, finance, IT and operational activities. In particular, a network of management committees was set up corresponding to the various functions.

The management system that has been introduced by the Group enables the Bank to reduce risks, develop a major global mechanism for corporate banking, closely coordinate the work of every business line in all the regions the Bank operates in, and to increase profitability through synergies between business lines and best practices. It also enables the Group to cut costs by sharing infrastructure and resources more extensively among VTB's subsidiaries. Furthermore, the new system is a platform for the effective integration of assets acquired by VTB Group.

VTB Group's governance system is designed to comply fully with the corporate and antimonopoly legislation of the countries in which the Group's companies operate, and undergoes continual review and improvement in order that it remains in compliance. In particular, the regulations of the VTB Group Management Committee ensure that no decisions can be made that would limit competition in the markets in which VTB Group companies operate or would violate legislative norms or the statutory documents of those companies. Also, in accordance with Civil law requirements, VTB Group's governance system is based on the principle of the independence of each of the legal entities within the Group.

6. Corporate Social Responsibility

VTB Group strives to position itself as a leader in all areas where it conducts business. At the same time, VTB is fully aware that achieving a high level of operating and financial performance, management efficiency and sustainable growth depend on those whose interests are affected by its business. The Group recognises its responsibility towards all stakeholders, communicates with them on a regular basis and takes their interests into account, not only in its ongoing operations, but also while setting its strategic objectives and directions for further development.

6.1. Personnel

In 2012, VTB Group's Human Resources activities were based on the strategy for effective development adopted in 2010. According to this strategy, the Group has implemented projects aimed at improving the degree of centralization of support and control functions, and actively developed a system managing VTB's major business lines.

In the reporting period, VTB Group implemented a number of projects to modify the current HR process and to improve the cooperation of all stakeholders in order to achieve the Group's strategic objectives. In addition, a Coordination Commission for Human Resources under the Management Committee was reformed and resulted in an increased level of transparency and efficiency of the decision-making process in human resources across the Group.

In 2012, personnel at VTB Group was reinforced both by internal staff rotation, enabling VTB to share best practice in-house, and by attracting external candidates with experience in leading Russian and international banks and companies. As of December 31, 2012, VTB Group employed 80,860 people.

Appraisal

VTB operates a modern and effective system of personnel assessment, which combines all assessment techniques currently on the market. This system is used to select both external and internal candidates, determine employees' training requirements, and create development and career plans to identify the most promising employees and form a talent pool, as well as assess employees' performance.

In 2012, the Assessment Centre method was used to assess the performance of regional client teams, as well as employees of operating support, credit and risk management departments in order to confirm that client managers' competencies correspond to their job profiles. VTB uses the Competency-Based Interview rapid assessment method and proficiency testing as the basis for recruitment.

The competency model has a significant role in the appraisal system for VTB's employees, defining the criteria for personnel selection and assessment, as well as setting the standard for assessment in the Group's banks in Russia, the CIS, Europe and Asia. It reflects the values of VTB Group and enables employees to better understand corporate standards of conduct, and to receive feedback on their performance.

Incentive System

VTB Group has always paid close attention to effective incentive of its employees and their focus on achieving set goals. During the assessment of employees' performance, the key focus is on adopting a balanced approach that takes into account results obtained and risks taken.

In 2012, as part of the integration processes within the Group, VTB continued to synchronise the policies and procedures on remuneration and social programmes for employees of the Bank of Moscow and TransCreditBank, bringing them in line with the standards of the Group. In this regard, during the reporting period, a performance appraisal was introduced at the Bank of Moscow. This performance appraisal is based on the key performance parameters aimed at focusing on achieving set KPIs by the Bank's units and by the Bank itself, as well as improving employees' engagement towards end results. VTB also introduced a main framework to integrate TransCreditBank's staff with the VTB and VTB 24 teams, including principles of cooperation and a clear division of areas of expertise during the remuneration and social programmes decision-making process.

As part of the Group's new management system, remuneration policy and manager performance assessment of the Group's global business lines and functional divisions of VTB's subsidiaries have been improved in 2012.

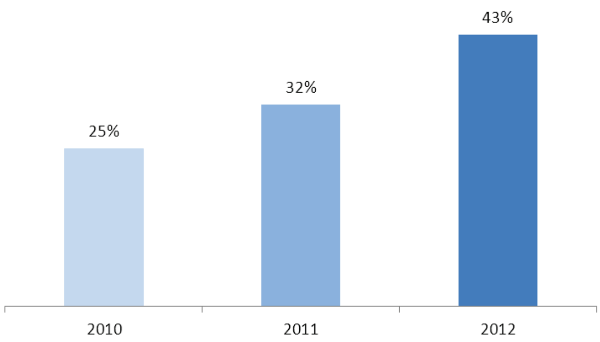
Training and Development

In 2012, VTB modified its corporate training system in accordance with the requirements of the Group's business and strategies. Thus, VTB introduced an assessment of employees' training requirements, which confirmed the need for revision of educational programmes to relate them back to the Group's business objectives.

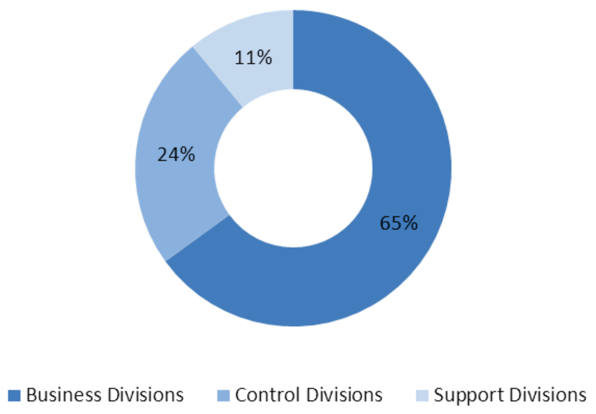
The VTB Corporate University is an integrated system of corporate training based on unified standards. The Corporate University has a number of faculties working closely with internal customers to create and implement different programmes focusing on attaining a high level of applied knowledge and skills.

In 2012, VTB paid greater attention to training management and employees of the Group's business divisions. The emphasis was particularly placed on functional training of the Group's specialists in the following areas: risk management, credit, information technology, business planning, internal control and financial monitoring.

The proportion of functional training programmes to the total number of training programmes at VTB Bank, %



Breakdown of VTB Bank's employees who participated in training programmes, by internal divisions, in 2012, %



The main focus of the personal effectiveness and managerial competency programmes was on the development of cross-functional skills and cross-cultural interaction, and on training employees to effectively use these tools in their work with subordinates: from setting clear tasks to the fundamental principles of managing people and processes in a constantly changing environment.

Corporate Culture

In the reporting year, one of the priorities of VTB's HR management programme was the development of internal communications channels, including different events in which VTB senior managers participated, the Team Energy corporate newspaper and internal portal. In addition, a number of conferences were held during the reporting year for managers of different seniority and managers from the Group's subsidiaries aimed at strengthening the efficiency of cross-functional interaction.

In 2012, the Group held family and sporting events, tournaments and championships, volunteer activities and others events, which over the years have become traditions in the corporate life of VTB. As part of this, in July 2012, RUN&FUN sports events organised in support of the VTB Team at the XXX Olympic Games in London took place in 25 cities across Russia. The International Records and Achievements Agency declared a race of 1,139 people, organized as part of the RUN&FUN programme, as the largest race in the world run by financial professionals.

6.2 Responsible resource management

One of VTB Group's main priorities is a responsible approach to the consumption of natural resources. The Bank not only improves its resource and energy consumption management system, but also contributes to raising environmental awareness in the business community by introducing criteria for financing projects aimed at deploying energy-efficient technologies.

In 2012, VTB Group has identified priority areas for its administrative and economic activities, which include control over administrative costs and more efficient use of its real estate portfolio.

In the reporting period, the Bank has taken measures to unify regulations in order to improve cooperation in the field of administrative property management. A number of regulations have been approved, including standards regulating placement of the Group's companies, coordination policies for real estate transactions, cost limits for construction and renovation works, workplace arrangement and leasing rates.

In 2012, VTB Bank completed testing the automated property management system that enables the Bank to track consumption of resources and to take measures to reduce them. The launch of this system is planned for 2013 within VTB24 Bank and the Bank of Moscow. In addition, VTB plans to approve the introduction of this system across the Group.

VTB Group pays special attention to environmental and energy-saving technologies in the construction, renovation and operation of its buildings. In 2012, to set a benchmark for the ecological efficiency of the Group's assets, the Bank approved cost limits on construction and repair works for the VTB Group companies, which are applied to all of the Group's subsidiaries in the CIS.

The Bank seeks to efficiently use fuel, paper, water, electricity and heating.

In 2012, VTB Group continued to implement its Programme for Energy Conservation and Energy Efficiency. As part of this programme, the Bank conducted energy audits in 19 of its properties in Moscow and St. Petersburg, repaired heating systems in three properties and also replaced lighting at three sites.

Volume of resource consumption by JSC VTB Bank in 2011–2012 (Moscow and Moscow region)

	Unit	2011	2012
Heating	Gcal	17,259	19,020
Electricity[9]	kW '000	21,658	49,462
Water	m3	73,132	68,641

VTB Bank strives to reduce its paper consumption, which is why an electronic document management system was introduced throughout many offices. In 2012, the number of the Group's subsidiaries that implemented this system increased, leading to significantly reduced paper consumption when approving and signing documents.

VTB Group also pays special attention to controlling direct and indirect vehicle fuel consumption. In order to reduce direct fuel consumption, VTB introduced a system of monthly monitoring and regulation of fuel consumption across the Group's companies.

In the reporting period, VTB Group continued to implement a videoconferencing system that video conferences with partners and VTB's subsidiaries to be organised virtually anywhere in the world. The use of video conferencing helps to reduce the amount of business travel and, consequently, results in reduced indirect fuel consumption. In 2012, the total duration of video conferences within VTB Bank alone exceeded 6,232 hours.

Fuel consumption for VTB Bank's business travel in 2011-2012

	Unit	2011	2012
Fuel consumption	GJ	138,875	225,415

[9] Electricity consumption data for 2011 are presented excluding the cost of the head office of VTB Bank "The Federation Tower West".

Along with the responsible management of resources, the Bank ensures that the waste generated by its working processes is properly disposed of. VTB subsidiaries use specialised licenced companies for the disposal of inconsumable fluorescent lamps, batteries, operational materials, tyres and spare parts. In 2012, 574 tonnes of municipal solid waste was generated by VTB Group's working processes, which is 15% more than in 2011.

Waste generated by VTB Group's working processes in 2011-2012

Generated waste and its disposal	Unit	2011	2012
Generated waste, including:	tonne	501	574
paper	tonne	496	567
Electronic devices	tonne	5	7
Paper recycling	tonne	84	59

6.3 Social Programmes

One of VTB Group's most important roles is providing support for projects related to social development, cultural and scientific heritage, the promotion and development of sport, social partnerships with healthcare and educational institutions, as well as the provision of aid to vulnerable groups within society.

Sports

One of the most important tasks for VTB Group's social activity is to support sporting events and to create a stable financial base that enables Russian sportsmen and sportswomen to successfully compete in various sports worldwide. In 2012, the Group lent its financial support to various Russian and international sports organisations, including:

- Dynamo Moscow Football Club
- VTB United League
- United Hockey Club Dynamo
- Futsal Club Dynamo
- Russian Basketball Federation
- Russian Gymnastics Federation
- KAMAZ-Master rally team
- Volleyball Federation of Russia
- International Association of Athletics Federations (IAAF)
- International Gymnastics Federation (FIG)
- Russian Mountain Ski and Snowboarding Federation

VTB also contributes to improving Russian national teams' performance in Olympic events. The Bank also sponsors the Russian Basketball Federation and the Volleyball Federation of Russia, as well as acting as a partner to the Gymnastics and Athletics Federations in their preparations for the last two Olympic Games. The most memorable event of the sporting calendar was the successful performance of our sportsmen and sportswomen in the 2012 London Olympic Games: together they won 27 out of the Russian national team's total of 82 medals. For the first time in 32 years following the 1980 Moscow Olympics, the Russian men's national volleyball team won gold.

In 2012, fortune was also on the side of other VTB backed teams too. Futsal Club Dynamo became champions of Russia for the eighth time. Hockey Club Dynamo won the Gagarin Cup. On 25 November

2012, Dynamo Moscow Football Club secured a convincing victory over Spartak Moscow Football Club at the Luzhniki Stadium with 5:1 being the final score.

For the past several years VTB has been the primary sponsor of the most successful rally team in motorsport – KAMAZ-Master rally team. As a result of the recent generation change, no one expected the team to win the 2012 Dakar Rally. However, two young KAMAZ-Master crews came in the top 5, taking fourth and fifth place and gaining invaluable sporting experience. As early as July 2012, the young driver Ayrat Mardeev had won the rally-raid Silk Way, taking place for the fourth time.

Arts and Culture

One of the main areas of the Bank's social policy is to support cultural institutions. In recent years, VTB has implemented a number of large-scale projects in collaboration with Russia's largest museums and theatres. The Bank is actively involved in the cultural life of Moscow and St. Petersburg, facilitating the promotion of significant projects in the Russian regions and helping to develop cultural ties with other countries.

In 2012, VTB Group sponsored a number of milestone art exhibitions. In honour of the 150th anniversary of the painter Mikhail Nesterov's birth, a retrospective of his work was held in the halls of the Benois Wing of the Russian Museum. In addition, a Vladimir Korbakov exhibition was held in the Marble Palace of the Russian Museum. Vladimir Korbakov, a People's Artist of Russia and member of the Russian Academy of Arts, who turned 90 on 5 June 2012, personally selected works for his exhibition.

An exhibition devoted to the 150th anniversary of the birth of Konstantin Korovin, an outstanding Russian painter, was held in the exhibition hall of the Tretyakov Gallery at Krymsky Val. The exhibition covered three stages of the Russian impressionist's work: easel painting, monumental painting and his theatrical works. Muscovites had to wait more than 50 years for such an extensive exhibition and they welcomed it with enthusiasm – 200,000 people managed to visit it.

VTB maintained its tradition of supporting the long-term educational programme, 'Moving Academy of Art', a large-scale project of the Foundation for Social and Cultural Initiatives. Various workshops (on how to play musical instruments and sing, as well as about folklore, visual art, directing and ballet), exhibitions of young painters and other charity events are being held as part of this project. In 2012, events were held in Belgorod, Omsk, Tula, as well as in several cities of the Republic of Khakassia (Abakan, Sayanogorsk and Chernogorsk) and Moscow. In Russia's capital, participants had a unique opportunity to attend one of the oldest educational institutions in the country – the Gnessin Russian Academy of Music.

The Bank continues to support Russia's leading theatres as a member of the Bolshoi Theatre Board of Trustees and a General Partner of the Mariinsky Theatre. VTB also provides ongoing support to the Pyotr Fomenko Workshop Theatre in Moscow.

In 2012, the Bolshoi Theatre re-produced the ballet 'Ivan the Terrible', which was first staged in the Bolshoi Theatre in February 1975 by choreographer Yury Grigorovich.

VTB Bank supported the 11th Moscow Easter Festival. 150 concerts of bell ringing, symphonic, choral and chamber music were held in 34 cities across Russia and neighbouring countries. The pianist Daniil Trifonov gave a solo performance at the grand opening of the Festival in the Great Hall of the Moscow Conservatory. Spiritual and secular music was performed by 26 choirs from Russia, Greece, Bulgaria, Hungary, Germany and other countries in Moscow's churches, as well as in regional orphanages.

With the support of the Bank, the 20th jubilee "Stars of the White Nights" Music Festival was held in the Mariinsky Theatre in St. Petersburg. The festival was opened with a dazzling premier of Modest Mussorgsky's opera 'Boris Godunov'. By invitation and under the direction of Valery Gergiev, the opera was staged by the famous English director Graham Vick, who transposed the work from the 16th century to modern Russia.

In what has become a tradition, at the end of March in St. Petersburg, VTB Bank sponsored the 12th Mariinsky International Ballet Festival. The highlight of the festival was a guest performance of Maurice Béjart's 'Béjart Ballet Lausanne', directed by Gil Roman.

A new ballet by the famous St. Petersburg-based choreographer Boris Eifman, 'Rodin', was staged on 24 and 25 May 2012 in the Bolshoi Theatre in Moscow. Critics called it a playful tragedy about love. The ballet is dedicated to the life of the sculptor, Auguste Rodin, and his mistress Camille Claudel, and is based on works by three French composers Ravel, Saint-Saëns and Massenet. VTB Bank has been a longstanding supporter of the creative work of Boris Eifman's theatre. 'Rodin' was also staged with the Bank's sponsorship, which gave the theatre the opportunity to purchase modern equipment to create a fundamentally new lighting backdrop for the play.

In November 2012, the 3rd International Festival 'Diaghilev. P.S.' took place in St. Petersburg. In 2012, the festival's programme was devoted to the jubilee of the greatest contemporary choreographer and founder of the Hamburg Ballet, John Neumeier. The main events of the festival included the exhibition 'Vaslaw Nijinsky and John Neumeier', the ballet 'Lady of the Camellias' to music by Frédéric Chopin performed by the Hamburg Ballet, and an international academic conference 'John Neumeier: aspects of creative work'. The festival closed with a ballet gala 'Neumeuier without borders', where the brightest principals from the world's leading ballet companies danced pieces from the Maestro's celebrated ballets, as performed before on the best ballet stages around the world.

With VTB's support, in June 2012 a charity tour of the Pyotr Fomenko Workshop Theatre took place in Sevastopol. The theatre gave two charity performances on the stage of the Black Sea Fleet Lavrenev Drama Theatre. One performance was given for sailors and their families. The funds raised from the second performance were donated to the Lavrenev Drama Theatre in Sevastopol, one of the cultural and artistic divisions of the Russian Black Sea Fleet.

The Moscow Musical Theatre headed by Mikhail Shvidkoy recently completed its first season. For several months the musical 'We Can't Choose Our Times' featuring music from the 1920s and 1930s played on the former main stage of rock musicians in the legendary Gorbunov Palace of Culture, known as 'Gorbushka'. Around 50,000 people came to watch the musical. In 2012, with the support of VTB, the theatre launched a new premier musical, 'The Embezzlers,' written by Maxim Leonidov and Aleksandr Shavrin, who adapted the original play of Valentin Kataev.

VTB Bank supports the best traditions in national television. In 2012, a unique Russian television project, TV Channel 'Kultura', celebrated its 15th anniversary. Throughout the year VTB sponsored a series of programmes for the channel such as 'Culture News', 'The leading role' and 'Context'.

During the past few years, VTB has been an official sponsor of the National Television Competition TEFI and TEFI-Region, the most prestigious award in the Russian television industry. TEFI-2011 was held for the 17th time with 50 different categories. 535 productions of 157 TV companies from 76 cities in Russia entered the competition for the TEFI-Region award. As part of their educational outreach programme, the Fund for the Academy of Russian Television held a panel discussion 'The future of regional television' and a conference 'News from a new angle!'.

The 34th Moscow International Film Festival, held in July 2012 with the support of VTB Bank, reflected all the trends of world filmmaking. In total, 46 films were presented to the panel. Russia's largest film festival has expanded not only through new programmes (22 programmes were presented at the competition), but through the two business platforms: ‘Moscow Business Square’ and the First International Travelling Film Market ‘DOORS’.

In September 2012, the 7th International Multimedia Festival ‘Living word’ was held with the support of VTB Bank in Aleksander Pushkin’s family estate in Bolshoe Boldino village. Representatives of 18 countries and all regions of Russia participated in the festival. Apart from the traditional workshops and creative competitions, the festival’s programme was enriched with several reports, which were of high interest not only to philologists, but also to the rest of the attendees.

Social Investments

Over the last nine years, the Bank has been developing its own charity programme, ‘World Without Tears’, which is aimed at providing support to children’s healthcare institutions. In 2012, events were held as part of the programme in Yekaterinburg, Izhevsk, Kazan, Kemerovo, Komsomolsk-on-Amur, Nizhny Novgorod, Samara, Cheboksary and in Moscow. The programme’s annual budget amounted to RUB 15 million. All funds were used for purchasing medical equipment and pharmaceuticals exclusively for children’s hospitals.

VTB also traditionally provides support to Russian educational institutions. Over the course of the reporting period, VTB partnered with the following higher education establishments:

- European University at St. Petersburg
- Saint Petersburg State University
- The Finance University under the Government of the Russian Federation
- Russian Society of Teachers of Russian Language and Literature
- National Research University Higher School of Economics
- The Moscow School of Economics of Lomonosov Moscow State University
- The Baltic State Technical University ‘Voenmeh’
- The Military Academy of the General Staff of the Armed Forces of the Russian Federation

In addition, during the year the Bank regularly lent financial support to religious organisations, veterans’ funds and associations, both state and boarding schools, as well as orphanages.

7. Management Responsibility Statement[10]

VTB Management is responsible for preparing the Annual Report and the Group's consolidated financial statements in accordance with applicable laws and regulations. The management responsibility statement forms an integral part of the Annual Report and is prepared in accordance with the requirements of the UK Financial Services Authority (FSA).

VTB Group's internal regulations require its management to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and applicable laws and regulations.

The consolidated financial statements, as required by law and IFRS, present a true and fair view of the Group's state of affairs and profit.

In preparing the consolidated financial statements, VTB Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, with any material deviations from the standards being disclosed and explained in the statements;
- prepare consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue its business activity in the near future.

VTB Management is responsible for keeping proper accounting records, which enable them to disclose with reasonable accuracy at any time, the financial position of the Group, and to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

VTB Bank President and Chairman of the Management Board
Andrey L. Kostin

[10] This statement has been prepared in accordance with the requirements of the Financial Services Authority (United Kingdom) which JSC VTB Bank has to abide to as an issuer of global depositary receipts on the London Stock Exchange.

8. TRANSACTIONS OF JSC VTB BANK

Major transactions of JSC VTB Bank

In 2011, VTB Bank did not perform any transactions that were material as defined in accordance with article 78 of the Federal Law No. 208-FZ of 26 December 1995 on Joint Stock Companies.

Interested party transactions of JSC VTB Bank

VTB participated in the following interested party transactions between 2008 and 2012, which were approved by either its Supervisory Council or the General Shareholders Meeting:

Year	Total number of transactions	Total amount of transactions in RUB thousand
2008	6,640	7,811,570,233
2009	7,157	8,919,312,502
2010	9,872	12,715,935,279
2011	215,355	21,541,159,793
2012	274,356	48,460,610,362

In 2012, there were no interested party transactions (or related transactions) which amounted to more than 5% of JSC VTB Bank's book value (as determined by the accounting reports on the last date before the completion of the transactions)

9. OTHER GROUP INFORMATION

9.1. DETAILS OF JSC VTB BANK

General information	
Full name	VTB Bank (joint stock company)
Primary State Registration Number	1027739609391 issued on 22.11.2001 by the Moscow office No. 39 of the Interdistrict Tax Inspectorate of the Ministry of Taxes and Levies of Russia
Legal address	29, Bolshaya Morskaya St., St. Petersburg 190000
Postal address	
for Russian mail	37, Plyushchikha St., Moscow 119121
for international mail	43, Vorontsovskaya St., Moscow 109044
Call centre	8 800 200 77 99 (Russian toll-free) +7 495 739 7799
Fax	+7 495 258 4781
Email address	info@vtb.ru (for queries and proposals)
Website	http://www.vtb.ru/

Details	
OKPO code	00032520
TIN	7702070139
Correspondent account with the Clearing House of the Moscow Main Territorial Department of the Bank of Russia	30101810700000000187
Russian BIC	044525187
All-Russian Classifier of Political Subdivisions	40262563000
Taxpayer Record Validity Code	997950001
TELEX	412362 BFTR RU
SPRINTMAIL	PROTOCOL/MOSVTB0/CEA
SWIFT	VTBRRUMM VTBRRUMM SEC VTBRRUMM CSD (deposit)

9.2. LICENCES OF JSC VTB BANK

- General licence to conduct banking operations No. 1000, dated 31 August 2012.
- Licence for performing banking activities with precious metals No. 1000, dated 9 March 2007.
- Licence of professional participation in the securities market for depository activities No. 178-06497-000100, dated 25 March 2003.
- Licence of professional participation in the securities market for brokerage activities No. 177-06492-100000, dated 25 March 2003.
- Licence of professional participation in the securities market for dealing activities No. 177-06493-010000, dated 25 March 2003.
- Licence of professional participation in the securities market for securities management No. 177-06496-001000, dated 25 March 2003.
- Licence of a specialised depository for investment funds, unit trust and non-governmental pension funds No. 22-000-0-00011, dated 4 October 2000.
- Licence of stock exchange intermediary for futures and options transactions at stock exchanges No. 1451, dated 9 October 2009.
- General licence for exports of refined gold in standard and minted bars No. 092RU12002000506, dated 30 November 2012.
- General licence for exports of refined silver .999 Fine in standard and minted bars No. 092RU12002000065, dated 27 February 2012
- Licence for activities involving State secrecy information No. 3872/2, dated 19 August 2010
- Licence for activities involving State secrecy information No. 3872/3, dated 19 August 2010.
- Licence for activities involving State secrecy information No. 3872/4, dated 1 June 2011.
- Licence for activities involving State secrecy information No. 3872/5895, dated 2 December 2011.
- Licence to take measures and/or provide services to protect State secrecy information No. 3927/1, dated 1 June 2011
- Licence to perform technical maintenance of encoding devices No. 342X, dated 16 November 2009.
- Licence for distribution of encoding devices No. 343R, dated 16 November 2009.
- Licence to render information encoding services No. 344U, dated 16 November 2009.

9.3. CONTACT INFORMATION

Banks and financial companies of VTB Group in Russia

JSC VTB Bank
Address: 29, Bolshaya Morskaya St., St. Petersburg 190000
Phone: 8 800 200 7799 (toll-free in Russia);
+7 495 739 7799
Fax: +7 495 258 4781
Website: www.vtb.com
Email: info@vtb.ru

CJSC Bank VTB24
Address: 35, Myasnitskaya St., Moscow 101000
Phone: 8 800 100 2424; +7 495 777 2424
Fax: +7 495 980 4666
Website: www.vtb24.ru
Email: info@vtb24.ru

OJSC TransCreditBank
Address: 37A, Novaya Basmannaya St., Moscow 105066
Phone: +7 495 788 0880
Fax: +7 495 788 0879
Website: www.tcb.ru
Email: info@bnk.ru

OJSC Bank of Moscow
Address: 8/15 bldg 3, Rozhdestvenka St., Moscow 107996
Phone: +7 495 925 8000
Fax: +7 495 795 2600
Website: www.bm.ru
Email: info@mmbank.ru

OJSC Leto Bank
Address: 8, Preobrazhenskaya St., Moscow 107061
Phone: 8 800 510 9510
Fax: +7 495 646 5814
Website: www.letobank.ru
Email: welcome@letobank.ru

CJSC Holding VTB Capital
Address: 12, Presnenskaya Emb., Moscow 123100
Phone: +7 495 960 9999
Fax: +7 495 664 4700
Website: www.vtbcapital.com
Email: info@vtbcapital.com

Insurance Company VTB Insurance Ltd.
Address: 2/4 bldg 1, Turgenevskaya Sq., Moscow 101000
Phone: +7 495 580 7333; +7 495 644 4440; 8 800 100 4440 (in Russia only)
Fax: +7 495 589 2408
Website: www.vtbins.ru
Email: info@vtbins.ru

OJSC VTB Leasing
Address: 10, 2nd Volkonskiy Per., Moscow 127473
Phone: +7 495 514 1651
Fax: +7 495 514 1650
Website: www.vtb-leasing.com
Email: info@vtb-leasing.com

VTB Factoring Ltd.
Address: 52/1, Kosmodamianskaya Emb., Moscow 115054
Phone: +7 495 783 3534
Fax: +7 495 783 3534
Website: www.vtbf.ru
Email: factoring@vtbf.ru

CJSC VTB Registrar
Address: 23, Pravdy St., Moscow 125040
Phone: +7 495 787 44 83
Fax: +7 499 257 1700
Website: www.vtbreg.ru
Email: info@vtbreg.ru

CJSC VTB Specialized Depository
Address: 35, Myasnitskaya St., Moscow 101000
Phone: +7 495 956 3070
Fax: +7 495 956 3071
Website: www.odk.ru
Email: odk@odk.ru

NPF VTB Pension Fund
Address: 52 bldg 4, Kosmodamianskaya Emb., Moscow 115035
Phone: +7 495 228 0989
Fax: +7 495 228 0989
Website: www.vtbnpf.ru
Email: info@vtbnpf.ru

VTB Real Estate Ltd.
Address: 70, Mosfilmovskaya St., Moscow 119590
Phone: +7 495 925 4570
Fax: +7 495 925 45 70
Website: www.vtbr.ru
Email: info@vtbr.ru

MultiCarta Ltd.
Address: 43, Vorontsovskaya St., Moscow 109147
Phone: +7 495 784 6055; +7 495 785 1515 (customer helpdesk)
Fax: +7 495 785 1224
Website: www.multicarta.ru
Email: info@multicarta.vtb.ru

CJSC VTB Debt Centre
Address: P.O. Box 281, room 4094, 35, Myasnitskaya St., Moscow 101000
Phone: +7 495 645 4325
Fax: +7 495 645 4367

CJSC VTB-Development
Address: 29, B. Morskaya St., St. Petersburg 190000
Phone: +7 812 329 2219
Fax: +7 812 329 2218
Email: info@vtbd.ru

VTB Group banks and financial companies outside of Russia

Banks and financial companies in Europe

VTB Capital Plc
Address: 14, Cornhill, London EC3V 3ND, United Kingdom
Phone: + 44 20 3334 8000
Fax: +44 20 3345 8900
Website: www.vtbcapital.com

VTB Bank (Austria) AG
Address: Postfach 560, Parkring 6, Wien A-1010, Austria
Phone: + 43 515 35 2226
Fax: + 43 15 153 5316
Website: www.vtb.at
Email: general@vtb.at

VTB Bank (France) SA
Address: 79/81, Boulevard Haussmann 75382, Paris Cedex 08, France
Phone: +33 14 006 4321
Fax: +33 14 006 4848
Website: vtb.fr

VTB Bank (Deutschland) AG
Address: Walter-Kolb-Strasse 13, Frankfurt-am-Main D-60594, Germany
Phone: +49 69 216 8208
Fax: + 49 69 216 8389
Website: www.vtb.de
Email: service@vtb.de

Russian Commercial Bank (Cyprus) Ltd.
Address: 2, Amathuntos St., P.O. Box 56868, Limassol 3310, Cyprus
Phone: + 357 2583 7300
Fax: +357 2534 2350
Website: www.rcbcy.com
Email: rcb@rcbcy.com

Banks in the CIS and Georgia

PJSC VTB Bank (Ukraine)

Address: 8/26, Taras Shevchenko Blv./ Pushkinskaya St., Kiev 01004, Ukraine
Phone: +380 44 391 5409, +380 44 239 3539
Fax: +380 44 391 5409
Website: www.vtb.com.ua
Email: info@vtb.com.ua

CJSC VTB Bank (Belarus)

Address: 14, Moskovskaya St., Minsk 220007, Belarus
Phone: +375 17 309 1515 Fax: +375 17 309 1530
Website: www.vtb-bank.by
Email: info@vtb-bank.by

CJSC VTB Bank (Armenia)

Address: 46, Nalbandyana St., Yerevan 0010, Armenia
Phone: +374 1051 3749 Fax: +374 1056 5578
Website: www.vtb.am
Email: headoffice@vtb.am

OJSC VTB Bank (Azerbaijan)

Address: 38, Khatai Avenue, Baku AZ1008, Azerbaijan
Phone: +99 412 492 0080;+99 412 437 7120
Fax: +99 412 437 7121
Website: www.vtb.az
Email: info@vtb.com.az

JSC VTB Bank (Kazakhstan)

Address: 28B, Timiryazeva St., Almaty 050040, Kazakhstan
Phone: +7727 330 5050
Fax: +7727 330 4050
Website: www.vtb-bank.kz
Email: info@vtb-bank.kz

JSC VTB Bank (Georgia)

Address: 37, D. Uznadze St., Tbilisi 0102, Georgia
Phone: +99 532 50 5505
Fax: +99 532 99 9139; +99 532 95 6085
Website: www.vtb.com.ge
Email: admin@vtb.com.ge

Banks and financial companies in Asia and Africa

Banco VTB Africa S.A.

Address: 22, Rua da Missao, Luanda, Angola
Phone: +244 222 39 5889
Fax: +244 222 39 5297
Email: info@vtb.ao

Vietnam-Russia Joint Venture Bank

Address: 1st & 2nd Floor, Yet Kieu Str., Hoan Kiem Dist., Hanoi, Vietnam
Phone: + 844 942 6668
Fax: +844 942 6669
Website: www.vrbank.com.vn
Email: vrbank@vrbank.com.vn

Branches and representative offices abroad

JSC VTB Bank Branch in Shanghai (China)

Address: offices 1101A, 1102-03 (11th floor), 1266, Nanjing Xilu, Jing'an District, Shanghai municipality 200040, the People's Republic of China
Phone: + 8621 6136 6288
Fax: + 8621 6136 6265
Email: shanghaibranch@vtb.ru

JSC VTB Bank Branch in New Delhi (India)

Address: Mezzanine floor, Taj Mahal Hotel, 1 Mansingh Road, New Delhi 110011, India
Phone: +9111 6622 1000 Fax: +9111 6622 1024
Email: indiabranch@vtb.com

Representative office of JSC VTB Bank in China

Address: 18BC, CITIC bldg, 19, Jianguomenwai dajie, Beijing 100004, China
Phone: +86 10 8526 2800 Fax: +86 10 8526 2810
Email: chinavtb@public3.bta.net.cn

Representative office of JSC VTB Bank in Italy

Address: 8, Piazzale Principessa Clotilde, Milan 20121, Italy
Phone: +39 02 2901 3278
Fax: +39 02 2906 0007
Email: m.volkov@vtbitalia.com

Representative office of JSC VTB Bank in the

Kyrgyz Republic
Address: 55, Manasa Avenue, Bishkek 720017, the Kyrgyz Republic
Phone: +996 775 98 3308 Fax: +996 775 55 4670

10. Shareholders' Information

Share capital

The authorised share capital of VTB Bank amounts to RUB 104,605,413,373.38 and is divided into 10,460,541,337,338 shares. All shares of the Bank are ordinary registered shares, issued in non-documentary form with a par value of RUB 0.01 each. In accordance with the Bank's Charter, it has the right to issue a maximum number of 14,000,000,000,000 ordinary shares with a par value of RUB 0.01 each, in addition to the shares already placed.

As of 31 December 2012, there were no outstanding preferred shares of VTB Bank.

The state registration number of VTB Bank's outstanding ordinary shares is 10401000B. The record date for the state registration of the additional issue of VTB Bank's ordinary shares is 29 September 2006.

In 2012, VTB Bank's shares were traded on the Moscow Exchange in Quotation "B" and on the London Stock Exchange (LSE) in the form of Global Depositary Receipts (GDRs). On February 28, 2013, the Bank's shares were transferred to the top Quotation List "A" Level 1 of the Moscow Exchange.

Each VTB GDR is equivalent to 2,000 ordinary shares. The Bank of New York International Nominees is the depositary bank for the VTB GDR Programme. On 31 December 2012, GDRs accounted for 16.09% of the Bank's share capital.

Number of shares and % of the total			
Shareholder	**As of April 21, 2011**	**As of April 26, 2012**	**As of December 31, 2012**
Russian Federation, represented by the Federal Agency for State Property Management	7,897, 477, 400, 292 shares 75.5%	7, 897, 477, 400, 292 shares 75.5%	7, 897, 477, 400, 292 shares 75.5%
Free float of GDRs (Bank of New York international Nominees)	1,781, 970, 029, 875 shares 17.03%	1,707, 831, 019, 875 shares 16.33%	1, 682, 728, 009, 875 shares 16.09%
Other institutional investors	464,662,116,960 shares 4.44%	616,472,834,500 shares 5.89%	880, 335, 927, 171 shares 8.41%
Individual investors	316,431,790,211 shares 3.03%	238,760,082,671 shares 2.28%	
Total	10, 460, 541, 337,338 shares 100%		

Shareholder structure

The Bank's majority shareholder is the Russian Federation, represented by the Federal Agency for State Property Management. Its share in the Bank has not changed since February 2011 and represented 75.5% as of December 31, 2012, with the Russian Federation, represented by the Federal Agency for State Property Management, not having a special right to manage VTB Bank (by means of "golden share").

In spring 2012, VTB Group announced an offer to buy back VTB Bank's shares from individual shareholders, who acquired the Bank's shares during its IPO in 2007, at a price equal to the market value of the shares at the time of the IPO (RUB 0.136/ share). 74,302 shareholders of VTB Bank participated in this share buyback programme.

As a result of the share buyback programme, the stake of individual investors in the Bank's capital decreased to 2.28%, while it was just over 3% until 2012. The stake of GDR holders has also decreased, whereas the share of institutional investors increased by means of transferring shares bought back from minority shareholders to VTB Pension Administrator Ltd.

As of April 26, 2012, VTB shares were owned by 104,749 shareholders, including 103,110 individuals.

VTB Bank is not aware of any shareholders owning more than 1% of the Bank's authorised share capital, except those mentioned above. Information on the participation of members of the Supervisory Council and the Management Board in VTB's share capital is available in the Corporate Governance section of this report.

The General Shareholders' Meeting

The General Shareholders' Meeting is VTB Bank's highest governing body, and a meeting is held annually. The date of the meeting is set by the Supervisory Council.

The Bank notifies its shareholders about the General Shareholders' Meeting by a notice published in Rossiyskaya Gazeta and on the official website of the Bank no later than 30 days prior to the Meeting. Decisions taken at the Annual General Shareholders' Meeting and the results of voting are communicated to shareholders in the same manner. Ballot papers are sent to shareholders by post no later than 20 days prior to the Meeting.

Materials related to the General Shareholders' Meeting are available to shareholders at Shareholders' Support Centres or on the official corporate website www.vtb.ru. VTB Bank's GDR holders, who wish to participate in voting on the agenda of the Annual General Shareholders' Meeting, should contact the depositary bank (The Bank of New York International Nominees) for the GDR programme. The depositary bank's contact details can be found below.

Information about the 2012 Annual General Shareholders' Meeting can be found in the Corporate Governance section of this report.

Dividend policy

One of the main rights of VTB shareholders is the right to receive a share of the Bank's net profit in the form of dividend payments. Dividend payments are approved by the Annual General Shareholders Meeting of VTB Bank, following recommendations made by the Supervisory Council. The Supervisory Council bases its recommendations as to the size of the dividend payment on the Bank's net profit.

VTB's Strategy and Corporate Governance Committee recommended to the Supervisory Council that dividend amounts for 2010-2013 should be between 10% and 20% of the full year net profit, as shown in VTB Group's IFRS financial results for the reporting years of 2010, 2011, 2012 and 2013.

The size of the dividend payment per share, as well as the period and form of payment are determined at the Annual General Shareholders' Meeting. The size of the dividend payment cannot exceed the amount recommended by the Supervisory Council.

Declared dividend payments are made in Russian roubles during a 60-day period following the decision taken by the Annual General Shareholders' Meeting, either by bank transfer into shareholders' accounts or in cash, depending on the shareholder's preference.

Any dividends accrued, but unclaimed by shareholders within a period of three calendar years, are subject to allocation back to the profit of the Bank. Therefore, if a shareholder does not claim his or her accrued dividends within three years, he or she loses the right to receive them. This rule does not apply to shareholders, who receive their dividends by bank transfer, as the transfer of funds to a shareholder's account is considered sufficient evidence of a dividend payment.

Dividend payments

On 8 June 2012, the Annual General Shareholders' Meeting approved the decision to pay dividends for 2011 in the amount of RUB 0.00088 per share. The dividend payout increased by 52% compared to the previous year. The dividends for 2011 were paid out to the Bank's shareholders on July 18, 2012. The total funds allocated for dividends equalled RUB 9,205 million.

The amount of dividend payments for 2012 will be approved by the Annual General Shareholders' Meeting of VTB Bank in June 2013. The record of dividend payments for the years 2007-2011 is set out below.

Dividend payments for the years 2007-2011

	2007	2008	2009	2010	2011
Net profit in accordance with RAS (in RUB mln)	17,978	26,894	23,752	43,343	24,406
Dividend amount per ordinary share (RUB)	0.00134	0.000447	0.00058	0.00058	0.00088
Total amount of dividend payments (in RUB mln)	9,010	3,006	6,067	6,067	9,205
Dividend payout ratio (%of net profit in accordance with RAS)	50.12	11.18	25.54	14	37.72

Dividend taxation

As a tax agent, VTB Bank calculates and deducts tax from the dividend payments it makes at the year-end. The dividend tax rate for individuals and companies who are residents of the Russian Federation is 9%, and for non-residents the rate is 15%. The rate is applied to the taxable dividend amount, in some cases less than the total dividends payable, as tax has already been withheld from income in the form of dividends that the Bank has earned from its investments in other companies.

If a double taxation agreement applies, tax payments are made in accordance with the rate specified in the agreement.

Mutual funds, foreign institutional and individual investors can apply for a tax exemption or a reduced tax rate on dividends received by submitting documents to the Bank's registrar, CJSC VTB Registrar, that demonstrate that they have a right to preferential tax treatment. A complete list of the required documents can be found in the Investor Relations section at www.vtb.ru.

Disclosure

VTB Bank strives to maintain the highest level of transparency in relation to its activities, and discloses a wide range of information. The publication of information that has to be disclosed in accordance with the requirements of the Central Bank of the Russian Federation, and in accordance with the Federal Law on the Securities Market and the Regulation on Information Disclosure by Issuers of Securities (approved by Decree No 06-117/pz-n of the Federal Financial Markets Service (FFMS) on 10 October 2006), is conducted through authorised news agencies and the Bank's corporate website at www.vtb.ru/we/ir/disclosure/.

VTB publishes its audited consolidated financial statements under IFRS at the end of the fiscal year. Additionally, the Bank discloses its unaudited condensed consolidated financial statements at the end of the first, second and third quarters. VTB places announcements of its financial results on the website of the London Stock Exchange via an information distribution system (RNS), followed by the publication of press releases on the corporate website and their dissemination to the media. An electronic version of the Annual Report is uploaded onto the Bank's corporate website www.vtb.ru. Hard copies of the Annual Report are available at Shareholders' Support Centres, or can be requested by sending an email to InvestorRelations@vtb.ru.

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10. Consolidated financial statements in accordance with IFRS

VTB Bank

Consolidated Financial Statements
and Auditors' Report

For the years ended 31 December 2012 and 2011

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ERNST & YOUNG

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Independent auditor's report

To the Supervisory Council and Shareholders of VTB Bank

We have audited the accompanying consolidated financial statements of VTB Bank and its subsidiaries (together "the Group"), which comprise the consolidated statements of financial position as at 31 December 2012 and 2011, and the consolidated income statements, consolidated statements of comprehensive income, of cash flows and of changes in shareholders' equity for the years then ended, and a summary of principal accounting policies and other explanatory information.

Audited entity's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Vneshaudit

24 April 2013

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

	Note	2012	2011
Assets			
Cash and short-term funds	7	569.0	407.0
Mandatory cash balances with central banks		63.8	71.9
Financial assets at fair value through profit or loss	8	528.8	571.5
Financial assets pledged under repurchase agreements and loaned financial assets	9	302.9	198.6
Due from other banks	10	358.6	424.6
Loans and advances to customers	11	4,761.5	4,301.6
Assets of disposal group held for sale	19	15.3	10.3
Financial assets available-for-sale	12	97.4	167.7
Investments in associates and joint ventures	13	48.3	32.5
Investment securities held-to-maturity	14	0.9	32.4
Land, premises and equipment	15	142.5	116.8
Investment property	16	148.0	122.5
Intangible assets and goodwill	17	137.3	141.2
Deferred tax asset	34	42.9	42.7
Other assets	18	198.5	148.3
Total assets		**7,415.7**	**6,789.6**
Liabilities			
Due to other banks	20	759.9	699.7
Customer deposits	21	3,672.8	3,596.7
Liabilities of disposal group held for sale	19	6.1	8.5
Other borrowed funds	22	806.2	734.6
Debt securities issued	23	894.5	664.5
Deferred tax liability	34	12.3	10.0
Other liabilities	25	212.0	209.4
Total liabilities before subordinated debt		**6,363.8**	**5,923.4**
Subordinated debt	24	285.8	241.1
Total liabilities		**6,649.6**	**6,164.5**
Equity			
Share capital	26	113.1	113.1
Share premium		358.5	358.5
Perpetual loan participation notes	27	68.3	–
Treasury shares		(13.7)	(0.6)
Unrealized gain on financial assets available-for-sale and cash flow hedge		4.3	7.9
Land and premises revaluation reserve		20.8	11.4
Currency translation difference		8.8	11.0
Retained earnings		193.7	102.2
Equity attributable to shareholders of the parent		**753.8**	**603.5**
Non-controlling interests		12.3	21.6
Total equity		**766.1**	**625.1**
Total liabilities and equity		**7,415.7**	**6,789.6**

Approved for issue and signed on 24 April 2013.

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

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

(in billions of Russian Roubles)

	Note	***2012***	***2011***
Interest income	28	555.7	416.7
Interest expense	28	(309.7)	(189.7)
Net interest income		**246.0**	**227.0**
Provision charge for impairment of debt financial assets	33	(59.4)	(31.6)
Net interest income after provision for impairment		**186.6**	**195.4**
Gains less losses / (losses net of gains) arising from financial instruments at fair value through profit or loss	29	10.1	(30.8)
Gains less losses from available-for-sale financial assets	12	4.9	4.1
Losses net of gains arising from extinguishment of liability		(1.8)	(0.7)
Net recovery of losses on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers		17.2	20.2
Gains less losses arising from dealing in foreign currencies		14.5	6.1
Foreign exchange translation losses net of gains		(7.7)	(6.5)
Fee and commission income	30	61.2	47.4
Fee and commission expense	30	(12.9)	(8.2)
Share in income of associates and joint ventures		1.2	7.5
Provision charge for impairment of other assets, contingencies and credit related commitments	33	(2.7)	(1.4)
Income arising from non-banking activities	31	57.9	20.4
Expenses arising from non-banking activities		(29.2)	(9.1)
Other operating income	31	8.1	9.2
Net non-interest income		**120.8**	**58.2**
Operating income		**307.4**	**253.6**
Staff costs and administrative expenses	32	(191.6)	(141.5)
Impairment of goodwill	17	(1.5)	–
Profit from disposal of subsidiaries and associates		1.1	3.4
Profit before taxation		**115.4**	**115.5**
Income tax expense	34	(24.8)	(25.0)
Net profit		**90.6**	**90.5**
Net profit attributable to:			
Shareholders of the parent		**85.8**	**89.4**
Non-controlling interests		**4.8**	**1.1**
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**36**	**0.00817**	**0.00855**

(in billions of Russian Roubles)

	2012	*2011*
Net profit	**90.6**	**90.5**
Other comprehensive income:		
Net result on financial assets available-for-sale, net of tax	(3.4)	2.7
Land and premises revaluation, net of tax	9.9	–
Actuarial losses net of gains arising from difference between pension plan assets and obligations	–	(0.5)
Share of other comprehensive income of associates and joint ventures	(0.2)	(0.5)
Effect of changes in tax rates recognized in land and premises revaluation reserve	0.2	–
Effect of translation, net of tax	(2.1)	2.4
Other comprehensive income, net of tax	**4.4**	**4.1**
Total comprehensive income	**95.0**	**94.6**
Total comprehensive income attributable to:		
Shareholders of the parent	**90.0**	**93.7**
Non-controlling interests	**5.0**	**0.9**

(in billions of Russian Roubles)

	Note	***2012***	***2011***
Cash flows (used in) / from operating activities			
Interest received		541.6	382.3
Interest paid		(277.0)	(176.4)
Loss incurred on operations with financial instruments at fair value through profit or loss		(30.4)	(23.3)
Income received from extinguishment of liability		2.2	–
Income received on dealing in foreign currency		16.6	10.8
Fees and commissions received		59.0	48.0
Fees and commissions paid		(12.5)	(7.6)
Other operating income received		3.9	2.0
Staff costs and administrative expenses paid		(161.9)	(122.1)
Income received from non-banking activities		38.4	17.8
Expenses paid in non-banking activities		(17.8)	(7.3)
Income tax paid		(21.5)	(28.8)
Cash flows from operating activities before changes in operating assets and liabilities		**140.6**	**95.4**
Net decrease / (increase) in operating assets			
Net decrease / (increase) in mandatory cash balances with central banks		8.0	(37.3)
Net increase in restricted cash		(0.7)	–
Net decrease / (increase) in correspondent accounts in precious metals		2.1	(6.8)
Net decrease / (increase) in financial assets at fair value through profit or loss		43.8	(159.8)
Net decrease in due from other banks		45.0	11.6
Net increase in loans and advances to customers		(595.9)	(971.2)
Net increase in other assets		(31.6)	(44.1)
Net increase in operating liabilities			
Net increase in due to other banks		42.6	232.5
Net increase in customer deposits		41.9	832.7
Net increase in debt securities issued other than bonds		132.4	78.9
Net increase in other liabilities		15.5	19.2
Net cash (used in) / from operating activities		**(156.3)**	**51.1**
Cash flows from / (used in) investing activities			
Dividends and other distributions received		2.4	0.8
Proceeds from sale or maturity of financial assets available-for-sale		141.1	58.5
Purchase of financial assets available-for-sale		(69.5)	(125.6)
Purchase of subsidiaries, net of cash		(2.7)	5.8
Disposal of subsidiaries, net of cash		1.2	(1.1)
Purchase of and contributions to associates and joint ventures		(15.8)	(109.1)
Proceeds from sale of share in associates and joint ventures		–	6.6
Purchase of investment securities held-to-maturity		(1.2)	(1.2)
Proceeds from redemption of investment securities held-to-maturity		32.1	2.3
Purchase of land, premises and equipment		(26.3)	(36.9)
Proceeds from sale of land, premises and equipment		10.5	40.1
Purchase or construction of investment property		(8.7)	(0.3)
Proceeds from sale of investment property		3.2	1.3
Purchase of intangible assets		(4.1)	(2.7)
Proceeds from sale of intangible assets		0.7	1.2
Net cash from / (used in) investing activities		**62.9**	**(160.3)**

(in billions of Russian Roubles)

	Note	2012	2011
Cash flows from financing activities			
Dividends paid	37	(10.8)	(7.3)
Proceeds from issuance of local bonds		121.6	21.0
Repayment of local bonds		(14.0)	(53.9)
Buy-back of local bonds		(20.0)	(16.7)
Proceeds from sale of previously bought-back local bonds		13.9	14.9
Proceeds from issuance of Eurobonds		138.6	45.6
Repayment of Eurobonds		(77.7)	(100.8)
Buy-back of Eurobonds		(82.0)	(35.3)
Proceeds from sale of previously bought-back Eurobonds		108.0	33.9
Proceeds from syndicated loans		7.2	87.3
Repayment of syndicated loans		(12.2)	(43.2)
Buy-back of syndicated loans		5.9	(5.9)
Proceeds from other borrowings and funds from local central banks		1,387.7	452.3
Repayment of other borrowings and funds from local central banks		(1,371.7)	(122.7)
Proceeds from subordinated debt		46.4	–
Repayment of subordinated debt		(3.3)	–
Buy-back of subordinated debt		(4.6)	(4.8)
Proceeds from sale of previously bought-back subordinated debt		0.8	3.1
Proceeds from sale of treasury shares		0.5	1.3
Purchase of treasury shares		(13.7)	(1.6)
Share issue to minorities		–	0.2
Purchase of non-controlling interests in subsidiaries		(24.0)	(34.8)
Sale of non-controlling interests in subsidiaries		0.2	–
Issue of Perpetual loan participation notes less transaction costs		71.6	–
Payment on Perpetual loan participation notes		(1.3)	–
Net cash from financing activities		**267.1**	**232.6**
Effect of exchange rate changes on cash and cash equivalents		**(9.9)**	**2.6**
Effect of hyperinflation		**(0.4)**	**(1.3)**
Net increase in cash and cash equivalents		**163.4**	**124.7**
Cash and cash equivalents at the beginning of the year	7	**397.5**	272.8
Cash and cash equivalents at the end of the year	**7**	**560.9**	**397.5**

(in billions of Russian Roubles)

	Attributable to shareholders of the parent										
	Share capital	***Share premium***	***Perpetual loan partici-pation notes***	***Treasury shares***	***Unrealized gain on financial assets available-for-sale and cash flow hedge***	***Land and premises revaluation reserve***	***Currency translation difference***	***Retained earnings***	***Total***	***Non-controlling interests***	***Total equity***
Balance at 1 January 2011	**113.1**	**358.5**	**–**	**(0.3)**	**4.0**	**11.4**	**11.0**	**56.6**	**554.3**	**23.9**	**578.2**
Net result from treasury shares transactions	–	–	–	(0.3)	–	–	–	–	**(0.3)**	–	**(0.3)**
Total comprehensive income for the period	–	–	–	–	2.8	–	2.8	88.1	**93.7**	0.9	**94.6**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	–	(0.2)	–	0.2	**–**	–	**–**
Transfer of currency translation difference upon legal merger of subsidiary	–	–	–	–	–	–	(2.4)	2.4	**–**	–	**–**
Dividends declared	–	–	–	–	–	–	–	(6.1)	**(6.1)**	(1.2)	**(7.3)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	(3.2)	**(3.2)**	3.4	**0.2**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	**–**	17.0	**17.0**
Disposal of subsidiaries	–	–	–	–	–	–	–	–	**–**	(0.5)	**(0.5)**
Acquisition of non-controlling interests	–	–	–	–	1.1	0.2	(0.4)	(13.9)	**(13.0)**	(21.9)	**(34.9)**
Obligation to purchase non-controlling interests (Note 25)	–	–	–	–	–	–	–	(21.9)	**(21.9)**	–	**(21.9)**
Balance at 31 December 2011	**113.1**	**358.5**	**–**	**(0.6)**	**7.9**	**11.4**	**11.0**	**102.2**	**603.5**	**21.6**	**625.1**
Net result from treasury shares transactions	–	–	–	(13.1)	–	–	–	0.3	**(12.8)**	–	**(12.8)**
Total comprehensive income for the period	–	–	–	–	(3.5)	9.8	(2.2)	85.9	**90.0**	5.0	**95.0**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	–	(0.4)	–	0.4	**–**	–	**–**
Share-based payments (Note 35)	–	–	–	–	–	–	–	1.3	**1.3**	–	**1.3**
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	**–**	0.2	**0.2**
Disposal of subsidiaries	–	–	–	–	–	–	–	–	**–**	(0.1)	**(0.1)**
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	(0.2)	**(0.2)**	0.8	**0.6**
Acquisition of non-controlling interests and other capital transactions	–	–	–	–	(0.1)	–	–	11.3	**11.2**	(13.5)	**(2.3)**
Issuance of perpetual loan participation notes (Note 27)	–	–	71.7	–	–	–	–	–	**71.7**	–	**71.7**
Foreign exchange translation of perpetual loan participation notes	–	–	(3.4)	–	–	–	–	3.4	**–**	–	**–**
Transaction costs on perpetual loan participation notes issuance	–	–	–	–	–	–	–	(0.1)	**(0.1)**	–	**(0.1)**
Amounts due on perpetual loan participation notes (Note 27)	–	–	–	–	–	–	–	(1.3)	**(1.3)**	–	**(1.3)**
Tax effect recognized on perpetual loan participation notes	–	–	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Dividends declared (Note 37)	–	–	–	–	–	–	–	(9.1)	**(9.1)**	(1.7)	**(10.8)**
Balance at 31 December 2012	**113.1**	**358.5**	**68.3**	**(13.7)**	**4.3**	**20.8**	**8.8**	**193.7**	**753.8**	**12.3**	**766.1**

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 reorganizations, VTB was reorganized into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. Simultaneously, the names of some of VTB’s subsidiaries were changed as presented in Note 44. In March 2007, the Bank for Foreign Trade was renamed into “VTB Bank” (Open Joint-Stock Company).

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

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

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

A list of principal subsidiaries included in these consolidated financial statements is provided in Note 44.

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and 5 subsidiary banks with its network of 137 full service branches, including 48 branches of VTB, 8 branches of “Bank VTB 24”, CJSC, 40 branches of “TransCreditBank”, JSC and 41 branches of “Bank of Moscow”, OJSC located in major Russian regions. Within acquisition of “Bank of Moscow”, OJSC the Group has also obtained control over “Bezhitsa-Bank”, OJSC, “Bank Moscow-Minsk”, OJSC and “BM Bank”, Ltd. In February 2012, the Group obtained control over “Russian National Commercial Bank”, OJSC. On August 22, 2012, General Shareholders’ Meeting of “Bezhitsa-Bank”, OJSC approved the change in the name from “Bezhitsa-Bank”, OJSC to “Leto Bank”, OJSC. In September 2012 procedures for registering the new name of “Leto Bank”, OJSC were completed.

The Group operates outside Russia through 15 bank subsidiaries, located in the Commonwealth of Independent States (“CIS”) (Armenia, Ukraine (2 banks), Belarus (2 banks), Kazakhstan and Azerbaijan), Europe (Austria, Cyprus, Germany, France, Great Britain and Serbia), Georgia, Africa (Angola); through 2 representative offices located in Italy and China; through 2 VTB branches in China and India and 2 branches of “VTB Capital”, Plc in Singapore and Dubai. The Group investment banking division also performs broker/dealer operations in the United States of America, securities dealing and financial advisory in Hong Kong and investment banking operations in Bulgaria.

VTB’s majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 75.5% of VTB’s issued at 31 December 2012 (31 December 2011: 75.5%).

The number of employees of the Group at 31 December 2012 was 80,860 (31 December 2011: 67,912).

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

2. Operating Environment of the Group

The Russian Federation. The most part of the Group operations are conducted in the Russian Federation. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. 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 2012 the Russian Government and the CBR continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. 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.

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.

Other jurisdictions. In addition to Russia the Group conducts operations in CIS (Ukraine, Belarus, Kazakhstan, Azerbaijan, Armenia) and Georgia, European countries (Austria, Germany, France, UK and Cyprus) and some other countries. Tough economic and liquidity situation in many jurisdictions led to decrease or insignificant growth of GDP followed by shrinking in consumption as well as in investment activities. The primary targets of the local regulators were support of monetary stability, management of GDP deficit and inflation level regulation. In 2012 economy of the Republic Belarus remained hyperinflatory.

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

3. Basis of Preparation

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

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

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

4. 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 2012, as described below:

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 amendments do not have any impact on the Group's financial statements.

4. Changes in Accounting Policies (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 amendment does not have any impact on these 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. The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces 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. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. These amendments do not have any impact 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:

IFRS 9 Financial Instruments Part 1: Classification and Measurement. IFRS 9, issued in November 2009, replaces 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 of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and 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 payments of principal and interest only (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 through other comprehensive income rather than 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 2015, 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.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. It replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition IFRS 10 contains extensive application guidance including agency relationships. The Group is currently assessing the impact of the amended standard on its financial statements.

4. Changes in Accounting Policies (continued)

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

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. It replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. It applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 27 *Consolidated and Separate Financial Statements,* IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013). – The standard was issued in May 2011. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. The Group is currently assessing the impact of the standard on its financial statements.

IAS 27 Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013). – The standard was revised in May 2011. Its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 *Consolidated Financial Statements*. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013). – The standard was revised in May 2011. The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates and to withdraw IAS 31. The relevant standard renaming was undertaken. With this exception, other guidance remained unchanged. Disclosure requirements were moved to IFRS 12 as described above.

IFRS 7 Financial Instruments: Disclosures – Amendment: Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013). – The amendment was issued in December 2011. The amendment requires to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

IAS 32 Financial Instruments: Presentation – Amendment: Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014). – The amendment was issued in December 2011. The amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.
The amendment also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

4. Changes in Accounting Policies (continued)

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

IAS 1 Presentation of Financial Statements – Amendment: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012). – The amendment was issued in June 2011. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amendment to IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013). – The amendment was issued in June 2011. The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRS 1 "First-time adoption of International Financial Reporting Standards – Amendment: Government Loans" (effective for annual periods beginning 1 January 2013). The amendment was issued in March 2012. The amendment, dealing with loans received from governments at a below market rate of interest, gives first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Improvements to International Financial Reporting Standards (effective for annual periods beginning 1 January 2013).The improvements were issued in May 2012. The improvements consist of changes to five standards:
IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters.
IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements.
IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.
IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12.
IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective for annual periods beginning 1 January 2013). The amendments were issued in June 2012. The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.
4. Changes in Accounting Policies (continued)

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

IFRS 10, IFRS 11 and IFRS 12 – Amendment: Investment Entities (effective for annual periods beginning 1 January 2014). The amendments were issued in October 2012. The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities in IFRS 12 and IAS 27.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation is not expected to have any impact on 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.

Acquisition of subsidiaries

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

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

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

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

Increases in ownership interests in subsidiaries

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

Investments in associates and joint 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.

5. Summary of Principal Accounting Policies (continued)

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 also classified as investments in associates and the changes in the fair value of such investments are accounted for similar to the changes in the fair value of financial assets designated as at fair value through profit or loss as described below.

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 or generated for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as and are effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the income statement.

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

Non-derivative trading financial assets are carried at fair value. Interest earned on non-derivative debt trading financial assets calculated using the coupon (contractual) interest rate 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.

5. Summary of Principal Accounting Policies (continued)

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

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

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

Loans and receivables

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

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

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

Held-to-maturity investments

Quoted 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 coupon (contractual) interest rate is recognized in the income statement.

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

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

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5. Summary of Principal Accounting Policies (continued)

The fair value of investments that are actively traded in active financial markets is determined by reference to quoted current bid prices. 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.

Derecognition of financial assets

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

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

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

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

Restructuring of financial assets

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

- If the currency of the loan has been changed the old loan is derecognized and the new loan is recognized. As a result, the new loan will be recognized which requires the estimation of a new effective interest rate. If the new effective interest rate is below the market interest rate, the loss on initial recognition is recognized in the reporting period.
- If the loan restructuring is not caused by the financial difficulties of the borrower but the cash flows were renegotiated on favorable terms for the borrower - 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.

Securitization of financial assets

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

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.

The fair value of financial liabilities, classified as financial liabilities at fair value through profit or loss, that are actively traded in organized financial markets is determined by reference to quoted current ask prices. For financial liabilities classified as financial liabilities at fair value through profit or loss, 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.

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, and correspondent accounts in precious metals are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost, which approximates fair value.

Mandatory reserve deposits with central banks

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

Due from other banks

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

5. Summary of Principal Accounting Policies (continued)

Repurchase and reverse repurchase agreements and lending of financial instruments

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

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

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

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

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options and other instruments in the foreign exchange, capital and commodities 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 uses derivative instruments to manage exposures to fluctuations both of cash flows from interest received and paid, and of fair values for specifically determined items. As a result, the Group applies hedge accounting for transactions, which meet the specified criteria.

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

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

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.

5. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

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

Cash flow hedges

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

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

Regular way transactions

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

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

Promissory notes purchased

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

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 lessor. The Group presents leased assets under operating leases as the items within the relevant categories of assets such as Equipment in operating lease in Premises and equipment or other assets. Lease income operating leases is recognized on a straight-line basis over the lease term and included into Income arising from non-banking activities and other operating income.

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.

5. Summary of Principal Accounting Policies (continued)

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.

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. 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.

Non-current assets and disposal group held for sale

Non-current assets (or disposal groups, which may include both non-current and current assets and liabilities) , are classified in the statement of financial position as 'non-current assets held for sale' (or as 'assets of disposal group held for sale' and 'liabilities of disposal group held for sale') if their carrying amount will be recovered principally through a sale transaction, including deconsolidation of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets (or disposal groups) are eligible to be classified or reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year from the date of classification and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

5. Summary of Principal Accounting Policies (continued)

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

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

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

Investment property

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

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

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

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

Land, premises and equipment

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

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

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

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

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

5. Summary of Principal Accounting Policies (continued)

Land, premises and equipment (continued)

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 annual rates:

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

Estimated useful lives and residual values are reassessed annually.

Goodwill

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

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

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

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

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

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

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

5. Summary of Principal Accounting Policies (continued)

Goodwill (continued)

- 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 a part of a cash-generating unit (group of cash-generating units) and a part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

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

Intangible assets

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

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

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

Core deposit and loan to customer intangibles

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

Due to other banks

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

Customer deposits

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

Debt securities issued

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

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5. Summary of Principal Accounting Policies (continued)

Other borrowed funds

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

Operations with precious metals

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

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

Current and deferred tax

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.

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.

5. Summary of Principal Accounting Policies (continued)

Credit related commitments

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

Perpetual Loan Participation Notes

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

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

Perpetual Loan Participation Notes (continued)

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

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 (for items carried at amortized cost) or the coupon (contractual) interest rate (for items carried at fair value). 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’s social insurance, and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group’s contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Unused vacations accrued amounts are also included in staff costs within staff costs and administrative expenses.

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

5. Summary of Principal Accounting Policies (continued)

Inflation accounting

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

Foreign currency translation

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

These financial statements are presented in Russian Roubles (RUR), the national currency of the Russian Federation, where the Bank is domiciled. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group and is not a currency of hyperinflationary economy, are translated into RUR at the closing rate of exchange at the reporting date and their income statements are translated into RUR at the average exchange rates for the reporting period. The exchange differences arising on the translation are recognized in other comprehensive income in a separate component of equity ("Currency translation difference").

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

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

As at 31 December 2012, the principal closing rate of exchange used for translating balances in USD to Russian Roubles was USD 1 to RUR 30.3727 (at 31 December 2011: USD 1 to RUR 32.1961), and the principal closing rate of exchange used for translating balances in Euro was EUR 1 to RUR 40.2286 (at 31 December 2011: EUR 1 to RUR 41.6714).

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

5. Summary of Principal Accounting Policies (continued)

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

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

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.

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

The Group reviews its loans and receivables and loan commitments for impairment on a regular basis. The Group uses its experienced 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 allowances and provisions for impairment of loans and commitments to provide loans at 31 December 2012 and 2011, the Group applied the internally approved formalized provisioning methodology for loans and commitments to provide loans with signs of individual impairment and collectively assessed loans on portfolio basis with no signs of individual impairment and similar credit risk characteristics.

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 2012 was RUR 104.9 billion (31 December 2011: RUR 104.7 billion) (Note 17).

Impairment of investments in associates

The Group performs impairment review for its investments in associates where indication of impairment exists at the reporting date. The recoverable amount of investments is determined as their fair value less costs to sell. When the Group's investments are not quoted in active markets, their fair values are determined using various valuation methods, including valuation multiples and discounted cash flow techniques.

Existence of significant influence in other entities

The Group may have voting rights in other entities approaching to, but lower than 20%. In assessing whether the Group has significant influence over such entities, judgement is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavourable to the Group but without control or joint control existence in those entities. The Group's investments in those entities where the Group has significant influence are detailed in Note 13.

(in billions of Russian Roubles)

6. Significant Accounting Estimates and Judgements (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes which can occur frequently, unexpectedly and with retroactive effect. Further, the provisions of Russian tax law applicable to financial instruments (including derivative transactions) are subject to significant uncertainty and lack interpretive guidance. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. (Note 34)

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 42. Assessment of significance of particular fair value measurement input requires management judgement and is disclosed in Note 42.

7. Cash and Short-Term Funds

	31 December 2012	***31 December 2011***
Cash on hand	102.0	104.3
Cash balances with central banks (other than mandatory reserve deposits)	227.4	197.1
Correspondent accounts with other banks		
- Russian Federation	34.3	31.2
- Other countries	205.3	74.4
Total cash and short-term funds	**569.0**	**407.0**
Less: correspondent accounts in precious metals	(6.3)	(8.4)
Less: restricted cash	(1.8)	(1.1)
Total cash and cash equivalents	**560.9**	**397.5**

Restricted cash balances represent the balances in the amount of RUR 1.8 billion (31 December 2011: RUR 1.1 billion) under legal restrictions. Restricted cash balances were collateralized by amounts due to banks in the amount of RUR 1.0 billion (31 December 2011: RUR 1.0 billion). For the purposes of the consolidated statement of cash flows cash represented by restricted cash and correspondent accounts in precious metals are not included in cash and cash equivalents.

(in billions of Russian Roubles)

8. Financial Assets at Fair Value Through Profit or Loss

	31 December 2012	*31 December 2011*
Financial assets held for trading	485.4	540.7
Financial assets designated as at fair value through profit or loss	43.4	30.8
Total financial assets at fair value through profit or loss	**528.8**	**571.5**

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 2012	*31 December 2011*
Debt securities denominated in USD		
Eurobonds of Russian companies and banks	16.4	33.4
Bonds and eurobonds of foreign governments	15.5	16.0
Bonds and eurobonds of foreign companies and banks	6.1	13.6
Eurobonds of the Russian Federation	0.5	1.4
Debt securities denominated in RUR		
Bonds of Russian companies and banks	231.1	200.0
Russian Federal loan bonds (OFZ)	21.3	55.6
Russian municipal bonds	5.2	4.1
Promissory notes of Russian companies and banks	1.7	3.3
Eurobonds of Russian companies and banks	1.2	-
Bonds and eurobonds of foreign companies and banks	0.6	0.4
Eurobonds of the Russian Federation	0.3	-
Bonds of foreign governments	-	0.7
Debt securities denominated in other currencies		
Bonds and eurobonds of foreign companies and banks	3.1	2.3
Bonds of foreign governments	2.2	4.5
Eurobonds of Russian companies and banks	0.3	1.1
Russian municipal eurobonds	0.1	0.5
Trading credit products	31.6	–
Equity securities	*55.1*	*124.9*
Balances arising from derivative financial instruments (Note 39)	*93.1*	*78.9*
Total financial assets held for trading	**485.4**	**540.7**

As at 31 December 2012 bonds of Russian companies and banks are mostly represented by debt securities issued by Russian oil and gas companies, banks, manufacturing, metal and energy companies. As at 31 December 2012 equity securities are represented by securities issued by Russian banks, oil and gas companies, metal and construction companies.

Financial assets designated as at fair value through profit or loss

	31 December 2012	*31 December 2011*
Bonds of foreign companies and banks	27.2	10.9
Bonds and eurobonds of Russian companies and banks	7.1	7.5
Equity securities	6.7	11.0
Bonds and eurobonds of foreign governments	2.4	1.4
Total financial assets designated as at fair value through profit or loss	**43.4**	**30.8**

As at 31 December 2012 financial assets at fair value through profit or loss include the amount of nil which is pledged against amounts due to other banks (Note 20) (31 December 2011: RUR 1.4 billion). Fair value measurements for each class of financial instruments in accordance with a fair value hierarchy are disclosed in Note 42.

(in billions of Russian Roubles)

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

	31 December 2012	*31 December 2011*
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Bonds of Russian companies and banks	40.7	2.4
Eurobonds of Russian companies and banks	5.2	–
Equity securities	1.0	0.1
Eurobonds of foreign companies and banks	0.8	–
Bonds and eurobonds of foreign governments	0.7	–
Russian Federal loan bonds (OFZ)	0.2	0.9
Total Financial assets held for trading	*48.6*	*3.4*
Financial assets designated as at fair value through profit or loss		
Eurobonds of Russian companies and banks	0.1	2.9
Bonds of foreign companies and banks	–	0.8
Bonds of foreign governments	–	0.5
Total Financial assets designated as at fair value through profit or loss	*0.1*	*4.2*
Total Financial assets at fair value through profit or loss	***48.7***	***7.6***
Financial assets available-for-sale		
Russian Federal loan bonds (OFZ)	5.6	0.4
Bonds of foreign governments	0.2	0.6
Bonds of foreign companies and banks	0.1	–
Bonds of Russian companies and banks	–	1.3
Total Financial assets available-for-sale	***5.9***	***2.3***
Financial assets classified as loans and advances to customers	***245.5***	***188.3***
Financial assets classified as due from other banks	***2.8***	***0.4***
Total financial assets pledged under repurchase agreements and loaned financial assets	**302.9**	**198.6**

As at 31 December 2012, bonds of Russian companies and banks included in the above table are mostly represented by debt securities issued by Russian banks, transportation, oil and gas and metals companies.

As at 31 December 2012 financial assets classified as loans and advances to customers pledged under repurchase agreements are mostly represented by federal loan bonds with debt amortization (OFZ-AD) with the carrying amount of RUR 244.8 billion (31 December 2011: RUR 175.5 billion) which were purchased by "Bank of Moscow", OJSC in September 2011 from proceeds of loan from DIA (Note 22).

10. Due from Other Banks

	31 December 2012	*31 December 2011*
OECD	251.5	204.6
Russia	99.1	171.8
Other countries	10.2	50.8
Total gross due from other banks	**360.8**	**427.2**
Less: Allowance for impairment (Note 33)	(2.2)	(2.6)
Total due from other banks	**358.6**	**424.6**

As at 31 December 2012, reverse sale and repurchase agreements with other banks amounted to RUR 65.6 billion (31 December 2011: RUR 78.9 billion). These reverse sale and repurchase agreements with other banks were collateralized by securities with fair value of RUR 66.7 billion (31 December 2011: RUR 82.0 billion).

As at 31 December 2012, amount included in due from other banks of RUR 2.2 billion is pledged against issued local mortgage-backed bonds (31 December 2011: RUR 0.5 billion) (Note 38).

(in billions of Russian Roubles)

11. Loans and Advances to Customers

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

	31 December 2012	*31 December 2011*
Loans to legal entities		
Current activity financing	2,575.1	2,091.9
Project finance and other	1,068.7	1,314.7
Finance leases	205.6	244.1
Reverse sale and repurchase agreements	115.2	115.3
Total loans to legal entities	**3,964.6**	**3,766.0**
Loans to individuals		
Consumer loans and other	624.3	436.2
Mortgages	390.7	309.0
Car loans	102.0	75.5
Reverse sale and repurchase agreements	3.2	3.4
Total loans to individuals	**1,120.2**	**824.1**
Less: Allowance for impairment (Note 33)	(323.3)	(288.5)
Total loans and advances to customers	**4,761.5**	**4,301.6**

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

The finance lease receivables were as follows:

	31 December 2012	*31 December 2011*
Gross investment in leases	252.1	245.5
Less: Unearned finance lease income	(75.9)	(79.1)
Net investment in leases before allowance	**176.2**	**166.4**
Less: Allowance for impairment	(11.6)	(10.3)
Net investment in leases	**164.6**	**156.1**

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

	31 December 2012	*31 December 2011*
Within 1 year	48.6	50.3
From 1 to 5 years	150.7	141.7
More than 5 years	52.8	53.5
Minimum lease payments receivable	**252.1**	**245.5**

Net investments in leases were as following:

	31 December 2012	*31 December 2011*
Within 1 year	43.4	44.6
From 1 to 5 years	105.0	95.5
More than 5 years	27.8	26.3
Net investment in leases	**176.2**	**166.4**

(in billions of Russian Roubles)

11. Loans and Advances to Customers (continued)

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

	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Individuals	1,120.2	22	824.1	18
Finance	622.9	12	619.6	13
Building construction	596.7	12	530.7	12
Manufacturing	517.2	11	464.3	10
Trade and commerce	492.9	10	357.0	8
Metals	372.6	7	363.2	8
Transport	362.6	7	386.9	8
Oil and gas	208.1	4	119.2	3
Energy	202.8	4	145.7	3
Government bodies	153.3	3	248.8	5
Chemical	137.4	3	214.9	5
Food and agriculture	103.4	2	94.1	2
Telecommunications and media	69.2	1	69.5	2
Coal mining	42.6	1	58.0	1
Aircraft	15.8	–	18.0	–
Other	67.1	1	76.1	2
Total gross loans and advances to customers	**5,084.8**	**100**	**4,590.1**	**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.

As at 31 December 2012, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 1,030.7 billion or 19% of the gross loan portfolio represented by loans and advances to customers and financial assets pledged under repurchase agreement classified as loans to customers (31 December 2011: RUR 1,036.8 billion or 22%).

As at 31 December 2012, the gross amount of non-performing loans which the Group defines as impaired loans with repayments overdue by over 90 days was RUR 287.7 billion or 5.4% of the aggregate of the gross loan portfolio and loans pledged under repurchase agreements (31 December 2011: RUR 259.1 billion, or 5.4%).

As at 31 December 2012, loans and advances to customers represented by federal loan bonds with debt amortization (OFZ-AD) purchased in September 2011 by “Bank of Moscow”, OJSC with the carrying amount of RUR 34.7 billion (31 December 2011: RUR 115.4 billion) are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure.

As at 31 December 2012, the Group received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of RUR 145.3 billion (31 December 2011: RUR 177.0 billion).

As at 31 December 2012, the total amount of pledged loans to corporate customers is RUR 283.8 billion (31 December 2011: RUR 72.3 billion). The loans are pledged against the funds accounted within Other borrowed funds (Note 22) and Due to other banks (Note 20) captions in Liabilities. Included in the above amount of pledged loans are mortgage loans of RUR 5.0 billion (31 December 2011: RUR 5.0 billion) and car loans of RUR 13.2 billion (31 December 2011: nil) (Note 38).

As at 31 December 2012, the carrying value of mortgage loans pledged against debt securities issued amounted to RUR 23.9 billion (31 December 2011: RUR 8.2 billion).

During 2012 interest income on impaired loans, recognized by the Group amounted to RUR 5.3 billion (2011: RUR 10.8 billion).

(in billions of Russian Roubles)

12. Financial Assets Available-for-Sale

	31 December 2012	31 December 2011
Equity investments	41.2	135.8
Russian Federal loan bonds (OFZ)	19.8	10.2
Bonds of Russian companies and banks	14.6	0.4
Bonds and eurobonds of foreign governments	12.0	10.6
Eurobonds of Russian companies and banks	5.0	6.4
Bonds and eurobonds of foreign companies and banks	3.1	3.7
Promissory notes of Russian companies and banks	1.7	0.6
Total financial assets available-for-sale	**97.4**	**167.7**

As at 31 December 2012, equity investments are represented mostly by shares of Russian metal and finance companies.

The Group recognized an impairment loss of RUR 1.9 billion before tax, transferred from unrealized gain on financial assets available-for-sale to the income statement, and realized portion of positive revaluation of available-for-sale financial assets transferred to income statement due to the sale of available-for-sale financial assets of RUR 6.8 billion before tax for the year ended 31 December 2012 (2011: RUR 2.1 billion and RUR 6.2 billion respectively).

13. Investments in Associates and Joint Ventures

			31 December 2012		*31 December 2011*	
	Country of registration	*Activity*	*Carrying amount*	*Ownership percentage*	*Carrying amount*	*Ownership percentage*
Investments in associates and joint ventures accounted under equity method						
“Metropolitan Insurance Group”, OJSC	Russia	Insurance	15.5	50.00%	16.0	50.00%
“Lenta Limited (BVI)”	Virgin Islands	Retail	9.4	11.85%	n/a	n/a
“KS Holding”, CJSC	Russia	Insurance	6.1	49.00%	5.7	49.00%
“Russ Out of Home”, BV	Netherlands	Mass media	4.2	35.77%	–	–
“Eurofinance Mosnarbank”, OJSC	Russia	Banking	3.4	25.00%	3.3	25.00%
“Vietnam-Russia Joint Venture Bank”	Vietnam	Banking	1.8	50.00%	2.0	50.00%
“Haberma Enterprises”, Ltd	Cyprus	Real estate	1.8	39.10%	1.2	39.10%
“Zapadnaya Gold Mining” Ltd	Russia	Gold mining	1.7	23.08%	n/a	n/a
“Burger King Russia (Cyprus)”, Ltd	Cyprus	Fast food	1.5	48.80%	–	–
“Gelosa Holdings”, Ltd	Cyprus	Real estate	0.8	21.16%	0.4	21.16%
"Estonian Credit Bank", JSC	Estonia	Banking	0.6	49.79%	0.2	43.79%
“VTB Capital I2BF JVC (Cayman)”, Ltd	Cayman Islands	Finance	0.1	50.00%	–	–
"United Electronic Market Place", OJSC	Russia	IT	0.1	48.18%	n/a	n/a
“Finnist Real Estate S.a.r.l.”	Luxembourg	Real estate	–	19.99%	0.5	19.99%
”Hong Hua CIS”, Ltd	Russia	Manufacturing	–	25.00%	–	–
“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%
"Automated Banking Technologies", CJSC	Russia	IT	–	25.86%	–	25.86%
"Pension Reserve", Ltd	Russia	Finance	n/a	n/a	–	19.00%
“Hals-Technopark”, CJSC	Russia	Construction	n/a	n/a	1.0	50.00%
“Sistemapsys S.a.r.l.”	Luxembourg	Construction	n/a	n/a	1.0	50.00%
"Russian National Commercial Bank", JSC	Russia	Banking	n/a	n/a	0.5	39.80%
Total investments in associates and joint ventures accounted under equity method			***47.0***		***31.8***	
Investments in associates at fair value through profit or loss						
“Thalita Trading”, Ltd	Cyprus	Finance	1.1	50.00%	0.7	50.00%
“Ysmer”, Ltd	Cyprus	Construction	0.2	50.00%	n/a	n/a
Total investments in associates at fair value through profit or loss			***1.3***		***0.7***	
Total investments in associates and joint ventures			**48.3**		**32.5**	

(in billions of Russian Roubles)

13. Investments in Associates and Joint Ventures (continued)

In the first quarter of 2012, the Group obtained 100% control in “Sistemapsys S.a.r.l.” and 84.91% controlling share in “Russian National Commercial Bank”, OJSC.

In the second quarter of 2012, the Group acquired a share of 48.8% in “Burger King Russia (Cyprus)”, Limited with Burger King Worldwide Holdings Inc. and Burger Rus LLC for USD 50 million (RUR 1.6 billion).

In the second quarter of 2012, the Group acquired 100% of shares of JSC “StroyPromObyekt” for RUR 1.0 billion, which owns 50% of shares of “Hals-Technopark”, CJSC a former associate of the Group. After the acquisition the Group owns 100% of shares of “Hals-Technopark” CJSC (Note 44).

In the third quarter of 2012, the Group obtained 100% control in “Pension Reserve”, Ltd by the acquisition of 81.0% share from a related party of the Group for RUR 0.3 billion.

In the third quarter of 2012, the Group increased its share from 9.92% to 23.08% in “Zapadnaya Gold Mining Limited” by additional purchase of shares for USD 32 million (RUR 1.0 billion).

In the third quarter of 2012, the Group obtained significant influence in “Lenta Limited (BVI)” with 11.85% share through representation in the Board of Directors and participation in operating policy decisions.

As at 31 December 2012, investment in associate in the amount of RUR 0.8 billion was pledged against the funds obtained by the other associate of the Group (31 December 2011: RUR 0.7 billion).

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

	31 December 2012	*31 December 2011*
Assets	438.0	250.6
Liabilities	374.8	193.9
Net assets	63.2	56.7
Revenue	164.0	57.0
Net profit	9.2	1.2

The unrecognized share of losses of associates for 2012 and cumulatively at 31 December 2012 was RUR 0.5 billion and RUR 0.7 billion, respectively (2011 and cumulatively at 31 December 2011: RUR 0.1 billion and RUR 0.2 billion, respectively).

14. Investment Securities Held-to-Maturity

	31 December 2012	*31 December 2011*
Bonds of Russian companies and banks	2.3	32.8
Russian municipal bonds	0.3	1.0
Bonds of foreign governments	0.2	0.5
Russian Federal loan bonds (OFZ)	–	0.1
Bonds of foreign companies and banks	0.1	–
Total gross investment securities held-to-maturity	**2.9**	**34.4**
Less: Allowance for impairment (Note 33)	(2.0)	(2.0)
Total investment securities held-to-maturity	**0.9**	**32.4**

(in billions of Russian Roubles)

15. Land, Premises and Equipment

The movements in land, property and equipment were as follows:

	Land and premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 2011	**69.4**	**16.0**	**10.1**	**21.3**	**116.8**
Cost or revalued amount					
Opening balance at 1 January 2012	**72.2**	**33.7**	**10.1**	**22.8**	**138.8**
Effect of hyperinflation	0.5	0.3	–	–	**0.8**
Acquisitions of subsidiaries	3.6	5.2	–	–	**8.8**
Disposal of subsidiaries	–	(0.1)	–	–	**(0.1)**
Additions	6.2	7.7	11.3	4.5	**29.7**
Transfer	6.4	1.0	(11.7)	–	**(4.3)**
Disposals	(1.4)	(2.7)	(0.5)	(6.3)	**(10.9)**
Revaluation	7.1	–	–	–	**7.1**
Impairment	(1.6)	–	(1.3)	–	**(2.9)**
Reversal of impairment	0.9	–	–	–	**0.9**
Reclassification	(0.1)	–	–	–	**(0.1)**
Translation difference	(0.4)	(0.3)	–	(0.2)	**(0.9)**
Closing balance at 31 December 2012	**93.4**	**44.8**	**7.9**	**20.8**	**166.9**
Accumulated depreciation					
Opening balance at 1 January 2012	**2.8**	**17.7**	**–**	**1.5**	**22.0**
Effect of hyperinflation	–	0.1	–	–	**0.1**
Depreciation charge	2.5	6.0	–	1.2	**9.7**
Disposals	(0.2)	(1.4)	–	(0.4)	**(2.0)**
Disposal of subsidiaries	–	(0.1)	–	–	**(0.1)**
Transfer	0.2	–	–	–	**0.2**
Revaluation	(5.3)	–	–	–	**(5.3)**
Translation difference	–	(0.2)	–	–	**(0.2)**
Closing balance at 31 December 2012	**–**	**22.1**	**–**	**2.3**	**24.4**
Net book amount at 31 December 2012	**93.4**	**22.7**	**7.9**	**18.5**	**142.5**

(in billions of Russian Roubles)

15. Land, Premises and Equipment (continued)

The Transfer caption in 2012 includes both transfers between the categories of the Land, Premises and Equipment, and transfers to / from Property intended for sale in the ordinary course of business in Other assets.

	Land and premises	***Equipment***	***Construction in progress***	***Equipment in operating lease***	***Total***
Net book amount at 31 December 2010	**61.1**	**15.1**	**3.1**	**33.9**	**113.2**
Cost or revalued amount					
Opening balance at 1 January 2011	**62.3**	**28.2**	**3.1**	**35.0**	**128.6**
Effect of hyperinflation	0.7	0.6	0.2	–	**1.5**
Acquisitions of subsidiaries	14.0	3.2	3.3	–	**20.5**
Additions	4.5	6.8	7.8	21.7	**40.8**
Transfer	(7.8)	(2.8)	0.3	3.2	**(7.1)**
Disposals	(1.0)	(1.7)	(3.9)	(37.4)	**(44.0)**
Impairment	–	–	(0.5)	–	**(0.5)**
Translation difference	(0.5)	(0.6)	(0.2)	0.3	**(1.0)**
Closing balance at 31 December 2011	**72.2**	**33.7**	**10.1**	**22.8**	**138.8**
Accumulated depreciation					
Opening balance at 1 January 2011	**1.2**	**13.1**	**–**	**1.1**	**15.4**
Effect of hyperinflation	–	0.3	–	–	**0.3**
Depreciation charge	1.8	4.8	–	1.9	**8.5**
Disposals	(0.2)	(0.4)	–	(1.5)	**(2.1)**
Translation difference	–	(0.1)	–	–	**(0.1)**
Closing balance at 31 December 2011	**2.8**	**17.7**	**–**	**1.5**	**22.0**
Net book amount at 31 December 2011	**69.4**	**16.0**	**10.1**	**21.3**	**116.8**

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

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

	31 December 2012	***31 December 2011***
Cost	77.9	62.8
Less: Accumulated depreciation and impairment	(6.9)	(4.4)
Net carrying amount	**71.0**	**58.4**

As at 31 December 2012, the Group recognized impairment loss in the amount of RUR 1.3 billion (31 December 2011:RUR 0.5 billion) with regard to construction in progress.

(in billions of Russian Roubles)

16. Investment Property

	2012	*2011*
Investment property at 1 January	**122.5**	**102.2**
Acquisitions of subsidiaries	6.7	10.7
Disposal of subsidiaries	(2.3)	(0.6)
Additions	4.0	4.8
Disposals	(3.0)	(1.3)
Reclassified from premises	2.8	–
Reclassified to property held for sale	(1.0)	(2.1)
Reclassified from property held for sale	0.7	0.2
Revaluation	11.4	4.5
Capitalization of expenses	6.2	4.1
Investment property at 31 December	**148.0**	**122.5**

As at 31 December 2012 investment property was revalued by RUR 11.4 billion (in 2011 by RUR 4.5 billion). The valuation was carried out by the Group's internal appraisers and by independent appraisers on the basis of market prices for comparable real estate.

In 2012, the Group's investment property increased due to acquisition of subsidiaries by "Hals-Development", OJSC and "Bank of Moscow", OJSC in the amount of RUR 6.6 billion and RUR 0.1 billion, respectively.

In 2012, the Group's investment property decreased due to disposal of "TransCreditBank", JSC subsidiary in the amount of RUR 2.3 billion.

In 2011, the Group's investment property increased due to property valued at RUR 3.3 billion received as a result of acquisition of "Bank of Moscow", OJSC. The investment property for the amount of RUR 5.5 billion and RUR 1.9 billion was received by "Hals-Development", OJSC and "TransCreditBank", JSC, respectively, when acquiring subsidiaries.

In 2011, the Group's investment property decreased by RUR 0.6 billion transferred by "Hals-Development", OJSC, when disposing of its subsidiary.

In 2012 the Group received directly a property title for land plots, commercial and residential properties valued at RUR 2.2 billion (2011: RUR 3.9 billion) in exchange for settlement of the outstanding loans granted by the Group. The property of RUR 1.2 billion (2011: 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 2012 the Group purchased in the ordinary course of business land plots in the amount of RUR 0.6 billion (2011: RUR 0.3 billion) for development and subsequent resale.

As at 31 December 2012 investment property in the amount of RUR 36.5 billion is under construction in progress or development (31 December 2011: RUR 33.2 billion).

In 2012 the Group capitalized expenditures in the amount of RUR 6.2 billion (2011: 4.1 billion) related to properties under construction in progress or development.

The Group leased out a portion of its investment property under operating lease. Future minimum receivables under non-cancellable operating lease were RUR 13.7 billion as at 31 December 2012 (RUR 2.0 billion as at 31 December 2011) of which RUR 2.5 billion to be received in less than 1 year (2011: RUR 0.6 billion), RUR 10.5 billion to be received later than 1 year and not later than 5 years (2011: RUR 1.4 billion) and RUR 0.7 billion to be received later than 5 years (2011: nil).

In 2012 the Group has recognized rental income as part of income arising from non-banking activities of RUR 2.1 billion (2011: RUR 0.9 billion) and direct operating expenses of RUR 0.7 billion (2011: RUR 0.3 billion) in relation to investment property that generated rental income.

(in billions of Russian Roubles)

17. Intangible Assets and Goodwill

The movements in intangible assets were as follows in 2012:

	Core deposit and customer loan intangible	*Computer software*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2011	**28.5**	**4.4**	**2.1**	**1.5**	**104.7**	**141.2**
Cost less impairment						
Opening balance at 1 January 2012	**35.2**	**6.5**	**3.6**	**1.5**	**104.7**	**151.5**
Write-offs of fully amortized items	(4.4)	–	–	–	–	(4.4)
Opening balance at 1 January 2012 after write-offs of fully amortized items	**30.8**	**6.5**	**3.6**	**1.5**	**104.7**	**147.1**
Additions	–	2.5	3.6	–	–	**6.1**
Acquisition through business combinations	–	–	–	–	1.7	**1.7**
Disposals	–	(0.7)	(2.3)	–	–	**(3.0)**
Write-offs through impairment	–	(0.2)	(0.1)	–	(1.5)	**(1.8)**
Reversal of previously written-off items	–	–	0.5	–	–	**0.5**
Closing balance at 31 December 2012	**30.8**	**8.1**	**5.3**	**1.5**	**104.9**	**150.6**
Accumulated amortization						
Opening balance at 1 January 2012	**6.7**	**2.1**	**1.5**	**–**	**–**	**10.3**
Write-offs of fully amortized items	(4.4)	–	–	–	–	**(4.4)**
Opening balance at 1 January 2012 after write-offs of fully amortized items	**2.3**	**2.1**	**1.5**	**–**	**–**	**5.9**
Amortization charge	5.0	1.1	1.7	0.1	–	**7.9**
Disposals	–	(0.5)	–	–	–	**(0.5)**
Closing balance at 31 December 2012	**7.3**	**2.7**	**3.2**	**0.1**	**–**	**13.3**
Net book amount at 31 December 2012	**23.5**	**5.4**	**2.1**	**1.4**	**104.9**	**137.3**

	Core deposit and customer loan intangible	*Computer software*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2010	**5.0**	**3.0**	**2.6**	**–**	**19.9**	**30.5**
Cost less impairment						
Opening balance at 1 January 2011	**9.8**	**4.6**	**2.9**	**–**	**19.9**	**37.2**
Additions	–	2.0	1.6	–	–	**3.6**
Acquisition through business combinations	25.4	0.3	0.3	1.5	84.8	**112.3**
Disposals	–	(0.3)	(0.8)	–	–	**(1.1)**
Write-offs through impairment	–	–	(0.1)	–	–	**(0.1)**
Translation difference	–	(0.1)	–	–	–	**(0.1)**
Transfer	–	–	(0.3)	–	–	**(0.3)**
Closing balance at 31 December 2011	**35.2**	**6.5**	**3.6**	**1.5**	**104.7**	**151.5**
Accumulated amortization						
Opening balance at 1 January 2011	**4.8**	**1.6**	**0.3**	**–**	**–**	**6.7**
Amortization charge	1.9	0.9	1.2	–	–	**4.0**
Disposals	–	(0.4)	–	–	–	**(0.4)**
Closing balance at 31 December 2011	**6.7**	**2.1**	**1.5**	**–**	**–**	**10.3**
Net book amount at 31 December 2011	**28.5**	**4.4**	**2.1**	**1.5**	**104.7**	**141.2**

(in billions of Russian Roubles)

17. Intangible Assets and Goodwill (continued)

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

	31 December 2012			*31 December 2011*		
	Carrying amount of goodwill	*Carrying amount of core deposit and customer loan intangible*	*Total*	*Carrying amount of goodwill*	*Carrying amount of core deposit and customer loan intangible*	*Total*
“Bank of Moscow”, OJSC	84.7	20.2	**104.9**	84.7	24.4	**109.1**
“TransCreditBank”, JSC	7.7	3.1	**10.8**	7.7	3.9	**11.6**
“VTB North-West Regional Center” (branch) (former “Bank VTB North-West”, OJSC)	5.2	–	**5.2**	5.2	–	**5.2**
“VTB Arena”, CJSC	4.3	–	**4.3**	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**	–	0.2	**0.2**
“Pension Reserve”, LLC	0.2	–	**0.2**	–	–	**–**
“VTB Bank (Armenia)” CJSC	0.1	–	**0.1**	0.1	–	**0.1**
“VTB Asset Management”, CJSC	0.1	–	**0.1**	0.1	–	**0.1**
“Citer Invest”, B. V.	0.1	–	**0.1**	0.1	–	**0.1**
Net book amount	**104.9**	**23.5**	**128.4**	**104.7**	**28.5**	**133.2**

The recoverable amount of “Bank of Moscow”, OJSC at the date of goodwill impairment testing at 31 December 2012 has been determined based on a value in use calculation using pretax cash flow projections based on financial budgets approved by the Management covering a five-year period, which amounts to RUR 392.4 billion. The discount rate applied to cash flow projections is 14% p.a.

The goodwill related to “TransCreditBank”, JSC is allocated to corporate and retail banking cash-generated units and is tested separately for impairment for each CGU. As at 31 December 2012 the recoverable amounts related to these cash-generated units of “TransCreditBank”, JSC have been determined based on a value in use calculation using pretax cash flow projections based on financial budgets approved by the Management covering a three-year period. The calculated recoverable amounts at 31 December 2012 significantly exceed the carrying amounts of the relevant CGUs and allocated goodwill. The discount rate applied to cash flow projections is 14% p.a.

In March 2011, “Bank VTB North-West”, OJSC ceased its operations as a subsidiary of VTB following the legal merger of VTB and “Bank VTB North-West”. This reorganization was accompanied by formation of a new cash-generating unit VTB North-West Regional Center established on the basis of former the “Bank VTB North-West”, OJSC Head Office. As a result, the Group has reallocated the respective goodwill to the new cash-generated unit, the recoverable amount of which amounts to RUR 85.4 billion as at 31 December 2012. The discount rate applied to cash flow projections is 14% p.a.

“Bank VTB 24”, CJSC entity level is considered as appropriate CGU. The recoverable amount of “Bank VTB 24”, CJSC at the date of goodwill impairment testing at 30 September 2012 has been determined based on a value in use calculation using pretax cash flow projections based on financial budgets approved by the Management covering a five-year period, which amounted to RUR 247.0 billion. The discount rate applied to cash flow projections is 14% p.a.

The goodwill recognized in business combination in January 2012 with “Sistemapsys S.a.r.l.” amounted RUR 0.7 billion. Entity level was determined as the separate cash-generated unit. The CGU recoverable amount at 31 December 2012 has been determined based on a value in use calculation using pretax cash flow projections from the project covering a three-year period. The discount rate applied to cash flow projections is 12% p.a. The calculated recoverable amount at 31 December 2012 is lower than the carrying amount of CGU and goodwill. This resulted in recognition of goodwill impairment charge of RUR 0.7 billion.

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

(in billions of Russian Roubles)

17. Intangible Assets and Goodwill (continued)

The goodwill related to “VTB Arena”, CJSC is allocated to the development project of subsidiary as the separate cash-generated unit. The recoverable amount of “VTB Arena”, CJSC at the date of goodwill impairment testing at 30 September 2012 has been determined based on a value in use calculation using pretax cash flow projections covering a fourteen-year period (as a more reliable for a long-term development project), which amounted to RUR 22.8 billion. The discount rate applied to cash flow projections of the development project is 11.7%. The calculation of value in use for “VTB Arena”, CJSC CGU is most sensitive to assumptions in discount rates, terminal capitalization rate, weighted average rent rates for shopping and entertainment centers, prices and sales schedules for apartments, occupancy rates and average prices per room in hotels and apart hotels, etc.

For “VTB Arena”, CJSC development project, the estimated recoverable amount is close to its carrying value and, consequently, any adverse change in key assumptions would result in impairment losses, e.g. increase of terminal capitalization rate by 0.75% or increase of the discount rate by 0.5% would lead to a decrease in recoverable amount and recognition of related goodwill impairment loss.

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount will not result in an impairment of goodwill, except for that attributable to “VTB Arena”, CJSC development project, described above.

18. Other Assets

	31 December 2012	*31 December 2011*
Other financial assets		
Amounts in course of settlement	13.6	8.3
Accrued commission income	5.1	2.2
Initial margin and other performance collateral	4.9	–
Advances issued to leasing equipment suppliers	4.5	4.9
Accrued income on operating leases	3.3	1.6
Trade receivables and prepayments	1.8	–
Positive fair value of derivatives (hedges) (Note 39)	0.6	0.5
Other	8.0	5.6
Total other financial assets before allowance for impairment	**41.8**	**23.1**
Less: Allowance for impairment of other financial assets (Note 33)	(2.7)	(2.6)
Total other financial assets	**39.1**	**20.5**
Other non-financial assets		
Property intended for sale in the ordinary course of business	44.1	34.3
Other assets related to non-banking activities	40.5	26.2
Precious metals	35.2	19.9
Tax prepayments	12.0	17.8
Prepayments	10.6	9.2
Equipment purchased for subsequent leasing	6.6	8.5
Deferred expenses	5.2	5.8
Inventories	2.9	2.8
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs	0.7	0.4
Leasehold for development and sale	–	1.6
Other	2.1	1.4
Total other non-financial assets before allowance for impairment	**159.9**	**127.9**
Less: Allowance for impairment of other non-financial assets (Note 33)	(0.5)	(0.1)
Total other non-financial assets	**159.4**	**127.8**
Total other assets	**198.5**	**148.3**

(in billions of Russian Roubles)

18. Other Assets (continued)

As at 31 December 2012 and 2011, property intended for sale in the ordinary course of business mainly represents operations of "Hals-Development", OJSC and "VTB Arena", CJSC.

As at 31 December 2012, property intended for sale in the ordinary course of business under construction in progress or development amounted to RUR 42.3 billion (31 December 2011: RUR 29.0 billion) and property intended for sale in the ordinary course of business ready for use by buyer amounted to RUR 1.8 billion (31 December 2011: RUR 5.3 billion).

As at 31 December 2012, included in Property intended for sale in the ordinary course of business is the amount of RUR 1.4 billion (31 December 2011: RUR 1.4 billion), which is pledged against Other borrowings within Other borrowed funds (Note 22).

As at 31 December 2012 and 2011, other assets related to non-banking activities are predominantly related to real estate, leasing and other non-banking activity.

As at 31 December 2012 and 2011, equipment purchased for subsequent leasing and advances issued to leasing equipment suppliers represents operations of VTB Leasing.

19. Disposal Group Held for Sale

In September 2011, when acquiring "Bank of Moscow", OJSC the Group received controlling interest in "BM Bank", Ltd., located in Kiev, Ukraine. In the fourth quarter of 2011 the Management decided to sell these investments and intended to do it within 12 months from the date of classification. In 2012, the Group actively marketed "BM Bank", Ltd., for sale, and in February 2013 signed a memorandum of understanding with preliminary sale terms of its 100% ownership interest. The Group accounted for these investments as a disposal group held for sale under IFRS 5. These investments are included in "Corporate-Investment banking" and "Retail banking" segments (Note 40).

In August 2012, the Group has increased its share in a company specializing in electricity distribution to 49.0%. This investment in the associate was classified as a disposal group held for sale in accordance with IFRS 5 as the Management of the Group is intended and committed to the sale plan within the next 12 months, and accounted it at carrying value of RUR 8.5 billion.

20. Due to Other Banks

	31 December 2012	*31 December 2011*
Term loans and deposits	444.9	369.2
Correspondent accounts and overnight deposits of other banks	271.3	310.6
Sale and repurchase agreements with other banks	43.7	19.9
Total due to other banks	**759.9**	**699.7**

Included in amounts due to other banks at 31 December 2012 are restricted deposits of RUR 1.0 billion (31 December 2011: RUR 1.0 billion), where matching deposits were placed by the Group in other balances in non-freely convertible currencies (Note 7).

At 31 December 2012, term loans and deposits contain the amount of nil (31 December 2011: RUR 1.4 billion) secured with a pledge of financial assets at fair value through profit or loss in the amount of nil (31 December 2011: RUR 1.4 billion).

As at 31 December 2012, term loans and deposits in the amount of RUR 12.6 billion (31 December 2011: RUR 1.9 billion) is collateralized with loans to customers in the amount of RUR 24.3 billion (31 December 2011: RUR 2.0 billion).

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 24.5 billion (31 December 2011: RUR 8.1 billion), those classified as due from other banks with amortized cost of nil (31 December 2011: RUR 0.4 billion) and financial assets classified as loans and advances to customers with amortized cost of RUR 0.7 billion (31 December 2011: RUR 12.8 billion) (Note 9).

(in billions of Russian Roubles)

20. Due to Other Banks (continued)

As at 31 December 2012, financial assets pledged against sale and repurchase agreements with other banks were also represented by financial assets received under reverse sale and repurchase agreements in the total amount of RUR 23.1 billion (31 December 2011: RUR 5.9 billion).

As at 31 December 2012, term loans and deposits also contain term loans and deposits in the amount of RUR 0.7 billion (31 December 2011: nil) securitized with a pledge of premises and equipment of RUR 2.8 billion (31 December 2011: nil).

21. Customer Deposits

	31 December 2012	31 December 2011
Government bodies		
Current / settlement deposits	139.5	38.0
Term deposits	298.4	482.1
Other legal entities		
Current / settlement deposits	780.8	610.8
Term deposits	1,013.6	1,296.3
Individuals		
Current / settlement deposits	306.9	254.7
Term deposits	1,127.2	906.1
Sale and repurchase agreements	6.4	8.7
Total customer deposits	**3,672.8**	**3,596.7**

As at 31 December 2012, deposits of RUR 11.2 billion (31 December 2011: RUR 11.9 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 39).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Individuals	1,434.1	39	1,161.4	32
Government bodies	437.9	12	520.1	14
Finance	379.9	10	319.9	10
Oil and gas	371.8	10	348.1	10
Manufacturing	195.9	5	122.0	3
Transport	180.5	5	264.9	7
Building construction	158.2	4	190.3	5
Trade and commerce	117.3	3	118.4	4
Telecommunications and media	70.7	2	111.4	3
Metals	35.8	1	79.9	2
Energy	33.7	1	80.6	2
Food and agriculture	28.2	1	25.1	1
Chemical	21.2	1	20.5	1
Aircraft	10.6	–	13.6	–
Coal mining	1.2	–	10.1	–
Other	195.8	6	210.4	6
Total customer deposits	**3,672.8**	**100**	**3,596.7**	**100**

As at 31 December 2012 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 3.9 billion (31 December 2011: RUR 0.2 billion) (Note 9) and securities received under reverse sale and repurchase agreements with fair value of RUR 3.3 billion (31 December 2011: RUR 9.0 billion).

(in billions of Russian Roubles)

22. Other Borrowed Funds

	31 December 2012	31 December 2011
Funds from local central banks	433.0	365.9
Syndicated loans	100.0	106.8
Other borrowings	273.2	261.9
Total other borrowed funds	**806.2**	**734.6**

As at 31 December 2012 funds from local central banks include payables to local central banks on sale and repurchase agreements in amount of RUR 272.8 billion (31 December 2011: 159.7) and other funds attracted from local central banks in amount of RUR 160.2 billion (31 December 2011: RUR 206.2 billion).

In September 2011, “Bank of Moscow”, OJSC received a RUR 294.8 billion loan from the related party DIA at 0.51% p.a. maturing in 10 years under the plan of support of “Bank of Moscow”, OJSC earlier signed by CBR and DIA. The Group recognized the loan initially at fair value. As at 31 December 2012 the carrying amount of the loan of RUR 153.4 billion was included in other borrowings (31 December 2011: RUR 144.4 billion). This loan was securitized with a pledge of loans to customers with carrying amount of RUR 199.2 billion (31 December 2011: RUR 200.9 billion) (Note 11).

In June 2012, the Group received a syndicated loan of EUR 107 million (RUR 4.4 billion) maturing in July 2024 with a floating rate of EURIBOR + 1.6% p.a. guaranteed by a G7 country export credit agency in relation to a construction concession project, in which the Group has a 50% share (with costs capitalization). The Group has recognized the benefits of the below-market interest rate as the government grant in the amount of RUR 0.6 billion. The 50% of the government grant has been recognized upfront in gains on initial recognition of financial instruments as the benefits are not related to the Group’s share in the construction concession project. The remaining 50% of the government grant is deferred and is to be amortized over the expected useful life of the concession.

In August 2012, “Bank VTB 24”, CJSC arranged a structured transaction related to its car loan portfolio in the amount of RUR 14.0 billion through a sale to a special purpose entity, which further attracted funds through secured loan deal in the amount of USD 275 million with the expected maturity in August 2014. The USD loan bears the floating interest rate of monthly LIBOR plus 1.5% p.a. payable monthly. As at 31 December 2012 the carrying amount of the loan of RUR 8.3 billion was included in other borrowings. This loan is securitized with a pledge of loans to customers with carrying amount of RUR 13.2 billion.

As at 31 December 2012 financial assets pledged against sale and repurchase agreements with local central banks are financial assets with a total carrying amount of RUR 273.8 billion (31 December 2011: RUR 177.2 billion), which comprised of the financial assets held for trading with fair value of RUR 20.3 billion (31 December 2011: nil), financial assets available-for-sale with fair value of RUR 5.9 billion (31 December 2011: RUR 1.7 billion), pledged financial assets classified as loans and advances to customers of RUR 244.8 billion (31 December 2011: RUR 175.5 billion) and pledged financial assets classified as due from other banks of RUR 2.8 billion (31 December 2011: nil) (Note 9).

As at 31 December 2012 other funds attracted from local central banks contain the amount of RUR 24.3 billion (31 December 2011: RUR 6.3 billion) secured by pledged loans to customers in the amount of RUR 31.5 billion (31 December 2011: RUR 13.6 billion) (Note 11).

As at 31 December 2012 other borrowed funds also contain other borrowings in the amount of RUR 18.9 billion (31 December 2011: RUR 6.7 billion) securitized with a pledge of loans to customers of RUR 22.9 billion (31 December 2011: RUR 5.0 billion) (Note 11) and other assets of RUR 1.4 billion (31 December 2011: RUR 1.4 billion) (Note 18).

23. Debt Securities Issued

	31 December 2012	31 December 2011
Bonds	592.3	457.5
Promissory notes	301.9	206.1
Deposit certificates	0.3	0.9
Total debt securities issued	**894.5**	**664.5**

Promissory notes represent notes primarily issued by VTB in the local market, which primarily act as an alternative to customer/bank deposits. As at 31 December 2012 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to March 2018 (31 December 2011: from demand to June 2015).

(in billions of Russian Roubles)

22. Debt Securities Issued (continued)

						31 December 2012		31 December 2011	
Issue	**Issue Date**	**Maturity Date**	**Next Put Option**	**Current Coupon Rate p.a.**	**Coupon Payment Period**	**Outstanding Face Value**	**Carrying Value**	**Outstanding Face Value**	**Carrying Value**
VTB									
Eurobonds									
Series 1 (EMTN 2)	Oct-07	Oct-12	–	n/a	n/a	n/a	n/a	USD 1,054 mln	34.3
Series 3 (EMTN 2)	Dec-07	Nov-12	–	n/a	n/a	n/a	n/a	RUR 30.0 bln	30.2
Series 8 (EMTN 2)	Aug-10	Aug-12	–	n/a	n/a	n/a	n/a	SGD 400 mln	10.4
Series 6 (EMTN)	Jun-05	Jun-35	Jun-15	6.25%	Semi-annually	USD 693 mln	21.0	USD 693 mln	22.0
Series 9 (EMTN)	Feb-06	Feb-16	–	4.25%	Annually	EUR 193 mln	8.0	EUR 193 mln	8.3
Series 4 (EMTN 2)	May-08	May-18	May-13	6.88%	Semi-annually	USD 1,706 mln	52.1	USD 1,706 mln	51.9
Series 7 (EMTN 2)	Mar-10	Mar-15	–	6.47%	Semi-annually	USD 1,250 mln	38.6	USD 1,250 mln	41.0
Series 9 (EMTN 2)	Aug-10	Aug-13	–	4.00%	Annually	CHF 400 mln	13.4	CHF 400 mln	13.8
Series 10 (EMTN 2)	Oct-10	Oct-20	–	6.55%	Semi-annually	USD 1,000 mln	30.5	USD 1,000 mln	31.9
Series 11 (EMTN 2)	Dec-10	Dec-13	–	2.95%	Semi-annually	CNY 1,000 mln	4.8	CNY 1,000 mln	5.0
Series 12 (EMTN 2)	Feb-11	Feb-18	–	6.32%	Semi-annually	USD 750 mln	23.3	USD 750 mln	24.6
Series 13 (EMTN 2)	Jun-11	Jun-14	–	3.40%	Semi-annually	SGD 300 mln	7.4	SGD 300. mln	6.6
Series 14 (EMTN 2)	Nov-11	Nov-15	–	5.00%	Annually	CHF 300 mln	9.9	CHF 300 mln	10.3
Series 15 (EMTN 2)	Apr-12	Apr-17	–	6.00%	Semi-annually	USD 2,000 mln	61.7	n/a	n/a
Series 17 (EMTN 2)	Jul-12	Jul-15	–	4.00%	Semi-annually	SGD 400 mln	10.1	n/a	n/a
Series 18 (EMTN 2)	Aug-12	Aug-14	–	2.90%	Semi-annually	USD 45mln	1.4	n/a	n/a
Series 19 (EMTN 2)	Sep-12	Dec-16	–	3.15%	Annually	CHF 600 mln	19.8	n/a	n/a
Series 20 (EMTN 2)	Oct-12	Sep-14	–	2.75%	Semi-annually	USD 35 mln	1.1	n/a	n/a
Series 22 (EMTN 2)	Oct-12	Oct-15	–	4.50%	Semi-annually	CNY 1,000 mln	4.9	n/a	n/a
Series 23 (EMTN 2)	Dec-12	Dec-17	–	7.50%	Annually	AUD 500 mln	15.8	n/a	n/a
RMBS	Jul-06	May-34	–	1M LIBOR+0.1% - 1M LIBOR+0.5%	Monthly	USD 88 mln	0.5	USD 88 mln	0.5
ECP zero-coupon	Oct-12	Dec-13	–	n/a	n/a	USD 428.7 mln	12.8	n/a	n/a
Local bonds									
Series 5	Oct-05	Oct-13	–	8.55%	Quarterly	RUR 14.3 bln	4.3	RUR 4.2 bln	4.3
Series 6	Jul-06	Jul-16	Jul-13	7.40%	Quarterly	RUR 15.0 bln	15.2	RUR 15.0 bln	14.9
Series BO-05	Mar-10	Mar-13	–	7.60%	Quarterly	RUR 10.0 bln	10.0	RUR 10.0 bln	10.0
Series BO-02	Mar-10	Mar-13	–	7.60%	Quarterly	RUR 5.0 bln	5.0	RUR 5.0 bln	5.0
Series BO-01	Mar-10	Mar-13	–	7.60%	Quarterly	RUR 5.0 bln	5.0	RUR 5.0 bln	5.0
Series BO-06	Dec-11	Dec-14	Dec-12	8.50%	Quarterly	RUR 9.7 bln	9.5	RUR 10.0 bln	9.7
Series BO-07	Mar-12	Mar-15	Feb-13	8.00%	Quarterly	RUR 5.0 bln	5.0	n/a	n/a
Series BO-03	Mar-12	Mar-15	Mar-14	8.00%	Quarterly	RUR 5.0 bln	4.9	n/a	n/a
Series BO-04	Jan-12	Jan-15	Mar-14	7.95%	Quarterly	RUR 10.0 bln	10.1	n/a	n/a
Series BO-08	Sep-12	Sep-15	Sep-13	7.95%	Quarterly	RUR 10.0 bln	9.0	n/a	n/a
Series BO-19	Oct-12	Oct-15	–	8.68%	Quarterly	RUR 15.0 bln	15.0	n/a	n/a
Series BO-20	Oct-12	Oct-15	–	8.68%	Quarterly	RUR 15.0 bln	15.0	n/a	n/a
"Bank of Moscow", OJSC									
Eurobonds									
Series 4	May-06	May-13	–	7.34%	Semi-annually	USD 500 mln	14.7	USD 500 mln	16.6
Series 7	Mar-10	Mar-15	–	6.70%	Semi-annually	USD 750 mln	23.3	USD 750 mln	24.4
Series 8	Sep-10	Sep-13	–	4.50%	Annually	CHF 350 mln	11.8	CHF 350 mln	11.8
Series 10	Feb-11	Feb-13	–	4.25%	Semi-annually	SGD 150 mln	3.8	SGD 150 mln	3.3
Local bonds									
Series 2 2013	Feb-08	Feb-13	–	7.55%	Semi-annually	RUR 10.0 bln	4.9	RUR 10.0 bln	4.9
"Bank Moscow-Minsk", OJSC									
Local bonds									
Series 12	May-11	May-12	–	n/a	n/a	n/a	n/a	BYR 60.0 bln	0.1
Series 13	Jul-11	Jul-12	–	n/a	n/a	n/a	n/a	BYR 100.0 bln	0.4
Series 11	Jan-11	Jan-13	–	7.50%	Quarterly	USD 8 mln	0.2	USD 8 mln	0.2
“TransCreditBank”, JSC									
Local bonds									
Series 2	Jun-07	Jun-12	–	n/a	n/a	n/a	n/a	RUR 0.8 bln	0.7
Series 6	Apr-10	Apr-14	–	8.30%	Semi-annually	RUR 4.0 bln	3.7	RUR 4.0 bln	3.7
Series 5	Aug-10	Aug-13	–	7.90%	Semi-annually	RUR 3.0 bln	2.9	RUR 3.0 bln	2.8
Series BO-01	Nov-10	Nov-13	–	7.80%	Semi-annually	RUR 5.0 bln	5.0	RUR 5.0 bln	4.6
“TransCreditFactoring”, CJSC									
Local bonds									
Series 1	Jun-09	Jun-12	–	n/a	n/a	n/a	n/a	RUR 1.5 bln	1.5
Series 2	Nov-09	Nov-12	–	n/a	n/a	n/a	n/a	RUR 1.5 bln	1.5
"FinanceBusinessGroup", LLC									
Local bonds									
Series BO-01	Jul-10	Jul-13	–	10.00%	Semi-annually	RUR 3.0 bln	3.0	RUR 3.0 bln	3.0
"Bank VTB 24", CJSC									
Local bonds									
Series 2	Feb-08	Feb-13	–	7.75%	Semi-annually	RUR 8.9 bln	9.2	RUR 0.0 bln	0.0
Series 4	Feb-09	Feb-14	Aug-13	8.20%	Semi-annually	RUR 8.0 bln	8.2	RUR 1.9 bln	1.9
Series 3	Jun-10	May-13	–	8.00%	Semi-annually	RUR 6.0 bln	4.2	RUR 0.0 bln	0.0

(in billions of Russian Roubles)

22. Debt Securities Issued (continued)

						31 December 2012		31 December 2011	
Issue	*Issue Date*	*Maturity Date*	*Next Put Option*	*Current Coupon Rate p.a.*	*Coupon Payment Period*	*Outstanding Face Value*	*Carrying Value*	*Outstanding Face Value*	*Carrying Value*
RMBS Series 1-IP	Dec-09	Dec-14	–	8.65%	Quarterly	RUR 15.0 bln	5.8	RUR 3.6 bln	3.4
RMBS Series 2-IP class A	Sep-11	Nov-43	–	9.00%	Quarterly	RUR 2.6 bln	2.5	RUR 3.2 bln	3.2
RMBS Series 2-IP class B	Sep-11	Nov-43	–	3.00%	Quarterly	RUR 1.3 bln	1.2	RUR 1.6 bln	1.4
RMBS Series 3-IP class A	Sep-12	Sep-44	–	9.00%	Quarterly	RUR 3.8 bln	3.7	n/a	n/a
RMBS Series 3-IP class B	Sep-12	Sep-44	–	3.00%	Quarterly	RUR 1.9 bln	1.8	n/a	n/a
“VTB Capital”, Plc Eurobonds									
2011-1002, RUR	Mar-11	Jun-14	–	9.05%	Annually	RUR 1.0 bln	1.1	RUR 1.0 bln	1.0
2011-1003, RUR	Apr-11	Jun-14	–	9.50%	Annually	RUR 0.5 bln	0.5	RUR 0.5 bln	0.5
2011-1004, RUR	Apr-11	Jun-16	–	9.50%	Annually	RUR 0.5 bln	0.5	RUR 0.5 bln	0.5
2011-1006, RUR	Jun-11	Jun-14	–	9.25%	Annually	RUR 0.5 bln	0.5	RUR 0.5 bln	0.5
2011-1007, RUR	Jun-11	Sep-14	–	9.25%	Annually	RUR 0.5 bln	0.5	RUR 0.5 bln	0.5
2011-1008, RUR	Aug-11	Sep-14	–	11.15%	Annually	RUR 0.8 bln	0.8	RUR 0.8 bln	0.8
2016-2, RUR (Structured)	Sep-11	May-16	–	11.00%	Semi-annually	RUR 0.6 bln	0.6	RUR 0.8 bln	0.8
2011-1010, RUR	Sep-11	Dec-15	–	11.60%	Annually	RUR 0.5 bln	0.5	RUR 0.5 bln	0.5
2012-1001, TRY	Feb-12	Feb-15	–	0.00%	Annually	TRY 28 mln	0.4	n/a	n/a
2012-1003, USD	Feb-12	Sep-13	–	6.00%	Annually	USD 5 mln	0.2	n/a	n/a
2012-1004, USD	Mar-12	Feb-13	–	2.50%	Semi-annually	USD 51 mln	1.6	n/a	n/a
2012-1005, RUR	Feb-12	Sep-15	–	11.90%	Annually	RUR 0.7 bln	0.7	n/a	n/a
2012-1008, USD	Apr-12	Apr-13	–	2.75%	Semi-annually	USD 15 mln	0.5	n/a	n/a
2012-1010, USD	Mar-12	Jun-15	–	6.45%	Annually	USD 5 mln	0.2	n/a	n/a
2012-1012, USD	Apr-12	Jun-15	–	7.20%	Annually	USD 5 mln	0.2	n/a	n/a
2012-1013, USD	Apr-12	Jun-15	–	6.20%	Annually	USD 2 mln	0.1	n/a	n/a
2012-1014, GBP	Apr-12	Apr-15	–	7.45%	Quarterly	GBP 2.5 mln	0.1	n/a	n/a
2015, TRY	Apr-12	Apr-15	–	11.28%	Semi-annually	TRY 300 mln	5.5	n/a	n/a
2012-1022, USD	Sep-12	Sep-14	–	2.00%	Annually	USD 2.4 mln	0.1	n/a	n/a
2012-1023, USD	Oct-12	Oct-14	–	2.00%	Annually	USD 1 mln	0.0	n/a	n/a
2012-1025, USD	Nov-12	Nov-14	–	6.75%	Annually	USD 3 mln	0.1	n/a	n/a
2012-1026, EUR	Dec-12	Dec-17	–	n/a	Annually	EUR 1.8 mln	0.1	n/a	n/a
"VTB Capital Finance", LLC Local bonds									
Series 11	Jun-12	Jul-15	–	0.10%	Semi-annually	RUR 5.0 bln	4.0	n/a	n/a
Series 01	Aug-12	Dec-15	–	0.10%	Semi-annually	RUR 1.0 bln	0.8	n/a	n/a
Series 02	Nov-12	Dec-13	–	0.10%	Semi-annually	RUR 1.0 bln	0.9	n/a	n/a
Series 03	Dec-12	Jan-14	–	0.10%	Semi-annually	RUR 1.0 bln	0.9	n/a	n/a
Series 04	Dec-12	Jun-14	–	0.10%	Semi-annually	RUR 1.0 bln	0.9	n/a	n/a
Series 05	Dec-12	Dec-13	–	0.10%	Semi-annually	RUR 1.0 bln	0.7	n/a	n/a
"VTB Leasing Finance", Ltd Local bonds									
Series 1	Nov-07	Nov-14	Nov-13	8.10%	Quarterly	RUR 2.5 bln	0.3	RUR 3.5 bln	3.4
Series 2	Jul-08	Jul-15	Jan-13	6.45%	Quarterly	RUR 4.6 bln	3.6	RUR 4.8 bln	4.8
Series 3	Jun-09	Jun-16	Sep-13	6.90%	Quarterly	RUR 2.7 bln	1.4	RUR 2.3 bln	1.7
Series 4	Jun-09	Jun-16	Mar-13	6.65%	Quarterly	RUR 2.7 bln	1.3	RUR 1.9 bln	1.7
Series 7	Dec-09	Nov-16	Jun-14	8.15%	Quarterly	RUR 3.1 bln	0.0	RUR 0.0 bln	0.0
Series 8	Aug-17	Aug-17	May-13	8.25%	Quarterly	RUR 3.8 bln	3.8	RUR 4.6 bln	4.6
Series 9	Aug-10	Aug-17	Feb-14	7.00%	Quarterly	RUR 3.8 bln	0.1	RUR 3.4 bln	0.1
"VTB Bank (Austria)", AG Eurobonds									
Private Placement	Apr-11	Apr-13	–	2.50%	Semi-annually	EUR 20 mln	0.8	EUR 20 mln	0.8
"VTB Bank", PJSC (Ukraine) Local bonds									
Series E	Jun-11	Jan-15	Jun-13	n/a	n/a	n/a	n/a	UAH 300 mln	1.2
Series D	Jun-11	Jan-15	Jun-13	n/a	n/a	n/a	n/a	UAH 200 mln	0.8
Series C	Mar-11	Jan-15	Feb-13	16.00%	Quarterly	UAH 22 mln	0.1	UAH 300 mln	1.2
Series G	Sep-11	Mar-14	–	12.75%	Quarterly	UAH 0 mln	0.0	n/a	n/a
Series H	Sep-11	Sep-13	–	12.50%	Quarterly	UAH 0 mln	0.0	n/a	n/a
Series I	Sep-11	Mar-13	–	12.25%	Quarterly	UAH 0 mln	0.0	n/a	n/a
Series J	Oct-11	Oct-15	Oct-13	12.50%	Quarterly	UAH 0 mln	0.0	n/a	n/a
Series F	Jan-12	Jan-15	Jan-14	12.00%	Quarterly	UAH 0 mln	0.0	n/a	n/a
"VTB Bank (Belarus)", CJSC Local bonds									
Series 8	Feb-11	May-12	–	n/a	n/a	n/a	n/a	USD 3.1 mln	0.1
Series 9	Feb-11	May-12	–	n/a	n/a	n/a	n/a	EUR 2.1 mln	0.1
Series 10	Jun-11	Jun-12	–	n/a	n/a	n/a	n/a	BYR 0.0 bln	0.0
Series 7	Dec-10	Dec-12	–	n/a	n/a	n/a	n/a	BYR 0.0 bln	0.0
"Bank VTB (Kazakhstan)", JSC Local bonds									
Series 1	Dec-10	Dec-14	–	7.00%	Semi-annually	KZT 15.0 bln	2.9	KZT 12.8 bln	2.8
							592.3		**457.5**

24. Subordinated Debt

On 29 September 2005, OJSC "Industry and Construction Bank" (further renamed to OJSC "Bank VTB North-West" and which had merged with VTB in 2011) issued USD 400 million subordinated Eurobonds due September 2015 with early redemption call option at par on 1 October 2010. 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". As at 31 December 2012 the carrying amount of this subordinated debt was RUR 10.6 billion (31 December 2011: RUR 11.1 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, which is a related party to the Group. As at 31 December 2008 in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* the Group discounted these loans using an appropriate market rate adjusted for loan premium. In August 2010 the interest rate on these two subordinated loans was reduced from 8% to 6.5% p.a. in accordance with the Federal Law requirements. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 181.7 billion (31 December 2011: RUR 179.7 billion).

In October 2012, VTB issued an additional USD 1.5 billion (RUR 46.4 billion) Series 21 Subordinated Loan Participation Notes under EMTN Programme 2 maturing in October 2022 with a fixed coupon of 6.95% p.a. payable semi-annually. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 46.0 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 November 2020. In October 2012, "TransCreditBank", JSC redeemed a subordinated loan with nominal value of RUR 3.0 billion obtained from "RZhD", JSC with original maturity in September 2017. In December 2012, "TransCreditBank", JSC redeemed a subordinated loan with nominal value of RUR 0.3 billion obtained from a related party of JSC "RZhD" upon maturity. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 10.6 billion (31 December 2011: RUR 14.2 billion).

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. In August 2010 the interest rate on this subordinated loan was reduced from 8% to 6.5% p.a. in accordance with the Federal Law requirements. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 2.9 billion (31 December 2011: RUR 2.9 billion).

In November 2005, "Bank of Moscow", OJSC issued USD 300 million subordinated Loan Participation Notes due November 2015 bearing interest rate 7.5% p.a. payable semi-annually and with early redemption call option in November 2010, which was not exercised. From 25 November 2010 step-up interest rate was set at 5.967%, equal to 5-year US Treasury yield increased by 306.7 b.p. and step-up of 150 b.p. The transaction was structured as an issue of notes by "Kuznetski Capital" S.A. (Luxembourg) for the purpose of financing a subordinated loan to "Bank of Moscow", OJSC. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 8.7 billion (31 December 2011: RUR 9.0 billion).

In December 2006, "Bank of Moscow", OJSC received a subordinated loan of USD 100 million with an interest rate of LIBOR + 2.65% p.a. maturing in December 2016 from Royal Bank of London N.V. (London). As at 31 December 2012 the carrying amount of this subordinated debt was RUR 3.0 billion (31 December 2011: RUR 3.2 billion).

In May 2007, "Bank of Moscow", OJSC issued USD 400 million subordinated Loan Participation Notes due in May 2017 bearing interest rate 6.807% p.a. payable semi-annually and with prepayment option in May 2012. The step-up interest rate is equal to 5-year US Treasury yield increased by 375 b.p. and step-up of 150 b.p. The transaction was structured as an issue of notes by "Kuznetski Capital" S.A. (Luxembourg) for the purpose of financing a subordinated loan to "Bank of Moscow", OJSC. In May 2012, "Bank of Moscow", OJSC decided not to exercise the prepayment option in respect of USD 400 million subordinated Loan Participation Notes maturing in May 2017 and a new coupon interest rate was set at 6.02% p.a. payable semi-annually. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 12.0 billion (31 December 2011: RUR 10.8 billion).

In October 2009, "Bank of Moscow", OJSC received a subordinated loan of RUR 11.1 billion with an interest rate of 8.0% p.a. maturing in December 2019 from Vnesheconombank. In August 2010 an interest rate on this subordinated loan was reduced to 6.5% p.a. in accordance with the Federal Law requirements. As at 31 December 2012 the carrying amount of this subordinated debt was RUR 10.3 billion (31 December 2011: RUR 10.2 billion).

(in billions of Russian Roubles)

25. Other Liabilities

	31 December 2012	*31 December 2011*
Other financial liabilities		
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives) (Note 39)	82.6	81.5
Obligation to deliver securities	29.1	8.1
Amounts in course of settlement	10.0	29.8
Advances received from lessees	2.1	1.5
Trade creditors and prepayments received	2.1	0.7
Deferred income	1.5	1.2
Negative fair value of derivatives (fair value hedges) (Note 39)	0.5	–
Dividends payable	0.2	0.2
Obligation to purchase non-controlling interests	–	21.1
Other	7.8	3.5
Total other financial liabilities	**135.9**	**147.6**
Other non-financial liabilities		
Payable to employees	23.4	16.6
Other liabilities related to non-banking activities	15.0	13.5
Insurance reserves	12.2	5.8
Liabilities to pay taxes	6.6	5.1
Non-controlling interests in consolidated mutual funds	3.9	4.2
Provisions for credit related commitments and legal claims (Note 33)	2.8	2.0
Trade creditors and prepayments received	2.2	9.8
Liabilities on pension plans	1.6	2.2
Deferred income	0.6	–
Other	7.8	2.6
Total other non-financial liabilities	**76.1**	**61.8**
Total other liabilities	**212.0**	**209.4**

As at 30 September 2011, the Group recognized obligation to purchase non-controlling interests of RUR 21.9 billion as a financial liability arising from a forward purchase agreement with a related party to the Group to acquire a non-controlling interest share in “TransCreditBank”, JSC held by this related party. In accordance with the forward purchase agreement the settlement amount to be paid by the Group in the future period is calculated in accordance with a formula specified in the forward purchase agreement. The determination of the fair value is based on discounted cash flows method, and key assumptions take into consideration the expected performance of “TransCreditBank”, JSC and the discount factor.

In September 2012, VTB executed obligation to purchase non-controlling interests mentioned above and increased its stake in “TransCreditBank”, JSC to 99.66% from 77.86% by purchasing 571,650,529 ordinary shares at price of RUR 38.67 per share under the purchase agreement with a related party to the Group to acquire a non-controlling interest share in “TransCreditBank”, JSC held by this related party.

(in billions of Russian Roubles)

26. Share Capital

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

	31 December 2012		*31 December 2011*	
	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.

During 2012 the net change in Group members' balances of the Bank's shares increased by 108,161,388,668 and the number of treasury shares increased to 117,838,882,667. As a result, the number of the outstanding shares at 31 December 2012 amounted to 10,342,702,454,671.

In March 2012, the Group made the voluntary offer to repurchase ordinary shares of the Bank from the shareholders participated in 2007 IPO of the Bank at the price of RUR 0.136 and maximum number of 3,676,471 shares from each eligible shareholder. The offer has expired on 13 April 2012. The payments to eligible shareholders, who accepted the offer were completed in April 2012 and with their heirs were completed till 29 June 2012. As result of this offer the Group has acquired 83,448,797,249 voting shares of the Bank for RUR 11.3 billion.

As at 31 December 2012 authorized but not issued shares comprise 10,263,597,171,681 shares (2011: 10,263,597,171,681) with a par value of RUR 0.01 each.

As at 31 December 2012 and 2011, the reserves included both distributable and non-distributable reserves.

27. Perpetual Loan Participation Notes

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

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

The Group accounts for the USD-denominated Perpetual Loan Participation Notes in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in Retained earnings. Issuance costs were also recorded in Retained earnings. As at 31 December 2012, the carrying amount of the Perpetual Loan Participation Notes is RUR 68.3 billion.

While coupon payments are optional at the discretion of VTB, certain terms in the Perpetual Loan Participation Notes may cause such payments to become mandatory, one of such events being declaration or payment of dividends on ordinary shares within six months prior to the coupon payment date.

In December 2012, VTB paid in USD 40.9 million (RUR 1.3 billion) due under Perpetual Loan Participation Notes. There were no other amounts due under Perpetual Loan Participation Notes as at 31 December 2012.

In their capacity as market-makers, VTB Group subsidiaries buy and sell Perpetual Loan Participation Notes in the market, usually with a short holding period. During the holding period, the Perpetual Loan Participation Notes are included in Treasury shares in equity. From August 2012 (the issuance date) through 31 December 2012, purchases of the Perpetual Loan Participation Notes were approximately USD 336.7 million (RUR 10.5 billion), excluding underwriting activities, and the sale transactions approximated the purchases.

(in billions of Russian Roubles)

28. Interest Income and Expense

	_2012_	_2011_
Interest income		
Financial assets at fair value through profit or loss	**27.5**	**28.3**
Loans and advances to customers	513.3	376.7
Due from other banks	9.8	8.8
Other financial assets, including securities	5.1	2.9
Financial assets not at fair value through profit or loss	**528.2**	**388.4**
Total interest income	**555.7**	**416.7**
Interest expense		
Customer deposits	(166.0)	(112.6)
Due to other banks and other borrowed funds	(68.4)	(23.1)
Debt securities issued	(56.0)	(36.8)
Subordinated debt	(19.3)	(17.2)
Total interest expense	**(309.7)**	**(189.7)**
Net interest income	**246.0**	**227.0**

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

	_2012_	_2011_
Gains less losses / (Losses net of gains arising from trading financial instruments	7.9	(23.8)
Gains less losses / (Losses net of gains arising from financial instruments designated as at fair value through profit or loss	1.4	(6.0)
Gains less losses / (Losses net of gains) from financial obligation to purchase non-controlling interests (Note 25)	0.8	(1.0)
Total gains less losses / (losses net of gains) arising from financial instruments at fair value through profit or loss	**10.1**	**(30.8)**

30. Fee and Commission Income and Expense

	_2012_	_2011_
Commission on settlement transactions	37.1	24.8
Commission on guarantees issued and trade finance	9.2	6.6
Commission on operations with securities and capital markets	6.4	5.9
Commission on cash transactions	6.1	5.3
Other	2.4	4.8
Total fee and commission income	**61.2**	**47.4**
Commission on settlement transactions	(9.2)	(5.0)
Commission on cash transactions	(1.4)	(1.9)
Other	(2.3)	(1.3)
Total fee and commission expense	**(12.9)**	**(8.2)**
Net fee and commission income	**48.3**	**39.2**

(in billions of Russian Roubles)

31. Income Arising from Non-Banking Activities and Other Operating Income

Income arising from non-banking activities was as follows:

	2012	*2011*
Net insurance premium earned	17.8	5.6
Revaluation of investment property	11.4	4.5
Sale of property intended for sale in the ordinary course of business	8.1	0.1
Operating lease and rental income	4.5	5.8
Revenue from wine and spirits production	4.2	–
Construction revenue	2.9	–
Other	9.0	4.4
Total income arising from non-banking activities	**57.9**	**20.4**

Other operating income was as follows:

	2012	*2011*
Dividends received	1.8	0.9
Income arising from disposal of property	1.0	4.4
Reversal of impairment of fixed assets	0.9	–
Fines and penalties received	0.3	0.8
Other	4.1	3.1
Total other operating income	**8.1**	**9.2**

32. Staff Costs and Administrative Expenses

	2012	*2011*
Staff costs	90.1	69.2
Defined contribution pension expense	9.5	5.4
Depreciation and other expenses related to premises and equipment	20.3	16.9
Taxes other than on income	10.6	7.3
Leasing and rent expenses	9.1	6.6
Professional services	8.9	5.3
Advertising expenses	7.2	5.8
Amortization of core deposit and customer loan intangibles	5.0	1.9
Payments to deposit insurance system	4.7	3.5
Post and telecommunication expenses	3.4	2.8
Transport expenses	3.3	2.3
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit and customer loan intangibles	2.9	4.3
Security expenses	2.7	1.9
Charity	2.3	1.9
Insurance	0.8	0.5
Other	10.8	5.9
Total staff costs and administrative expenses	**191.6**	**141.5**

(in billions of Russian Roubles)

33. Allowances for Impairment and Provisions

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

	Russia	_OECD_	_Other_	_Total_
31 December 2010	2.1	0.1	**0.7**	**2.9**
(Reversal of provision) / provision for impairment during the period	(0.3)	(0.1)	0.1	**(0.3)**
31 December 2011	1.8	–	**0.8**	**2.6**
Reversal of provision for impairment during the period	(0.1)	–	–	**(0.1)**
Write-offs	–	–	(0.2)	**(0.2)**
Currency translation difference	–	–	(0.1)	**(0.1)**
31 December 2012	**1.7**	**–**	**0.5**	**2.2**

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

	Finance leases	_Current activity financing_	_Reverse sale and repurchase agreements with legal entities_	_Project finance and other_	_Total_
31 December 2010	**12.2**	**146.8**	**0.1**	**77.3**	**236.4**
Provision for impairment / (reversal of provision) during the period	4.8	7.5	(0.1)	8.7	**20.9**
Write-offs	(0.6)	(9.3)	–	(2.2)	**(12.1)**
Recoveries of amounts written-off in previous period	–	–	–	0.1	**0.1**
Currency translation difference	0.1	0.6	–	(2.2)	**(1.5)**
Reclassification to assets of disposal group held for sale	–	–	–	(0.1)	**(0.1)**
31 December 2011	**16.5**	**145.6**	**–**	**81.6**	**243.7**
Provision for impairment during the period	0.8	21.9	0.1	11.5	**34.3**
Write-offs	(0.5)	(8.9)		(1.0)	**(10.4)**
Recoveries of amounts written-off in previous period	–	0.1	–	–	**0.1**
Currency translation difference	(0.4)	(2.2)	–	(3.5)	**(6.1)**
Reclassification to assets of disposal group held for sale	–	–	–	(0.4)	**(0.4)**
31 December 2012	**16.4**	**156.5**	**0.1**	**88.2**	**261.2**

(in billions of Russian Roubles)

33. 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 2010	**9.3**	**3.2**	**25.3**	**37.8**
Provision for impairment / (reversal of provision) during the period	(0.6)	0.5	11.1	**11.0**
Write-offs	(0.3)	–	(4.1)	**(4.4)**
Recoveries of amounts written-off in previous period	–	–	0.1	**0.1**
Currency translation difference	0.1	–	0.2	**0.3**
31 December 2011	**8.5**	**3.7**	**32.6**	**44.8**
Provision for impairment during the period	1.0	0.9	23.3	**25.2**
Write-offs	(0.8)	(0.3)	(6.2)	**(7.3)**
Currency translation difference	(0.3)	–	(0.1)	**(0.4)**
Reclassification to assets of disposal group held for sale	–	–	(0.2)	**(0.2)**
31 December 2012	**8.4**	**4.3**	**49.4**	**62.1**

The movements in allowances for impairment of other assets and investment securities held-to-maturity and provisions for credit related commitments and legal claims were as follows:

	Other assets	*Investment securities held-to-maturity*	*Credit related commitments*	*Legal claims*	*Total*
31 December 2010	**2.4**	**2.0**	**1.6**	**0.1**	**6.1**
Provision for impairment / (reversal of provision) during the period	1.3	–	(0.7)	0.8	**1.4**
Write-offs	(1.0)	–	–	–	**(1.0)**
Acquisition of subsidiary	–	–	0.2	–	**0.2**
31 December 2011	**2.7**	**2.0**	**1.1**	**0.9**	**6.7**
Provision for impairment / (reversal of provision) during the period	2.0	–	(0.3)	1.0	**2.7**
Write-offs	(1.3)	–	–	–	**(1.3)**
Currency translation difference	(0.1)	–	0.1	–	**–**
Reclassification to assets of disposal group held for sale	(0.1)	–	–	–	**(0.1)**
31 December 2012	**3.2**	**2.0**	**0.9**	**1.9**	**8.0**

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.

(in billions of Russian Roubles)

34. Income Tax

Income tax expense and income tax recovery comprise the following:

	2012	***2011***
Current tax expense	24.1	24.1
Deferred taxation movement due to the origination and reversal of temporary differences	0.7	0.9
Income tax expense for the year	**24.8**	**25.0**

The income tax rate applicable to the majority of the Group's income in 2012 is 20% (2011: 20%). The income tax rate applicable to subsidiaries' income ranges from 10% to 32% in 2012 (2011: 10% to 32%).

	2012	***2011***
IFRS profit before taxation	**115.4**	**115.5**
Theoretical tax expense at the applicable statutory rate of each company within the Group	23.9	24.9
Tax effect of items, which are not deductible or assessable for taxation purposes:		
- Change in unrecognized deferred taxes	0.5	(1.9)
- Non-deductible expenses	4.3	4.4
- Income taxed at different rates	(3.1)	(4.0)
- Other	(0.8)	1.6
Income tax expense for the year	**24.8**	**25.0**

The difference between the theoretical and actual income tax expense for 2012 is mainly attributable to non-deductible expenses and income taxed at different rates (for 2011 is mainly attributable to non-deductible expenses).

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 32% (2011: 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.

(in billions of Russian Roubles)

34. Income Tax (continued)

Origination and reversal of temporary differences	2010	Origination and reversal of temporary differences: Credited/ (charged) to profit or loss	Origination and reversal of temporary differences: Credited/ (charged) to other comprehensive income	Currency translation difference	Disposal Group held for sale	Business combination	2011	Origination and reversal of temporary differences: Credited/ (charged) to profit or loss	Origination and reversal of temporary differences: Credited/ (charged) to other comprehensive income	Credited/ (charged) to retained earnings	Currency translation difference	Business combination	2012
Tax effect of deductible temporary differences:													
Fair value of loans acquired through business combinations	**0.5**	(3.3)	–	–	–	31.8	**29.0**	(4.4)	–	–	–	–	**24.6**
Allowances for impairment and provisions for other losses	**19.9**	0.7	–	0.1	–	–	**20.7**	1.2	–	–	(0.1)	–	**21.8**
Tax losses carried forward	**14.7**	(2.5)	–	0.1	–	5.5	**17.8**	4.6	–	(0.4)	(0.2)	0.6	**22.4**
Fair value measurement of derivatives	**0.4**	–	–	–	–	–	**0.4**	1.5	–	–	–	–	**1.9**
Accruals	**15.4**	4.3	–	–	–	0.7	**20.4**	(4.1)	–	–	–	–	**16.3**
Fair value of securities	**1.1**	0.5	(0.8)	–	–	5.8	**6.6**	(3.8)	1.3	–	–	–	**4.1**
Fair value of investment property	**2.5**	1.3	–	–	–	0.6	**4.4**	0.2	–	–	–	–	**4.6**
Other	**1.8**	1.6	–	0.1	(0.5)	2.3	**5.3**	3.7	–		0.3	–	**9.3**
Gross deferred tax assets	**56.3**	**2.6**	**(0.8)**	**0.3**	**(0.5)**	**46.7**	**104.6**	**(1.1)**	**1.3**	**(0.4)**	**–**	**0.6**	**105.0**
Unrecognized deferred tax assets	**(7.9)**	1.9	–	–	–	(1.4)	**(7.4)**	(0.5)	–	–	–	–	**(7.9)**
Gross deferred tax asset	**48.4**	**4.5**	**(0.8)**	**0.3**	**(0.5)**	**45.3**	**97.2**	**(1.6)**	**1.3**	**(0.4)**	**–**	**0.6**	**97.1**
Tax effect of taxable temporary differences:													
Fair value measurement of securities	**(1.1)**	0.6	–	–	–	(1.6)	**(2.1)**	(0.5)	(0.2)	–	–	–	**(2.8)**
Property and equipment	**(4.2)**	(1.9)	–	–	–	(1.7)	**(7.8)**	(1.1)	(2.3)	–	–	(0.2)	**(11.4)**
Intangible assets	**(1.0)**	0.4	–	–	–	(5.4)	**(6.0)**	1.1	–	–	–	–	**(4.9)**
Net investment in lease	**(1.5)**	0.7	–	–	–	–	**(0.8)**	(0.4)	–	–	–	–	**(1.2)**
Fair value of investment property	**(6.8)**	(1.9)	–	–	–	(0.7)	**(9.4)**	(2.1)	–	–	–	(0.3)	**(11.8)**
Allowances for impairment and provisions for other losses	**(0.4)**	0.3	–	–	–	–	**(0.1)**	(2.3)	–	–	0.1	–	**(2.3)**
Fair value measurement of derivatives	**(0.5)**	(1.6)	–	–	–	–	**(2.1)**	(2.5)	–	–	–	–	**(4.6)**
Other borrowed funds	**–**	0.7	–	–	–	(30.4)	**(29.7)**	2.2	–	–	–	–	**(27.5)**
Other	**(2.3)**	(2.7)	–	(0.2)	–	(1.3)	**(6.5)**	6.5	–	–	–	–	**–**
Gross deferred tax liability	**(17.8)**	**(5.4)**	**–**	**(0.2)**	–	**(41.1)**	**(64.5)**	**0.9**	**(2.5)**	**–**	**0.1**	**(0.5)**	**(66.5)**
Deferred tax asset, net	**37.9**	**0.5**	**(0.8)**	**(0.1)**	**(0.5)**	**5.7**	**42.7**	**(0.1)**	**(0.3)**	**–**	**–**	**0.6**	**42.9**
Deferred tax liability, net	**(7.3)**	**(1.4)**	**–**	**0.2**	–	**(1.5)**	**(10.0)**	**(0.6)**	**(0.9)**	**(0.4)**	**0.1**	**(0.5)**	**(12.3)**

(in billions of Russian Roubles)

34. Income Tax (continued)

As at 31 December 2012 “VTB Arena”, CJSC, “FC Dynamo-Moscow”, CJSC, “VTB-Leasing”, OJSC subsidiary and “VTB Bank (Georgia)”, JSC had unused tax losses of RUR 19.4 billion (31 December 2011: VTB, “VTB Arena”, CJSC, “VTB Bank (Austria)” AG and “VTB Bank (Georgia)”, JSC - RUR 23.1 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.

As at 31 December 2012, 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 24.1 billion (31 December 2011: RUR 17.7 billion).

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

	2012			*2011*		
	Before tax	***Tax expense***	***Net of tax***	***Before tax***	***Tax expense***	***Net of tax***
Net result on financial assets available-for-sale	(4.5)	1.1	(3.4)	3.5	(0.8)	2.7
Land and premises revaluation	12.2	(2.3)	9.9	–	–	–
Actuarial losses net of gains arising from difference between pension plan assets and obligations	–	–	–	(0.5)	–	(0.5)
Share of other comprehensive income of associates and joint ventures	(0.2)	–	(0.2)	(0.5)	–	(0.5)
Effect of changes in tax rates recognized in land and premises revaluation reserve	0.2	–	0.2			
Effect of translation	(2.1)	–	(2.1)	2.4	–	2.4
Other comprehensive income	**5.6**	**(1.2)**	**4.4**	**4.9**	**(0.8)**	**4.1**

35. Share-based Payments

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

Shares Plan. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the shares award. The awarded shares vest gradually in three equal installments over the vesting periods of one, two and three years, subject to employee’s continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or paid if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules. The number of shares awarded under the Shares Plan was determined by reference to a fixed monetary value communicated to employees on the grant date and a weighted-average market price of shares for 30 days prior to 2 April 2012. As at 31 December 2012 the total value of the award granted under the Shares Plan was RUR 1.3 billion represented by 18.5 billion shares of VTB.

GDRs Plan. Under GDRs Plan the selected employees are granted zero strike price options to purchase GDRs exercisable over ten years from each respective vesting date. The vesting conditions envisage that an employee remains in service for a certain vesting period to receive the GRDs award. The awarded GDRs vest gradually in three equal installments over the vesting periods of one, two and three years, subject to employee’s continuous employment with the Group during the relevant vesting period. An award, or portion of it, may be forfeited or exercised if the employee terminates employment before the end of the relevant vesting period voluntarily or subject to certain other conditions as described in the Plan rules. The number of GDRs to receive under zero strike price options awarded was determined by reference to a fixed monetary value communicated to employees on the grant date and a weighted-average market price of GDR for 30 days prior to 2 April 2012. As at 31 December 2012 the total value of the award granted under the GDRs Plan is RUR 0.9 billion represented by 6.4 million of GDRs of VTB. Each GDR contains 2,000 VTB shares.

For the year ended 31 December 2012 the Group recognized in Staff costs the amount of RUR 1.5 billion as expenses related to the above equity-settled share-based payment transactions with a corresponding credit to Retained earnings (net of tax) as the above share-based payments have not vested yet.

(in billions of Russian Roubles)

36. 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.

	2012	***2011***
Net profit attributable to shareholders of the parent	85.8	89.4
Amounts due on perpetual loan participation notes, net of tax	(1.0)	–
Total net profit attributable to shareholders of the parent	**84.8**	**89.4**
Weighted average number of ordinary shares in issue	10,374,040,605,572	10,458,649,872,302
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.00817**	**0.00855**

37. Dividends

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

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

In June 2012, Annual General Meeting of VTB shareholders declared dividends of RUR 9.2 billion for 2011 (RUR 0.00088 per share), which were paid in July-August 2012 including RUR 0.1 billion to several Group's subsidiaries. In June 2011, Annual General Meeting of VTB shareholders declared dividends of RUR 6.1 billion for 2010 (RUR 0.00058 per share), which were paid in June-July 2011.

On 31 March 2012, the Annual General Shareholders' Meeting of "VTB Bank (Belarus)", CJSC shareholders approved dividends of RUR 0.2 billion (BYR 61.8 billion at the exchange rate of RUR 0.0039 per BYR 1.00) for 2011 (RUR 847.03 or BYR 219,647.72 per share). Dividends paid in April 2012 to non-controlling shareholders amounted to RUR 0.1 billion.

In June 2012, "Russian Commercial Bank (Cyprus) Limited" paid final dividends in the amount of USD 100 million for 2011 (RUR 3.2 billion), including USD 40 million (RUR 1.3 billion) attributable to non-controlling shareholders. In July 2011, "Russian Commercial Bank (Cyprus) Limited" paid interim dividends for 2011 in the amount of USD 100 million (RUR 2.8 billion).

On 4 June 2012, the Annual General Shareholders' Meeting of "Bank of Moscow", OJSC shareholders approved dividends of RUR 5.0 billion for 2011 (RUR 18.4 per share) which were paid in June 2012 including dividends paid to non-controlling shareholders in the amount of RUR 0.2 billion.

In July 2012, the Annual General Shareholders' Meeting of "Banco VTB Africa S.A." shareholders approved dividends of RUR 0.3 billion (AKZ 1.00 billion at the exchange rate of RUR 0.3453 per AKZ 1.00) for 2011 (RUR 98.92 or AKZ 286.49 per share) including dividends payable to non-controlling shareholders in the amount of RUR 0.1 billion.

(in billions of Russian Roubles)

38. Transfers of Financial Assets

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

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

The table below shows the amount of operations under sale and repurchases agreements which the Group enters into in the normal course of business as at 31 December 2012. (Note 9)

	Carrying amount of the assets	*Carrying amount of the associated liabilities*	*Net position*
Financial assets at fair value through profit or loss	48.7	41.9	6.8
Financial assets available-for-sale	5.9	5.3	0.6
Financial assets classified as loans and advances to customers	245.5	248.4	(2.9)
Financial assets classified as due from other banks	2.8	2.4	0.4
Total	***302.9***	**298.0**	**4.9**

The table below shows the amount of securitization operations as at 31 December 2012 which the Group enters into in the normal course of business.

	Note	*Carrying amount of the assets*	*Carrying amount of the associated liabilities*	*Net position*
Correspondent accounts (A)	10,23	2.2	2.2	–
Mortgage loans (A)	11,23	23.9	22.1	1.8
Car loans (B)	11,22	13.2	8.3	4.9
Total		**39.3**	**32.6**	**6.7**

(A) Starting from 2010 “Bank VTB 24”, CJSC participates in VEB Program to support affordable housing projects using the mortgage. Under this Program “Bank VTB 24”, CJSC issues mortgage-backed securities which are all bought by VEB. As at 31 December 2012 carrying amount of pledged assets under this Program was RUR 26.1 billion, including RUR 23.9 billion of mortgage loans and RUR 2.2 billion on correspondent account with Central Bank of Russian Federation, amortized cost of issued mortgage-backed securities amounts to RUR 24.3 billion.

(B) In August 2012, “Bank VTB 24”, CJSC arranged a structured transaction related to its car loan portfolio in the amount of RUR 14.0 billion through a sale to a special purpose entity, which further attracted funds through secured loan deal in the amount of USD 275 million with the expected maturity in August 2014. The USD loan bears the floating interest rate of monthly LIBOR plus 1.5% p.a. payable monthly. As at 31 December 2012 the carrying amount of the loan of RUR 8.3 billion is included in Other borrowings. This loan is securitized with a pledge of loans to customers with carrying amount of RUR 13.2 billion.

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

VTB Group has certain transferred financial assets which have been derecognized in their entirety, but for which there is continuing involvement at the reporting date due to representation on the Board of Directors and/or due to effectively holding collateral under transferred assets to secure remaining payments from third parties related to the transfer. The collateral fair value under transferred assets comprises RUR 81.9 billion as at 31 December 2012. Proceeds from the transfer are received in several installments with RUR 80.6 billion received in 2012 and RUR 1.3 billion to be received in future periods. The gain recognized at the date of transfer comprised RUR 0.5 billion.

39. Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As at the reporting date the Group had several unresolved legal claims. Management 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.

Tax contingencies. 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.

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. The current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 2012. The new provisions apply for both cross-border and domestic transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds RUR 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party to the transaction, another party could correspondingly adjust its profit tax liabilities. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2012 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the "controlled" transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

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

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.

The Group includes subsidiaries incorporated and operating in various jurisdictions. In some jurisdictions where the Group operates tax, currency and customs legislation as currently in effect is subject to varying interpretations, and changes, which can occur frequently at short notice and may apply retroactively. Based upon its understanding of the applicable tax regulations Management of the Group believes that based upon the best estimates Group subsidiaries have paid or accrued all taxes that are applicable to their operations as of 31 December 2012, in jurisdictions of their incorporation, and complied with all provisions of laws and regulations in the jurisdictions to which the Group is subject. If however the relevant tax authorities differently interpret the applicable tax legislation as applied to the transactions and activity of the Group, the tax position may be challenged; if the authorities were successful in enforcing their interpretation of these regulations, additional taxes, penalties and interest may be assessed, which may affect the financial position of the Group.

(in billions of Russian Roubles)

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

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

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

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

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

Outstanding credit related commitments are as follows:

	31 December 2012	*31 December 2011*
Guarantees issued	621.8	510.9
Letters of credit	38.8	35.4
Undrawn credit lines	33.5	43.1
Commitments to extend credit	14.6	36.7
Less: provision for impairment on credit related commitments (Note 33)	(0.9)	(1.1)
Total credit related commitments	**707.8**	**625.0**

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as at 31 December 2012 is RUR 128.1 billion (31 December 2011: RUR 172.8 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 11.2 billion (31 December 2011: RUR 11.9 billion).

As at 31 December 2012, included in guarantees issued are guarantees issued for a related Russian entity of RUR 50.9 billion or 8% of the guarantees issued. As at 31 December 2011, included in guarantees issued are guarantees issued for a Russian company of RUR 27.4 billion or 5% of the guarantees issued.

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

Remaining contractual maturity	*31 December 2012*	*31 December 2011*
Within 1 year	6.5	6.4
From 1 to 5 years	13.2	12.3
More than 5 years	6.1	5.8
Total operating lease commitments	**25.8**	**24.5**

Purchase commitments. As at 31 December 2012 the Group had RUR 35.6 billion of outstanding commitments for the purchase of precious metals (31 December 2011: RUR 21.1 billion). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognized on these contracts.

Commitments under construction contracts. The Group has entered into agreements with third parties for construction of investment property objects or properties intended for sale which will require capital outlays subsequent to 31 December 2012.

As at 31 December 2012 the Group has future minimum capital expenditures related to investment property under construction in progress or development in the amount of RUR 20.1 billion (31 December 2011: RUR 22.6 billion) of which RUR 12.0 billion to be expended in less than 1 year (31 December 2011: RUR 3.8 billion) and RUR 8.1 billion to be expended later than 1 year and not later than 5 years (31 December 2011: RUR 18.8 billion).

As at 31 December 2012 the Group has future minimum capital expenditures related to property intended for sale in the ordinary course of business under construction in progress or development in the amount of RUR 44.9 billion (31 December 2011: RUR 39.0 billion) of which RUR 16.0 billion to be expended in less than 1 year (31 December 2011: RUR 7.5 billion) and RUR 28.9 billion to be expended later than 1 year and not later than 5 years (31 December 2011: RUR 31.5 billion).

(in billions of Russian Roubles)

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

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

The table below includes derivative contracts outstanding at 31 December 2012:

	Positive fair value	***Negative fair value***
Foreign exchange and precious metals contracts		
Forwards	6.5	(8.4)
Futures	0.9	(5.2)
Swaps	17.0	(15.8)
Options		
written put	–	(0.4)
purchased put	1.1	–
written call	–	(1.3)
purchased call	0.6	–
Contracts with securities		
Forward sale of equity securities	0.5	–
Futures sale of equity securities	–	(0.1)
Options		
written put	–	(0.4)
purchased put	5.5	–
written call	–	(0.7)
purchased call	0.8	–
Swap with securities	0.2	(0.2)
Interest Rate contracts		
Single Currency Interest Rate swaps	12.3	(13.6)
Cross Currency Interest Rate swaps	22.5	(10.6)
Swaptions		
buy	0.8	–
sell	–	(0.2)
Interest Rate futures		
sell	–	(0.1)
Contracts with other basic variables		
Sale of Credit Default swaps	–	(23.0)
Purchase of Credit Default swaps	21.7	–
Futures on Indexes		
sell	0.1	–
Options on Indexes		
written put	–	(0.3)
purchased put	0.4	–
written call	–	(0.6)
purchased call	0.8	–
Commodity swaps	0.6	(0.5)
Commodity futures		
sell	0.1	–
buy	–	(0.1)
Embedded derivatives on structured instruments		
Embedded derivatives on forex instruments	0.7	(0.1)
Embedded derivatives on securities instruments	–	(1.0)
Derivatives held as fair value hedges		
Interest Rate swaps	0.4	(0.5)
Derivatives held as cash flow hedges		
Interest Rate swaps	0.2	–
Total derivatives	**93.7**	**(83.1)**

(in billions of Russian Roubles)

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

The table below includes derivative contracts outstanding at 31 December 2011:

	Positive fair value	*Negative fair value*
Foreign exchange and precious metals contracts		
Forwards	5.5	(2.6)
Futures	3.6	(1.6)
Swaps	12.8	(16.5)
Options		
written put	–	(2.4)
purchased put	2.2	–
written call	–	(1.6)
purchased call	0.8	–
Contracts with securities		
Forward purchase of debt securities	0.2	(0.2)
Forward sale of equity securities	0.1	–
Futures sale of equity securities	–	(0.1)
Options		
written put	–	(0.6)
purchased put	3.5	–
written call	–	(0.9)
purchased call	1.2	–
Interest Rate contracts		
Single Currency Interest Rate swaps	11.9	(23.2)
Cross Currency Interest Rate swaps	23.3	(18.2)
Swaptions		
buy	0.1	–
sell	0.1	(0.1)
Interest Rate futures		
sell	–	(0.1)
Contracts with other basic variables		
Sale of Credit Default swaps	8.5	(0.8)
Purchase of Credit Default swaps	1.2	(9.5)
Options on Indexes		
written put	–	(1.1)
purchased put	1.1	–
written call	–	(0.3)
purchased call	0.2	–
Commodity swaps	1.6	(1.7)
Commodity futures		
sell	0.6	–
Embedded derivatives on structured instruments		
Embedded derivatives on forex instruments	0.4	–
Derivatives held as fair value hedges		
Interest Rate swaps	0.5	–
Total derivatives	**79.4**	**(81.5)**

40. Analysis by Segment

In accordance with IFRS 8, *Operating Segments*, the Group defined as the major operating segments the global business lines. Majority of the Group's entities' activities and resources are allocated and managed and their performance is assessed based on the respective global business line segment information. These operating segments represented by the global business lines are accompanied by entity based segments of those Group's entities that have not yet been integrated into the global business lines as of the reporting date. On this basis, the Group aggregated these operating segments in accordance with IFRS 8 into the following reportable segments: Corporate-Investment banking (CIB) (Investment banking, Loans and Deposits, Transaction banking subsegments), Retail banking, CIS and Georgia, and Other.

This segment disclosure is presented on the basis of IFRS compliant data of the global business lines and entities adjusted, where necessary, for intersegment reallocation. 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.

The change in reportable segment composition is mainly caused by the change in the system of the Group management and the integration of activities of certain entities into the global business lines. The united Corporate-Investment Banking function in the Group was established in the first quarter 2011, which resulted in the combination of Corporate business and Investment business reportable segments data presented in 2010 annual consolidated financial statements into the one Corporate-Investment banking (CIB) segment with further subdivision to 3 subsegments as described above. Additionally following the further integration of activities of "TransCreditBank", JSC, "VTB Bank", PJSC (Ukraine) and "Bank of Moscow", OJSC into the Group's global business lines such as CIB and Retail banking, the data for these subsidiaries is presented within CIB, Retail and Other segments starting from the second ("TransCreditBank", JSC) and the third quarter 2011 ("VTB Bank", PJSC (Ukraine) and "Bank of Moscow", OJSC).

During 2012 following further integration of activities of "TransCreditBank", JSC, "Bank of Moscow", OJSC, CIS and Georgia and Europe geographical segments into the Group's global business lines such as CIB, Retail banking and Other, the data for these subsidiaries and segments is presented within CIB, Retail and Other segments. As at 31 December 2012 the Group introduced a new reportable segment Treasury as a result of further development of the global treasury function, which lends and borrows funds on money market, undertakes the Group's funding through issue of debt securities and attraction of syndicated facilities. In addition, the segment manages the liquidity position through transactions with marketable securities. This segment is also responsible for accumulation and further redistribution of all funds attracted by other segments. The segment information for the year ended 31 December 2011 was not retrospectively restated to reflect the change in the segment composition because the necessary information is not readily available and the cost to develop it would be excessive. Accordingly, the segment information for the year ended 31 December 2012 is not comparable to the preceding year.

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, recovery of losses on initial recognition of financial instruments and loans restructuring and other gains / (losses) on loans and advances to customers and share in income of associates. Each element is included in calculation of revenues by each subsegment / segment without subsegments in case it is positive for this subsegment / segment without subsegments. The totals are calculated as sum of the line components.

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

(in billions of Russian Roubles)

40. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2012 and results for the year ended 31 December 2012 is set out below:

	Corporate-Investment banking (CIB)										
	Investment banking	***Loans and deposits***	***Transaction banking***	***Inter-CIB eliminations***	***Total CIB***	***Retail banking***	***Treasury***	***Other***	***Total before Inter-segment eliminations Loans and deposits***	***Inter-segment eliminations Transaction banking***	***Total Inter-CIB eliminations***
For the year ended 31 December 2012:											
Revenues from:											
External customers	64.5	298.9	19.4	*0.6*	383.4	213.5	73.0	63.5	**733.4**	475.9	**1,209.3**
Other segments	47.0	48.5	27.6	*(0.6)*	122.5	52.6	288.0	12.8	**475.9**	(475.9)	**–**
Total revenues	**111.5**	**347.4**	**47.0**	**–**	**505.9**	**266.1**	**361.0**	**76.3**	**1,209.3**	**–**	**1,209.3**
Segment income and expense											
Interest income	89.7	337.3	27.6	*(0.1)*	454.5	219.6	334.6	7.7	**1,016.4**	(460.7)	**555.7**
Interest expense	(76.5)	(270.5)	(5.3)	*0.1*	(352.2)	(100.5)	(294.4)	(23.1)	**(770.2)**	460.5	**(309.7)**
Treasury result allocation	1.8	26.5	–	–	28.3	14.6	(42.9)	–	**–**	–	**–**
Net interest income	**15.0**	**93.3**	**22.3**	**–**	**130.6**	**133.7**	**(2.7)**	**(15.4)**	**246.2**	**(0.2)**	**246.0**
(Provision charge) / reversal of provision for impairment of debt financial assets	(0.1)	(28.3)	–	–	(28.4)	(27.5)	(3.2)	–	**(59.1)**	(0.3)	**(59.4)**
Net interest income after provision for impairment	**14.9**	**65.0**	**22.3**	**–**	**102.2**	**106.2**	**(5.9)**	**(15.4)**	**187.1**	**(0.5)**	**186.6**
Net fee and commission income / (expense)	4.6	1.9	15.6	–	22.1	32.2	0.2	0.7	**55.2**	(6.9)	**48.3**
Other gains less losses arising from financial instruments and foreign currencies	12.8	2.1	0.7	*0.1*	15.7	3.2	13.6	2.8	**35.3**	1.9	**37.2**
Share in income of associates and joint ventures	2.0	(0.5)	–	–	1.5	–	(0.2)	(0.1)	**1.2**	–	**1.2**
Other operating income / (expense) items	0.3	3.5	0.1	–	3.9	1.5	–	27.9	**33.3**	0.8	**34.1**
Operating income	**34.6**	**72.0**	**38.7**	***0.1***	**145.4**	**143.1**	**7.7**	**15.9**	**312.1**	**(4.7)**	**307.4**
Staff costs and administrative expenses	(25.4)	(45.8)	(23.1)	–	(94.3)	(77.1)	(7.8)	(18.5)	**(197.7)**	6.1	**(191.6)**
- of which: depreciation / amortization charge	(0.7)	(5.4)	(2.8)	–	(8.9)	(5.4)	(0.4)	(2.9)	**(17.6)**	–	**(17.6)**
Impairment of goodwill	(0.1)	–	–	–	(0.1)	–	–	(1.4)	**(1.5)**	–	**(1.5)**
Profit from disposal of subsidiaries and associates	1.4	–	–	–	1.4	–	–	(0.3)	**1.1**	–	**1.1**
Segment results: Profit before taxation	**10.5**	**26.2**	**15.6**	***0.1***	**52.4**	**66.0**	**(0.1)**	**(4.3)**	**114.0**	**1.4**	**115.4**
Income tax expense											**(24.8)**
Net profit											**90.6**
Capital expenditure	1.1	11.7	2.7	–	15.5	11.9	1.0	7.5	**35.9**	(0.1)	**35.8**

(in billions of Russian Roubles)

40. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)										
	Investment banking	Loans and deposits	Transaction banking	Inter-CIB eliminations	Total CIB	Retail banking	Treasury	Other	Total before Inter-segment eliminations	Inter-segment eliminations	Total
As at 31 December 2012:											
Cash and short-term funds	9.7	0.5	–	–	10.2	102.8	453.6	2.4	**569.0**	–	**569.0**
Mandatory reserve deposits with central banks	–	–	–	–	–	15.4	48.4	–	**63.8**	–	**63.8**
Due from other banks	82.5	19.6	–	–	102.1	5.9	249.2	1.4	**358.6**	–	**358.6**
Loans and advances to customers	207.2	3,276.5	–	–	3,483.7	1,200.9	76.3	0.6	**4,761.5**	–	**4,761.5**
Other financial instruments	422.0	10.0	–	–	432.0	27.3	426.3	44.4	**930.0**	–	**930.0**
Investments in associates and joint ventures	20.8	0.1	–	–	20.9	–	27.4	–	**48.3**	–	**48.3**
Other assets items	76.5	220.5	32.4	–	329.4	64.5	25.1	265.5	**684.5**	–	**684.5**
Net amount of intersegment settlements	170.2	–	748.2	_(918.4)_	–	560.5	1,305.7	–	**1,866.2**	(1,866.2)	**–**
Segment assets	**988.9**	**3,527.2**	**780.6**	**_(918.4)_**	**4,378.3**	**1,977.3**	**2,612.0**	**314.3**	**9,281.9**	**(1,866.2)**	**7,415.7**
Due to other banks	63.8	18.0	0.3	–	82.1	21.6	655.3	0.9	**759.9**	–	**759.9**
Customer deposits	507.2	499.1	729.3	–	1,735.6	1,672.0	260.6	4.6	**3,672.8**	–	**3,672.8**
Other borrowed funds	51.9	19.4	–	–	71.3	36.3	694.2	4.4	**806.2**	–	**806.2**
Debt securities issued	165.6	16.8	–	–	182.4	36.9	672.8	2.4	**894.5**	–	**894.5**
Subordinated debt	–	–	–	–	–	–	285.8	–	**285.8**	–	**285.8**
Other liabilities items	130.5	18.5	4.1	–	153.1	14.5	14.2	48.6	**230.4**	–	**230.4**
Net amount of intersegment settlements	–	2,561.1	–	_(918.4)_	1,642.7	–	–	223.5	**1,866.2**	(1,866.2)	**–**
Segment liabilities	**919.0**	**3,132.9**	**733.7**	**_(918.4)_**	**3,867.2**	**1,781.3**	**2,582.9**	**284.4**	**8,515.8**	**(1,866.2)**	**6,649.6**

(in billions of Russian Roubles)

40. Analysis by Segment (continued)

Segment information for the reportable segments of the Group at 31 December 2011 and results for the year ended 31 December 2011 is set out below:

	Corporate-Investment banking (CIB)										
	Investment banking	Loans and deposits	Transaction banking	Inter-CIB eliminations	Total CIB	Retail banking	CIS and Georgia	Other	Total before Inter-segment eliminations	Inter-segment eliminations	Total
For the year ended 31 December 2011:											
Revenues from:											
External customers	45.2	311.5	15.6	–	372.3	140.0	2.8	18.0	**533.1**	–	**533.1**
Other segments	51.0	41.2	15.9	(88.4)	19.7	34.8	–	2.4	**56.9**	(56.9)	**–**
Total revenues	**96.2**	**352.7**	**31.5**	**(88.4)**	**392.0**	**174.8**	**2.8**	**20.4**	**590.0**	**(56.9)**	**533.1**
Segment income and expense											
Interest income	62.5	303.8	15.8	(65.0)	317.1	146.3	2.3	1.1	**466.8**	(50.1)	**416.7**
Interest expense	(48.3)	(177.8)	(3.8)	65.0	(164.9)	(67.1)	(0.8)	(6.7)	**(239.5)**	49.8	**(189.7)**
Net interest income	**14.2**	**126.0**	**12.0**	**–**	**152.2**	**79.2**	**1.5**	**(5.6)**	**227.3**	**(0.3)**	**227.0**
(Provision charge) / reversal of provision for impairment of debt financial assets	0.1	(19.5)	–	–	(19.4)	(11.5)	(0.3)	(0.3)	**(31.5)**	(0.1)	**(31.6)**
Net interest income after provision for impairment	**14.3**	**106.5**	**12.0**	**–**	**132.8**	**67.7**	**1.2**	**(5.9)**	**195.8**	**(0.4)**	**195.4**
(Losses net of gains) / gains less losses arising from other financial instruments	(19.6)	(7.4)	–	0.3	(26.7)	(0.2)	–	(0.1)	**(27.0)**	0.3	**(26.7)**
Gains less losses arising from extinguishment of liability	–	(0.7)	–	–	(0.7)	–	–	–	**(0.7)**	–	**(0.7)**
Net recovery of losses / (losses) on initial recognition of financial instruments, restructuring and other gains / (losses) on loans and advances to customers	–	19.4	–	–	19.4	0.8	–	–	**20.2**	–	**20.2**
Gains less losses / (losses net of gains) arising from dealing in foreign currencies	(7.0)	9.8	–	–	2.8	2.8	0.2	0.3	**6.1**	–	**6.1**
Foreign exchange translation (losses net of gains) / gains less losses	(0.4)	(5.9)	–	–	(6.3)	(0.2)	–	–	**(6.5)**	–	**(6.5)**
Net fee and commission income / (expense)	5.4	3.9	14.0	(0.1)	23.2	18.3	0.2	(2.6)	**39.1**	0.1	**39.2**
Share in income / (loss) of associates and joint ventures	0.3	7.5	–	–	7.8	–	–	(0.3)	**7.5**	–	**7.5**
(Provision charge) / reversal of provision for impairment of other assets and credit related commitments	–	(1.3)	–	–	(1.3)	(0.1)	(0.1)	0.1	**(1.4)**	–	**(1.4)**
Other operating income / (expense)	23.4	(10.4)	–	(0.2)	12.8	1.3	0.1	8.6	**22.8**	(2.3)	**20.5**
Operating income	**16.4**	**121.4**	**26.0**	**–**	**163.8**	**90.4**	**1.6**	**0.1**	**255.9**	**(2.3)**	**253.6**
Staff costs and administrative expenses	(16.7)	(58.9)	(6.8)	0.2	(82.2)	(51.6)	(1.4)	(8.6)	**(143.8)**	2.3	**(141.5)**
- of which: depreciation / amortization charge	(0.4)	(7.3)	(0.2)	–	(7.9)	(3.0)	(0.2)	(1.4)	**(12.5)**	–	**(12.5)**
Profit from disposal of subsidiaries and associates	1.3	1.5	–	–	2.8	–	–	0.6	**3.4**	–	**3.4**
Segment results: Profit before taxation	**1.0**	**64.0**	**19.2**	**0.2**	**84.4**	**38.8**	**0.2**	**(7.9)**	**115.5**	**–**	**115.5**
Income tax expense											**(25.0)**
Net profit											**90.5**
Capital expenditure	0.5	36.4	0.2	–	37.1	4.7	0.3	2.3	**44.4**	–	**44.4**

(in billions of Russian Roubles)

40. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)										
	Investment banking	*Loans and deposits*	*Transaction banking*	*Inter-CIB eliminations*	*Total CIB*	*Retail banking*	*CIS and Georgia*	*Other*	*Total before Inter-segment eliminations*	*Inter-segment eliminations*	*Total*
As at 31 December 2011:											
Cash and short-term funds	*13.5*	*303.6*	*–*	*(1.4)*	315.7	107.7	1.7	6.0	**431.1**	(24.1)	**407.0**
Mandatory reserve deposits with central banks	*–*	*56.3*	*–*	*–*	56.3	13.8	1.6	0.2	**71.9**	–	**71.9**
Due from other banks	*68.1*	*345.6*	*–*	*–*	413.7	9.3	1.0	0.6	**424.6**	–	**424.6**
Loans and advances to customers	*200.8*	*3,222.9*	*–*	*–*	3,423.7	851.3	17.2	9.4	**4,301.6**	–	**4,301.6**
Other financial instruments	*537.0*	*420.5*	*–*	*(9.1)*	948.4	18.5	1.3	2.6	**970.8**	(0.6)	**970.2**
Investments in associates and joint ventures	*2.8*	*27.7*	*–*	*–*	30.5	–	–	2.0	**32.5**	–	**32.5**
Other assets items	*30.3*	*319.2*	*1.2*	*(0.3)*	350.4	32.5	2.8	196.8	**582.5**	(0.7)	**581.8**
Net amount of intersegment settlements	*237.6*	*–*	*504.1*	*(741.7)*	–	446.3	–	–	**446.3**	(446.3)	**–**
Segment assets	***1,090.1***	***4,695.8***	***505.3***	***(752.5)***	**5,538.7**	**1,479.4**	**25.6**	**217.6**	**7,261.3**	**(471.7)**	**6,789.6**
Due to other banks	*23.5*	*671.0*	*–*	*(0.3)*	694.2	20.8	1.7	0.1	**716.8**	(17.1)	**699.7**
Customer deposits	*759.6*	*1,027.6*	*504.7*	*(1.2)*	2,290.7	1,298.5	10.3	1.5	**3,601.0**	(4.3)	**3,596.7**
Other borrowed funds	*55.2*	*664.6*	*–*	*–*	719.8	8.3	2.3	4.2	**734.6**	–	**734.6**
Debt securities issued	*98.9*	*560.4*	*–*	*(4.8)*	654.5	10.3	–	0.2	**665.0**	(0.5)	**664.5**
Subordinated debt	*–*	*243.8*	*–*	*(2.7)*	241.1	–	–	–	**241.1**	–	**241.1**
Other liabilities items	*68.9*	*121.2*	*0.1*	*(1.5)*	188.7	6.1	0.3	36.3	**231.4**	(3.5)	**227.9**
Net amount of intersegment settlements	*–*	*1,087.1*	*–*	*(741.7)*	345.4	–	6.1	94.8	**446.3**	(446.3)	**–**
Segment liabilities	***1,006.1***	***4,375.7***	***504.8***	***(752.2)***	**5,134.4**	**1,344.0**	**20.7**	**137.1**	**6,636.2**	**(471.7)**	**6,164.5**

(in billions of Russian Roubles)

40. Analysis by Segment (continued)

Geographical segment information is based on geographical location of entities within the Group. Information for the geographical areas of the Group is set out below for the years ended 31 December 2012 and 2011:

	2012					2011				
	Russia	*Other*	*Total before inter-segment elimina-tions*	*Inter-segment elimina-tions*	*Total*	*Russia*	*Other*	*Total before inter-segment elimina-tions*	*Inter-segment elimina-tions*	*Total*
Revenues from external customers for the year ended	624.6	112.5	**737.1**	–	**737.1**	434.8	74.3	**509.1**	–	**509.1**
Non-current assets as at end of period	435.3	40.8	**476.1**	–	**476.1**	391.9	21.3	**413.2**	(0.2)	**413.0**

41. Financial Risk Management

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

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

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

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

As part of the Group-wide risk management reorganization, in April 2012 the Group Risk Committee (“GRC”) was created under the GMC (replacing the former Risk Management Sub-Committee (“RMC”), which was abolished). The principal tasks of the GRC include, among others, analyzing the current risk management systems across the Group, initiating proposals on unified principles, standards and approaches with respect to risk management, approving core documents, participating in determining risk-appetite parameters and establishing aggregate portfolio limits, approving risk management development plans and reviewing performance reports. GRC is chaired by the acting Head of VTB Risk Department (the Senior Vice-President of VTB who is responsible for the Group-wide risk management) and includes chief risk officers of some large subsidiaries (VTB24, Bank of Moscow, TCB, VTB Capital), representatives of VTB’s units involved in consolidated risk control (Risk Department, Credit Department associated with Global Corporate Investment Business line) and representative of VTB24 Retail Business Development Division related to Global Retail Business line.

Concurrent with the creation of the GRC, the Commission on the Implementation of Risk Management Methods was created under the GRC in order to co-ordinate work on implementing methods and procedures for risk management of the Group, including unifying risk management principles, standards, systems and limits, co-ordinating practical work, as well as monitoring the realization of practical measures by Group companies. This commission will also ensure the escalation of information to the GRC, implementation of measures aimed at increasing efficiency of decision making and feedback within the GRC and initiating proposals on the establishment of a general information and methodological platform for risk management operating processes within the Group.

41. Financial Risk Management (continued)

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

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

Within the process of the realization of the Group-wide policy for credit risk concentration control, the Group Credit Committee continued working in this area during 2012.

In VTB the Risk Department ("RD") is responsible for independent financial risks management (in respect of liquidity risk – jointly with Treasury). As at the end of 2012 RD consisted of the following sub-divisions:

- Credit risk division;
- Market risk division;
- Credit applications analysis service.

Besides that, the Consolidated Risk Analysis Division ("CRAD") and the Risks Strategy and Management Division ("RSMD") were created by VTB to ensure the efficient functioning and development of consolidated risk analysis and management systems at the Group level as well as to elaborate upon and develop the conceptual and methodological bases of such systems. The functions of these divisions in the area of risk management on a Group-wide basis include unification of risk policies and procedures, co-ordination of the projects concerning introduction of Basel standards, participation in implementation of the concept of "economic capital", operational risk control in VTB Bank and VTB Group, Group data consolidation, preparation of consolidated risk management reporting and support of activities of appropriate Group co-ordination bodies. Market risk division participates in consolidated risk management in respect of market risks. At the end of 2012 the VTB Management Board decided to combine CRAD with RSMD, forming one Division (Risks Strategy, Methodology and Consolidated Analysis Division) and include it in RD. This will be implemented in 2013.

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.

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

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.

As at 31 December 2012:

	Held for trading	Designated as at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortized cost	Total
Financial assets							
Cash and short-term funds	–	–	–	569.0	–	–	**569.0**
Mandatory cash balances with central banks	–	–	–	63.8	–	–	**63.8**
Financial assets at fair value through profit or loss	485.4	43.4	–	–	–	–	**528.8**
Financial assets pledged under repurchase agreements and loaned financial assets	48.6	0.1	–	248.3	5.9	–	**302.9**
Due from other banks	–	–	–	358.6	–	–	**358.6**
Loans and advances to customers	–	–	–	4,761.5	–	–	**4,761.5**
Financial assets available-for-sale	–	–	–	–	97.4	–	**97.4**
Investment securities held-to-maturity	–	–	0.9	–	–	–	**0.9**
Other financial assets	0.1	0.6	–	38.4	–	–	**39.1**
Total financial assets	**534.1**	**44.1**	**0.9**	**6,039.6**	**103.3**	**–**	**6,722.0**
Financial liabilities							
Due to other banks	–	–	–	–	–	759.9	**759.9**
Customer deposits	–	–	–	–	–	3,672.8	**3,672.8**
Other borrowed funds	–	–	–	–	–	806.2	**806.2**
Debt securities issued	–	–	–	–	–	894.5	**894.5**
Subordinated debt	–	–	–	–	–	285.8	**285.8**
Other financial liabilities	111.8	0.5	–	–	–	23.6	**135.9**
Total financial liabilities	**111.8**	**0.5**	**–**	**–**	**–**	**6,442.8**	**6,555.1**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

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

As at 31 December 2011:

	Held for trading	Designated as at fair value through profit or loss	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortized cost	Other financial liabilities measured at fair value	Total
Financial assets								
Cash and short-term funds	–	–	–	407.0	–	–	–	**407.0**
Mandatory cash balances with central banks	–	–	–	71.9	–	–	–	**71.9**
Financial assets at fair value through profit or loss	540.7	30.8	–	–	–	–	–	**571.5**
Financial assets pledged under repurchase agreements and loaned financial assets	3.4	4.2	–	188.7	2.3	–	–	**198.6**
Due from other banks	–	–	–	424.6	–	–	–	**424.6**
Loans and advances to customers	–	–	–	4,301.6	–	–	–	**4,301.6**
Financial assets available-for-sale	–	–	–	–	167.7	–	–	**167.7**
Investment securities held-to-maturity	–	–	32.4	–	–	–	–	**32.4**
Other financial assets	0.2	0.5	–	19.8	–	–	–	**20.5**
Total financial assets	**544.3**	**35.5**	**32.4**	**5,413.6**	**170.0**	**–**	**–**	**6,195.8**
Financial liabilities								
Due to other banks	–	–	–	–	–	699.7	–	**699.7**
Customer deposits	–	–	–	–	–	3,596.7	–	**3,596.7**
Other borrowed funds	–	–	–	–	–	734.6	–	**734.6**
Debt securities issued	–	–	–	–	–	664.5	–	**664.5**
Subordinated debt	–	–	–	–	–	241.1	–	**241.1**
Other financial liabilities	90.0	–	–	–	–	36.5	21.1	**147.6**
Total financial liabilities	**90.0**	**–**	**–**	**–**	**–**	**5,973.1**	**21.1**	**6,084.2**

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.

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

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

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

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

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

41. Financial Risk Management (continued)

Credit risk (continued)

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 co-ordinating bodies of the Group.

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

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

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

- roles and responsibilities of different committees, departments of VTB in the area of Group lending and credit risk management;
- matters related to the approval and revision of credit policies in VTB subsidiary banks;
- general approaches to credit risk management (limits, risk planning, monitoring, provisioning, reporting etc.);
- principles of pricing policy (interest rates and commissions) and others.

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

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

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

- a draft credit policy or significant amendments are subject to the preliminary consideration and approval by VTB and by "Bank VTB 24", CJSC (in respect of retail credit risks);
- the credit policy and amendments should be 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 co-ordinated by the following bodies:

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

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

- putting in place efficient mechanisms of consolidated credit risk management at VTB Group;
- setting consolidated limits for the credit risk assumed by the Group with respect to common counterparties (groups of connected counterparties) of various Group members;
- consideration of some individual operations and large-scale transactions of Group members.

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Credit risk (continued)

In VTB the RSMD and CRAD (with assistance of the RD in some particular cases) are 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 VTB24 co-ordinates retail credit risk management across the Group and is responsible for:

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

The VTB subsidiary banks, which engage in retail credit granting, apply the Concept (basic statements) and the Policy of retail credit risk management in the Group, developed by Bank VTB24 and approved by the GMC.

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

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

	31 December 2012	***31 December 2011***
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**467.0**	**302.7**
Trading credit products at fair value through profit or loss	**31.6**	**–**
Debt securities	**703.4**	**623.6**
Financial assets held for trading	***307.7***	***341.0***
debt securities of Russian companies and banks	250.7	237.8
debt securities of Russian Federal and municipal authorities	27.4	61.6
debt securities of foreign government and municipal authorities	17.7	21.2
debt securities of foreign companies and banks	11.9	20.4
Financial assets designated as at fair value through profit or loss	***36.7***	***19.8***
debt securities of foreign companies and banks	27.2	10.9
debt securities of Russian companies and banks	7.1	7.5
debt securities of foreign government and municipal authorities	2.4	1.4
Financial assets pledged under repurchase agreements and loaned financial assets – held for trading	***47.6***	***3.3***
debt securities of Russian companies and banks	45.9	2.4
debt securities of foreign government and municipal authorities	0.8	–
debt securities of foreign companies and banks	0.7	–
debt securities of Russian Federal and municipal authorities	0.2	0.9
Financial assets pledged under repurchase agreements and loaned financial assets – designated as at fair value through profit or loss	***0.1***	***4.2***
debt securities of Russian companies and banks	0.1	2.9
debt securities of foreign companies and banks	–	0.8
debt securities of foreign government and municipal authorities	–	0.5
Financial assets pledged under repurchase agreements and loaned financial assets – available-for-sale	***5.9***	***2.3***
debt securities of Russian Federal and municipal authorities	5.6	0.4
debt securities of foreign government and municipal authorities	0.2	0.6
debt securities of foreign companies and banks	0.1	0.8
debt securities of Russian companies and banks	–	1.3
Financial assets pledged under repurchase agreements and loaned financial assets – classified as due from other banks	***2.8***	***0.4***
Financial assets pledged under repurchase agreements and loaned financial assets – classified as loans and advances to customers	***245.5***	***188.3***

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Credit risk (continued)

	31 December 2012	*31 December 2011*
Financial assets available-for-sale	***56.2***	***31.9***
debt securities of Russian companies and banks	21.3	7.4
debt securities of Russian Federal and municipal authorities	19.8	10.2
debt securities of foreign government and municipal authorities	12.0	10.6
debt securities of foreign companies and banks	3.1	3.7
Investment securities held-to-maturity	***0.9***	***32.4***
debt securities of Russian companies and banks	0.3	30.8
debt securities of Russian government and municipal authorities	0.3	1.1
debt securities of foreign government and municipal authorities	0.2	0.5
debt securities of foreign companies and banks	0.1	–
Due from other banks	**358.6**	**424.6**
OECD	251.5	204.6
Russia	97.4	170.0
Other	9.7	50.0
Loans and advances to customers	**4,761.5**	**4,301.6**
Loans to legal entities	***3,703.4***	***3,522.3***
Current activity financing	2,418.6	1,946.3
Project finance and other	980.5	1,233.1
Finance leases	189.2	227.6
Reverse sale and repurchase agreements	115.1	115.3
Loans to individuals	***1,058.1***	***779.3***
Mortgages	382.3	300.5
Car loans	97.7	71.8
Reverse sale and repurchase agreements	3.2	3.4
Consumer loans and other	574.9	403.6
Exposure arising from credit default swaps	**21.7**	**9.7**
purchase of credit default swaps	21.7	1.2
sale of credit default swaps	–	8.5
Other financial assets	**38.4**	**19.8**
Total balance sheet exposure	**6,382.2**	**5,682.0**
Off-balance sheet exposure		
Guarantees issued	621.8	510.9
Import letters of credit	37.9	34.3
Undrawn credit lines	33.5	43.1
Commitments to extend credit	14.6	36.7
Total off-balance sheet exposure	**707.8**	**625.0**
Total maximum exposure to credit risk	**7,090.0**	**6,307.0**

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.

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Credit quality by class of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements

Credit quality of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired, which are neither past due nor impaired at 31 December 2012 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**117.2**	**244.3**
Russia	23.3	76.8
OECD	91.4	160.1
Other countries	2.5	7.4
Financial assets classified as due from other banks pledged under repurchase agreements	**–**	**2.8**
Russia	–	2.8
Total due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired	**117.2**	**274.1**

Credit quality of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired, which are neither past due nor impaired at 31 December 2011 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**261.7**	**162.9**
Russia	120.7	49.3
OECD	100.9	103.7
Other countries	40.1	9.9
Financial assets classified as due from other banks pledged under repurchase agreements	**0.4**	**–**
Russia	0.4	–
Total due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due nor impaired	**262.1**	**162.9**

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.

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (continued)

The table below shows credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2012, 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	**1,234.1**	**70.5**	**55.6**	**41.9**	**228.5**	**1,630.6**
Finance leases	26.1	8.3	6.8	1.5	17.7	**60.4**
Current activity financing	620.1	43.8	27.1	32.6	133.6	**857.2**
Reverse sale and repurchase agreements	66.7	–	–	–	–	**66.7**
Project finance and other	521.2	18.4	21.7	7.8	77.2	**646.3**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**244.8**	**–**	**–**	**–**	**–**	**244.8**
Current activity financing	244.8	–	–	–	–	**244.8**
Loans to individuals	**7.2**	**–**	**–**	**1.1**	**6.4**	**14.7**
Mortgages	2.3	–	–	0.1	6.2	**8.6**
Consumer loans and other	4.8	–	–	1.0	0.2	**6.0**
Reverse sale and repurchase agreements	0.1	–	–	–	–	**0.1**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements individually assessed	**1,486.1**	**70.5**	**55.6**	**43.0**	**234.9**	**1,890.1**

The table below shows credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2012, collectively assessed.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,877.0**	**252.7**	**196.1**	**1.8**	**6.4**	**2,334.0**
Finance leases	141.4	3.3	0.2	–	0.3	**145.2**
Current activity financing	1,456.7	215.8	38.0	1.4	6.0	**1,717.9**
Reverse sale and repurchase agreements	48.0	0.4	0.1	–	–	**48.5**
Project finance and other	230.9	33.2	157.8	0.4	0.1	**422.4**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**–**	**0.7**	**–**	**–**	**–**	**0.7**
Project finance and other	–	0.7	–	–	–	**0.7**
Loans to individuals	**1,007.6**	**1.8**	**27.4**	**17.9**	**50.8**	**1,105.5**
Mortgages	368.1	0.8	1.7	10.0	1.5	**382.1**
Car loans	95.3	0.2	1.8	0.6	4.1	**102.0**
Consumer loans and other	541.1	0.8	23.9	7.3	45.2	**618.3**
Reverse sale and repurchase agreements	3.1	–	–	–	–	**3.1**
Total loans and advances to customers collectively assessed	**2,884.6**	**255.2**	**223.5**	**19.7**	**57.2**	**3,440.2**

(in billions of Russian Roubles)

41. 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 2011, 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	**1,397.2**	**271.6**	**104.4**	**29.6**	**203.0**	**2,005.8**
Finance leases	74.7	23.7	3.7	10.7	10.4	**123.2**
Current activity financing	508.7	140.6	41.7	16.0	107.8	**814.8**
Reverse sale and repurchase agreements	57.8	–	–	–	–	**57.8**
Project finance and other	756.0	107.3	59.0	2.9	84.8	**1,010.0**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**188.3**	**–**	**–**	**–**	**–**	**188.3**
Current activity financing	188.3	–	–	–	–	**188.3**
Loans to individuals	**4.6**	**–**	**–**	**1.0**	**6.1**	**11.7**
Mortgages	0.8	–	–	0.1	5.5	**6.4**
Car loans	–	–	–	–	0.3	**0.3**
Consumer loans and other	3.8	–	–	0.9	0.3	**5.0**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements individually assessed	**1,590.1**	**271.6**	**104.4**	**30.6**	**209.1**	**2,205.8**

The table below shows credit quality by class of loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2011, collectively assessed.

	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**1,220.6**	**269.8**	**258.3**	**1.1**	**10.4**	**1,760.2**
Finance leases	114.6	5.8	0.5	–	–	**120.9**
Current activity financing	835.8	249.8	180.1	1.1	10.3	**1,277.1**
Reverse sale and repurchase agreements	57.5	–	–	–	–	**57.5**
Project finance and other	212.7	14.2	77.7	–	0.1	**304.7**
Loans to individuals	**741.6**	**4.2**	**14.1**	**17.0**	**35.5**	**812.4**
Mortgages	284.2	0.2	3.3	13.2	1.7	**302.6**
Car loans	69.7	1.6	0.1	0.3	3.5	**75.2**
Reverse sale and repurchase agreements	3.4	–	–	–	–	**3.4**
Consumer loans and other	384.3	2.4	10.7	3.5	30.3	**431.2**
Total loans and advances to customers collectively assessed	**1,962.2**	**274.0**	**272.4**	**18.1**	**45.9**	**2,572.6**

(in billions of Russian Roubles)

41. 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 and financial assets classified as loans and advances to customers pledged under repurchase agreements (gross) at 31 December 2012, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Total*
Loans to legal entities	**3,070.8**	**312.0**	**233.6**	**3,616.4**
Finance leases	167.7	9.7	0.8	**178.2**
Current activity financing	2,064.4	250.3	61.8	**2,376.5**
Reverse sale and repurchase agreements	114.7	0.4	0.1	**115.2**
Project finance and other	724.0	51.6	170.9	**946.5**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**245.0**	**0.7**	**–**	**245.7**
Current activity financing	245.0			**245.0**
Project finance and other	–	0.7	–	**0.7**
Loans to individuals	**1,005.7**	**0.6**	**8.7**	**1,015.0**
Mortgages	369.1	–	0.7	**369.8**
Car loans	95.2	–	–	**95.2**
Reverse sale and repurchase agreements	3.2	–	–	**3.2**
Consumer loans and other	538.2	0.6	8.0	**546.8**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements	**4,321.5**	**313.3**	**242.3**	**4,877.1**

The table below shows credit quality by class of loans and advances (gross) to customers at 31 December 2011, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Total*
Loans to legal entities	**2,612.9**	**539.8**	**354.2**	**3,506.9**
Finance leases	189.4	29.0	4.1	**222.5**
Current activity financing	1,342.5	389.3	218.3	**1,950.1**
Reverse sale and repurchase agreements	115.2	–	–	**115.2**
Project finance and other	965.8	121.5	131.8	**1,219.1**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**188.3**	**–**	**–**	**188.3**
Current activity financing	188.3	–	–	**188.3**
Loans to individuals	**743.7**	**3.9**	**13.0**	**760.6**
Mortgages	283.9	0.1	2.7	**286.7**
Car loans	69.9	1.5	0.1	**71.5**
Reverse sale and repurchase agreements	3.4	–	–	**3.4**
Consumer loans and other	386.5	2.3	10.2	**399.0**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements	**3,544.9**	**543.7**	**367.2**	**4,455.8**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

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

Analysis of loans and advances to customers (gross) individually impaired by economic sector at 31 December 2012 and 2011 is presented in the table below.

	31 December 2012	*31 December 2011*
Trade and commerce	65.7	47.6
Oil and gas	44.7	46.3
Building construction	43.8	47.0
Manufacturing	34.0	25.5
Food and agriculture	24.9	24.7
Finance	23.5	7.3
Transport	15.0	16.1
Metals	8.3	6.1
Individuals	7.5	7.1
Energy	3.9	0.8
Telecommunications and media	1.8	1.3
Chemical	1.1	2.6
Coal mining	0.7	0.7
Other	3.0	6.6
Total loans and advances to customers individually impaired	**277.9**	**239.7**

As at 31 December 2012 the Group has a pool of collectively assessed impaired loans and advances in the amount of RUR 76.2 billion (31 December 2011: RUR 20.5 billion).

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 2012 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	**15.0**	**12.0**	**4.1**	**8.4**	**11.6**	**18.8**	**69.9**
Finance leases	2.7	4.7	0.7	–	–	–	**8.1**
Current activity financing	3.8	1.9	3.1	7.7	5.9	2.7	**25.1**
Project finance and other	8.5	5.4	0.3	0.7	5.7	16.1	**36.7**
Loans to individuals	**25.3**	**1.1**	**0.3**	**0.1**	**0.6**	**1.8**	**29.2**
Mortgages	4.6	0.6	0.3	0.1	–	0.1	**5.7**
Car loans	2.0	-	–	–	–	–	**2.0**
Consumer loans and other	18.7	0.5	–	–	0.6	1.7	**21.5**
Total loans and advances to customers past due but not impaired	**40.3**	**13.1**	**4.4**	**8.5**	**12.2**	**20.6**	**99.1**

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 2011 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	**10.0**	**1.8**	**4.8**	**12.2**	**4.8**	**7.3**	**40.9**
Finance leases	5.6	0.1	0.9	0.6	0.8	1.3	**9.3**
Current activity financing	3.6	0.9	0.5	3.1	0.4	4.4	**12.9**
Project finance and other	0.8	0.8	3.4	8.5	3.6	1.6	**18.7**
Loans to individuals	**17.8**	**1.5**	**1.2**	**0.2**	**0.1**	**0.7**	**21.5**
Mortgages	4.8	1.0	1.1	0.1	–	0.2	**7.2**
Car loans	1.7	0.1	–	–	–	0.1	**1.9**
Consumer loans and other	11.3	0.4	0.1	0.1	0.1	0.4	**12.4**
Total loans and advances to customers past due but not impaired	**27.8**	**3.3**	**6.0**	**12.4**	**4.9**	**8.0**	**62.4**

41. Financial Risk Management (continued)

Collateral and other credit enhancements

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

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

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

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

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

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

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

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

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

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

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

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

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Collateral and other credit enhancements (continued)

The effect of collateral at 31 December 2012 and 2011 by class is presented below:

	31 December 2012		*31 December 2011*	
	over-collateralized	*under-collateralized*	*over-collateralized*	*under-collateralized*
Loans to legal entities	**2,287.9**	**1,676.7**	**2,311.3**	**1,454.7**
Financial lease	155.2	50.4	205.8	38.3
Current activity financing	1,310.9	1,264.2	1,348.4	743.5
Reverse sale and repurchase agreements	115.2	–	115.3	–
Project finance and other	706.6	362.1	641.8	672.9
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**–**	**245.5**	**–**	**188.3**
Current activity financing	–	244.8	–	188.3
Project finance and other	–	0.7	–	**–**
				–
Loans to individuals	**466.0**	**654.2**	**388.9**	**–**
Mortgage	360.5	30.2	305.2	3.8
Car loans	84.6	17.4	75.3	0.2
Reverse sale and repurchase agreements	3.2	–	3.4	–
Consumer loans and other	17.7	606.6	5.0	431.2
Total loans and advances to customers	**2,753.9**	**2,576.4**	**2,700.2**	**2,078.2**

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

Collateral repossessed

During 2012 and 2011 the Group obtained assets by taking possession in accordance with additional agreements with its borrowers of collateral held as security in exchange for the indebtedness of these borrowers. The carrying values and the nature of assets received as the collateral repossessed during the relevant year are as follows:

	2012	*2011*
Investment property	3.4	4.5
Other assets	3.8	3.7
Financial assets available-for-sale	1.0	–
Financial assets at fair value through profit or loss	–	0.6
Total collateral repossessed during the period	**8.2**	**8.8**

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.

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

	31 December 2012	*31 December 2011*
Investment property	73.4	72.4
Investments in associates	5.4	5.9
Premises and equipment	4.4	4.8
Other assets	2.7	2.2
Financial assets available-for-sale	1.6	–
Financial assets at fair value through profit or loss	–	0.6
Total collateral repossessed	**87.5**	**85.9**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2012 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	260.3	276.4	32.3	**569.0**
Mandatory cash balances with central banks	54.9	1.6	7.3	**63.8**
Financial assets at fair value through profit or loss	368.2	87.6	73.0	**528.8**
Financial assets pledged under repurchase agreements and loaned financial assets	301.0	0.6	1.3	**302.9**
Due from other banks	97.4	251.5	9.7	**358.6**
Loans and advances to customers	3,647.4	224.6	889.5	**4,761.5**
Assets of disposal group held for sale	8.7	–	6.6	**15.3**
Financial assets available-for-sale	80.5	11.2	5.7	**97.4**
Investments in associates and joint ventures	26.8	4.8	16.7	**48.3**
Investment securities held-to-maturity	0.6	–	0.3	**0.9**
Premises and equipment	127.9	2.8	11.8	**142.5**
Investment property	144.2	–	3.8	**148.0**
Intangible assets	135.9	0.1	1.3	**137.3**
Deferred tax asset	42.2	0.2	0.5	**42.9**
Other assets	164.1	21.5	12.9	**198.5**
Total assets	**5,460.1**	**882.9**	**1,072.7**	**7,415.7**
Liabilities				
Due to other banks	476.7	139.6	143.6	**759.9**
Customer deposits	3,254.7	150.4	267.7	**3,672.8**
Liabilities of disposal group held for sale	0.5	–	5.6	**6.1**
Other borrowed funds	622.2	168.3	15.7	**806.2**
Debt securities issued	485.0	405.9	3.6	**894.5**
Deferred tax liability	11.4	0.1	0.8	**12.3**
Other liabilities	117.3	77.8	16.9	**212.0**
Subordinated debt	204.9	80.9	–	**285.8**
Total liabilities	**5,172.7**	**1,023.0**	**453.9**	**6,649.6**
Net balance sheet position	**287.4**	**(140.1)**	**618.8**	**766.1**
Net off-balance sheet position – Credit Related Commitments	**643.5**	**22.8**	**41.5**	**707.8**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Geographical concentration (continued)

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2011 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	307.7	80.5	18.8	**407.0**
Mandatory cash balances with central banks	58.3	2.5	11.1	**71.9**
Financial assets at fair value through profit or loss	461.6	68.5	41.4	**571.5**
Financial assets pledged under repurchase agreements and loaned financial assets	196.6	0.2	1.8	**198.6**
Due from other banks	170.0	204.6	50.0	**424.6**
Loans and advances to customers	3,112.4	164.4	1,024.8	**4,301.6**
Assets of disposal group held for sale	–	–	10.3	**10.3**
Financial assets available-for-sale	142.2	11.7	13.8	**167.7**
Investments in associates and joint ventures	26.5	1.5	4.5	**32.5**
Investment securities held-to-maturity	31.9	–	0.5	**32.4**
Premises and equipment	103.2	3.1	10.5	**116.8**
Investment property	118.6	–	3.9	**122.5**
Intangible assets	139.6	0.6	1.0	**141.2**
Deferred tax asset	32.6	3.2	6.9	**42.7**
Other assets	127.0	7.3	14.0	**148.3**
Total assets	**5,028.2**	**548.1**	**1,213.3**	**6,789.6**
Liabilities				
Due to other banks	440.3	164.5	94.9	**699.7**
Customer deposits	3,331.8	78.1	186.8	**3,596.7**
Liabilities of disposal group held for sale	–	–	8.5	**8.5**
Other borrowed funds	570.5	152.0	12.1	**734.6**
Debt securities issued	299.5	358.0	7.0	**664.5**
Deferred tax liability	9.1	–	0.9	**10.0**
Other liabilities	100.4	103.5	5.5	**209.4**
Subordinated debt	207.0	34.1	–	**241.1**
Total liabilities	**4,958.6**	**890.2**	**315.7**	**6,164.5**
Net balance sheet position	**69.6**	**(342.1)**	**897.6**	**625.1**
Net off-balance sheet position – Credit Related Commitments	**537.2**	**23.9**	**63.9**	**625.0**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

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/increase of interest expense resulting from adverse changes of market interest rates.

The RD presents to the ALCO on a monthly basis interest rate risk indicators of the Group and of individual banks of the Group, including net present value of assets and liabilities exposed to interest rate risk, Capital-at-Risk, Net Interest Income, Earnings-at-Risk and sensitivity analysis. Valuation is prepared on the basis of Kamakura Risk Manager software.

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

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

As at 31 December 2012 the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 months to 6 months*	*From 6 months to 1 year*	*From 1 year to 3 years*	*From 3 years to 5 years*	*More than 5 years*	*Total*
Assets								
Interest bearing assets								
RUR	392.5	587.5	325.6	592.6	1,372.9	696.1	692.9	**4,660.1**
USD	1,034.9	855.6	255.0	189.9	453.6	90.2	81.7	**2,960.9**
EUR	337.7	78.8	38.8	23.0	32.6	15.0	23.6	**549.5**
Other currencies	78.6	132.2	36.3	91.4	70.7	49.7	56.2	**515.1**
Total assets	**1,843.7**	**1,654.1**	**655.7**	**896.9**	**1,929.8**	**851.0**	**854.4**	**8,685.6**
Liabilities								
Interest bearing liabilities								
RUR	(1,955.6)	(870.8)	(502.7)	(326.0)	(468.8)	(19.4)	(526.4)	**(4,669.7)**
USD	(788.6)	(673.7)	(298.7)	(393.9)	(611.1)	(189.0)	(208.1)	**(3,163.1)**
EUR	(257.7)	(139.1)	(76.7)	(62.4)	(121.1)	(30.7)	(16.3)	**(704.0)**
Other currencies	(156.4)	(159.9)	(28.8)	(79.2)	(51.6)	(37.3)	(40.5)	**(553.7)**
Total liabilities	**(3,158.3)**	**(1,843.5)**	**(906.9)**	**(861.5)**	**(1,252.6)**	**(276.4)**	**(791.3)**	**(9,090.5)**
Net repricing gap	**(1,314.6)**	**(189.4)**	**(251.2)**	**35.4**	**677.2**	**574.6**	**63.1**	**(404.9)**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

As at 31 December 2011 the Group has the following interest rate exposures based on information provided internally to key management personnel. Included in the table are Group's monetary assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Interest bearing assets								
RUR	471.3	326.7	352.4	420.1	903.7	592.5	641.0	**3,707.7**
USD	553.4	701.2	224.5	203.2	506.8	251.9	95.3	**2,536.3**
EUR	364.1	75.6	36.2	26.1	26.0	8.8	21.0	**557.8**
Other currencies	110.0	126.8	30.1	43.6	51.7	8.1	63.8	**434.1**
Total assets	**1,498.9**	**1,230.2**	**643.2**	**692.9**	**1,488.1**	**861.3**	**821.1**	**7,235.7**
Liabilities								
Interest bearing liabilities								
RUR	(1,534.6)	(811.4)	(322.9)	(299.1)	(421.9)	(96.6)	(538.0)	**(4,024.5)**
USD	(879.3)	(487.9)	(246.8)	(323.5)	(579.0)	(146.5)	(121.9)	**(2,784.9)**
EUR	(239.2)	(61.2)	(56.6)	(86.2)	(97.2)	(22.6)	(12.2)	**(575.2)**
Other currencies	(132.7)	(136.7)	(48.6)	(61.1)	(58.9)	(16.2)	(31.2)	**(485.4)**
Total liabilities	**(2,785.7)**	**(1,497.3)**	**(674.9)**	**(769.8)**	**(1,156.9)**	**(281.7)**	**(703.4)**	**(7,869.7)**
Net repricing gap	**(1,286.8)**	**(267.1)**	**(31.7)**	**(76.9)**	**331.2**	**579.6**	**117.7**	**(634.0)**

(in billions of Russian Roubles)

41. 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 2012 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	109	(12.8)	(109)	12.8
USD	5	0.2	(5)	(0.2)
Total		**(12.6)**		**12.6**

Interest rate sensitivity analysis as at 31 December 2011 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	249	(19.6)	(249)	19.6
USD	15	(0.1)	(15)	0.1
EUR	15	0.2	(15)	(0.2)
Other currencies	15	(0.1)	(15)	0.1
Total		**(19.6)**		**19.6**

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

Currency risk and VaR analysis

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

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

(in billions of Russian Roubles)

41. 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.

As at 31 December 2012 and 2011, 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 2012*	*31 December 2011*
USD	(105.6)	(27.1)
EUR	(3.9)	1.1
GBP	13.3	4.2
CHF	(2.6)	(16.9)
JPY	(0.1)	(0.8)
UAH	39.9	41.9
AUD	6.0	(0.3)
BRL	2.8	–
GEL	2.8	2.7
SGD	1.6	0.8
AMD	1.5	1.6
RSD	1.2	0.7
CNY	0.8	(0.6)
AZN	0.7	0.9
A98	0.6	2.4
BYR	0.6	0.5
KRW	(0.5)	–
AOA	0.5	0.4
INR	0.3	–
SEK	–	(0.7)
HKD	–	0.3
NOK	–	0.2
KZT	–	(0.2)
A99	–	(0.1)
Other currencies	–	0.1
Total	**(40.1)**	**11.1**

As at 31 December 2012 and 2011, the Group had the following VaR for its foreign currency positions:

	31 December 2012	*31 December 2011*
Open currency position	(40.1)	11.1
Value at Risk	4.2	1.0

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

(in billions of Russian Roubles)

41. 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 weekly basis to the ALCO on price risk exposures and VaR analysis. To mitigate price risk ALCO sets exposure limits (e.g. single name, product types, and portfolio level limits), VAR-limits, stop-loss limits and sensitivity limits. Exposure limits for particular debt securities are set by the Credit Committee.
On a daily basis RD controls and reports limits utilization to the business Departments and Internal Control Department.
On a monthly basis RD reports to the ALCO limits usage discipline and suggestions for limits values and types modification.

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

Parameters for VaR calculation are following:

- historical period – 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 fourth of the portfolio by volume was interchanged by proxy instruments for VaR evaluation.

During 2012 the Bank enhanced its Risk valuation software through the continuance of implementation of Kamakura Risk Manager.

Total Group's VaR for 2012 with diversification amounts to RUR 4.7 billion (2011: RUR 19.0 billion).

Financial assets at fair value through profit or loss

	31 December 2012	***31 December 2011***
Debt securities	3.3	4.1
Equity securities	2.5	14.3
Commodities	–	3.0
Portfolio of financial assets at fair value through profit or loss	4.4	14.6

Financial assets available-for-sale

	31 December 2012	***31 December 2011***
Debt securities	0.7	0.9
Equity securities	0.1	5.6
Portfolio of financial assets available-for-sale	0.7	5.0

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Sensitivity analysis

Sensitivity analysis for low-liquid instruments, non-quoted securities was performed for the following market indicators for shares – volatility of main stock exchange indices for period of 12 months (or in absence of such instruments, approximations based on expert opinion).

Market value sensitivity analysis for fixed income securities was not presented due to immateriality of results.

As at 31 December 2012 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
Russia	RUR	MICEX	25.64%	(1.6)	8.2
USA	USD	S&P 500	18.14%	1.1	3.4
Great Britain	GBP	FTSE100	17.68%	0.6	–
EU	EUR	DAX 30	22.31%	0.3	0.3
Total				**0.4**	**11. 9**

Country	Currency	Index	Index change	Sensitivity of profit before taxation	Sensitivity of equity (AFS instruments) before taxation
Russia	RUR	MICEX	(25.64%)	1.6	(8.2)
USA	USD	S&P 500	(18.14%)	(1.1)	(3.4)
Great Britain	GBP	FTSE100	(17.68%)	(0.6)	–
EU	EUR	DAX 30	(22.31%)	(0.3)	(0.3)
Total				**(0.4)**	**(11.9)**

As at 31 December 2011 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
Russia	RUR	MICEX	48.22%	(1.1)	43.9
USA	USD	S&P 500	29.73%	1.3	0.2
Great Britain	GBP	FTSE100	28.27%	0.9	–
Total				**1.1**	**44.1**

Country	Currency	Index	Index change	Sensitivity of profit before taxation	Sensitivity of equity (AFS instruments) before taxation
Russia	RUR	MICEX	(48.22%)	1.1	(43.9)
USA	USD	S&P 500	(29.73%)	(1.3)	(0.2)
Great Britain	GBP	FTSE100	(28.27%)	(0.9)	–
Total				**(1.1)**	**(44.1)**

41. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis

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

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

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

The tools used by VTB for measurement, management and mitigation of liquidity risk include:
Contractual maturity analysis (gap analysis) and cash flow forecasts including:

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

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

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

The Inflow column in the tables below includes gross amounts to be received by the Group within a certain time band upon 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.

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As at 31 December 2012, 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	–	–	231.3	231.3	–	231.3
Up to 1 month	379.5	(995.0)	(615.5)	(384.2)	(432.1)	(816.3)
From 1 to 3 months	329.2	(593.8)	(264.6)	(648.8)	(505.7)	(1,154.5)
From 3 months to 1 year	1,146.6	(843.7)	302.9	(345.9)	(531.2)	(877.1)
From 1 to 3 years	2,078.1	(638.3)	1,439.8	1,093.8	(561.5)	532.3
More than 3 years	2,191.2	(875.2)	1,316.0	2,409.8	(561.5)	1 848.3
Other currency positions						
Opening balance	–	–	370.6	370.6	–	370.6
Up to 1 month	744.1	(756.8)	(12.7)	357.9	429.9	787.8
From 1 to 3 months	166.9	(366.6)	(199.7)	158.2	499.0	657.2
From 3 months to 1 year	690.1	(996.3)	(306.2)	(148.0)	521.9	373.9
From 1 to 3 years	1,092.0	(1,362.8)	(270.8)	(418.8)	548.4	129.6
More than 3 years	778.6	(787.2)	(8.6)	(427.4)	548.4	121.0
Total						
Opening balance	–	–	601.9	601.9	–	601.9
Up to 1 month	1,123.6	(1,751.8)	(628.2)	(26.3)	(2.1)	(28.4)
From 1 to 3 months	496.1	(960.4)	(464.3)	(490.6)	(6.6)	(497.2)
From 3 months to 1 year	1,836.6	(1,840.0)	(3.4)	(494.0)	(9.3)	(503.3)
From 1 to 3 years	3,170.1	(2,001.2)	1,168.9	674.9	(13.1)	661.8
More than 3 years	2,969.8	(1,662.4)	1,307.4	1,982.3	(13.1)	1,969.2

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

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

VTB Group has a number of additional funding facilities 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).

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As at 31 December 2011, 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	–	–	285.9	285.9	–	285.9
Up to 1 month	358.8	(879.9)	(521.1)	(235.2)	105.5	(129.7)
From 1 to 3 months	228.3	(717.5)	(489.2)	(724.4)	98.5	(625.9)
From 3 months to 1 year	1,009.4	(678.0)	331.4	(393.0)	101.4	(291.6)
From 1 to 3 years	1,396.8	(486.9)	909.9	516.9	40.5	557.4
More than 3 years	1,852.6	(891.0)	961.6	1,478.5	10.1	1,488.6
Other currency positions						
Opening balance	–	–	150.8	150.8	–	150.8
Up to 1 month	609.8	(745.4)	(135.6)	15.2	(108.1)	(92.9)
From 1 to 3 months	213.8	(227.7)	(13.9)	1.3	(101.3)	(100.0)
From 3 months to 1 year	888.7	(951.2)	(62.5)	(61.2)	(106.7)	(167.9)
From 1 to 3 years	1,278.0	(1,178.1)	99.9	38.7	(46.6)	(7.9)
More than 3 years	811.5	(639.1)	172.4	211.1	(8.8)	202.3
Total						
Opening balance	–	–	436.7	436.7	–	436.7
Up to 1 month	968.6	(1,625.3)	(656.7)	(220.0)	(2.6)	(222.6)
From 1 to 3 months	442.1	(945.2)	(503.1)	(723.1)	(2.8)	(725.9)
From 3 months to 1 year	1,898.1	(1,629.2)	268.9	(454.2)	(5.3)	(459.5)
From 1 to 3 years	2,674.8	(1,665.0)	1,009.8	555.6	(6.1)	549.5
More than 3 years	2,664.1	(1,530.1)	1,134.0	1,689.6	1.3	1,690.9

(in billions of Russian Roubles)

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2012 by their remaining contractual maturity.

	On demand and up to 1 month	_From 1 month to 3 months_	_From 3 month to 6 months_	_From 6 months to 1 year_	_More than 1 year_	_Total_
Non-derivative liabilities						
Due to other banks	505.3	96.4	43.8	100.9	64.8	**811.2**
Customer deposits	1,927.3	441.5	374.6	327.6	672.8	**3,743.8**
Other borrowed funds	218.2	98.8	136.4	46.0	475.3	**974.7**
Debt securities issued	33.3	97.7	87.8	218.6	688.7	**1,126.1**
Subordinated debt	–	3.5	4.2	9.9	395.6	**413.2**
Other liabilities	34.7	1.6	1.1	2.1	13.6	**53.1**
Total cash flows payable under non-derivative liabilities	**2,718.8**	**739.5**	**647.9**	**705.1**	**2,310.8**	**7,122.1**
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(257.5)	(176.2)	(118.9)	(83.2)	(482.1)	**(1,117.9)**
Outflow	253.6	168.7	110.2	80.8	464.4	**1,077.7**
Negative fair value of derivatives						
(Inflow)	(273.9)	(207.9)	(121.4)	(106.5)	(495.9)	**(1,205.6)**
Outflow	278.5	215.6	125.8	109.2	509.0	**1,238.1**
Derivative financial instruments – net settled						
(Inflow)	(2.7)	(4.8)	(6.2)	(9.6)	(10.5)	**(33.8)**
Outflow	5.3	7.9	3.3	8.5	8.0	**33.0**
Credit related commitments	**708.7**	**–**	**–**	**–**	**–**	**708.7**

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows undiscounted cash flows payable under financial liabilities and credit-related commitments at 31 December 2011 by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Total*
Non-derivative liabilities						
Due to other banks	474.8	68.8	29.4	96.1	66.9	**736.0**
Customer deposits	1,921.5	461.0	221.8	520.9	571.2	**3,696.4**
Other borrowed funds	76.8	192.0	170.8	18.0	467.4	**925.0**
Debt securities issued	8.3	44.7	87.8	155.5	534.6	**830.9**
Subordinated debt	0.1	3.7	3.6	8.9	375.3	**391.6**
Other liabilities	22.7	8.3	1.1	36.0	–	**68.1**
Total cash flows payable under non-derivative liabilities	**2,504.2**	**778.5**	**514.5**	**835.4**	**2,015.4**	**6,648.0**
Derivative liabilities						
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(165.5)	(161.8)	(61.6)	(72.2)	(358.9)	**(820.0)**
Outflow	165.0	156.7	58.0	65.9	317.0	**762.6**
Negative fair value of derivatives						
(Inflow)	(303.8)	(150.8)	(105.5)	(104.6)	(481.5)	**(1,146.2)**
Outflow	309.7	155.9	111.7	109.7	518.4	**1,205.4**
Derivative financial instruments – net settled						
(Inflow)	(2.2)	(3.2)	(1.4)	(4.6)	(10.1)	**(21.5)**
Outflow	3.0	3.2	1.9	1.6	12.6	**22.3**
Credit related commitments	**626.1**	**–**	**–**	**–**	**–**	**626.1**

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 on these cumulative balances accounts.

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Current and non-current assets and liabilities

Assets or liabilities are classified as current if they are expected to be recovered or settled within 12 months after the reporting date.

The table below shows assets and liabilities at 31 December 2012 by their remaining contractual maturity.

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	569.0	–	–	**569.0**
Mandatory cash balances with central banks	58.6	5.2	–	**63.8**
Financial assets at fair value through profit or loss	490.4	31.7	6.7	**528.8**
Financial assets pledged under repurchase agreements and loaned financial assets	63.5	239.4	–	**302.9**
Due from other banks	341.6	16.9	0.1	**358.6**
Loans and advances to customers	1,319.4	3,253.6	188.5	**4,761.5**
Assets of disposal group held for sale	15.3	–	–	**15.3**
Financial assets available-for-sale	13.5	42.7	41.2	**97.4**
Investments in associates and joint ventures	–	–	48.3	**48.3**
Investment securities held-to-maturity	0.2	0.7	–	**0.9**
Land, premises and equipment	–	–	142.5	**142.5**
Investment property	–	–	148.0	**148.0**
Intangible assets and goodwill	–	–	137.3	**137.3**
Deferred tax asset	–	–	42.9	**42.9**
Other assets	97.1	18.0	83.4	**198.5**
Total assets	**2,968.6**	**3,608.2**	**838.9**	**7,415.7**
Liabilities				
Due to other banks	708.9	51.0	–	**759.9**
Customer deposits	2,937.7	735.1	–	**3,672.8**
Liabilities of disposal group held for sale	6.1	–	–	**6.1**
Other borrowed funds	490.6	315.6	–	**806.2**
Debt securities issued	392.5	502.0	–	**894.5**
Deferred tax liability	–	–	12.3	**12.3**
Other liabilities	141.3	61.8	8.9	**212.0**
Subordinated debt	3.2	282.6	–	**285.8**
Total liabilities	**4,680.3**	**1,948.1**	**21.2**	**6,649.6**

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

(in billions of Russian Roubles)

41. Financial Risk Management (continued)

Current and non-current assets and liabilities (continued)

The table below shows assets and liabilities at 31 December 2011 by their remaining contractual maturity.

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	407.0	–	–	**407.0**
Mandatory cash balances with central banks	60.1	11.8	–	**71.9**
Financial assets at fair value through profit or loss	550.9	8.7	11.9	**571.5**
Financial assets pledged under repurchase agreements and loaned financial assets	2.1	196.5	–	**198.6**
Due from other banks	400.0	24.3	0.3	**424.6**
Loans and advances to customers	1,390.7	2,838.1	72.8	**4,301.6**
Assets of disposal group held for sale	10.3	–	–	**10.3**
Financial assets available-for-sale	9.9	22.0	135.8	**167.7**
Investments in associates and joint ventures	–	–	32.5	**32.5**
Investment securities held-to-maturity	30.8	1.6	–	**32.4**
Land, premises and equipment	–	–	116.8	**116.8**
Investment property	–	–	122.5	**122.5**
Intangible assets and goodwill	–	–	141.2	**141.2**
Deferred tax asset	–	–	42.7	**42.7**
Other assets	71.3	48.8	28.2	**148.3**
Total assets	**2,933.1**	**3,151.8**	**704.7**	**6,789.6**
Liabilities				
Due to other banks	660.2	39.5	–	**699.7**
Customer deposits	2,967.0	629.7	–	**3,596.7**
Liabilities of disposal group held for sale	8.5	–	–	**8.5**
Other borrowed funds	447.0	287.6	–	**734.6**
Debt securities issued	264.8	399.7	–	**664.5**
Deferred tax liability	–	–	10.0	**10.0**
Other liabilities	150.6	49.6	9.2	**209.4**
Subordinated debt	0.3	240.8	–	**241.1**
Total liabilities	**4,498.4**	**1,646.9**	**19.2**	**6,164.5**

(in billions of Russian Roubles)

42. Fair Values of Financial Instruments

The following table presents a fair value of financial instruments in comparison with its carrying amount as at 31 December 2012 and 2011:

	31 December 2012		31 December 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and short-term funds	569.0	569.0	407.0	407.0
Financial assets at fair value through profit or loss	528.8	528.8	571.5	571.5
Financial assets pledged under repurchase agreements and loaned financial assets	302.9	302.9	198.6	198.6
Due from other banks	358.6	360.8	424.6	424.6
Russia	*97.4*	*99.5*	*170.0*	*170.1*
OECD	*251.5*	*250.8*	*204.6*	*204.4*
Other	*9.7*	*10.5*	*50.0*	*50.1*
Loans and advances to customers	4,761.5	4,863.4	4,301.6	4,339.0
Loans to legal entities	*3,703.4*	*3,788.4*	*3,522.3*	*3,550.4*
Loans to individuals	*1,058.1*	*1,075.0*	*779.3*	*788.6*
Financial assets available-for-sale	97.4	97.4	167.7	167.7
Investment securities held-to-maturity	0.9	0.9	32.4	31.8
Other financial assets	39.1	39.1	20.5	20.5
Financial liabilities				
Due to other banks	759.9	789.5	699.7	703,6
Customer deposits	3,672.8	3,617.7	3,596.7	3,577.8
Deposits of legal entities	*2,238.7*	*2,216.7*	*2,435.3*	*2,433.8*
Deposits of individuals	*1,434.1*	*1,401.0*	*1,161.4*	*1,144.0*
Other borrowed funds	806.2	815.1	734.6	725.7
Debt securities issued	894.5	918.5	664.5	652.3
Subordinated debt	285.8	276.4	241.1	228.9
Other financial liabilities	135.9	135.9	147.6	147.6

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 2012:

	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	319.2	71.2	1.9	**392.3**
Financial assets designated as at fair value through profit or loss	31.7	2.2	9.5	**43.4**
Trading Derivative financial instruments	–	86.0	7.1	**93.1**
Hedging Derivative financial instruments	–	0.6	–	**0.6**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	45.0	3.6	–	**48.6**
Financial assets designated as at fair value through profit or loss	–	0.1	–	**0.1**
Financial assets available-for-sale	5.9	–	–	**5.9**
Investments in associates at fair value through profit or loss	–	–	1.3	**1.3**
Financial assets available-for-sale	53.0	4.4	40.0	**97.4**
Financial liabilities				
Trading Derivative financial instruments	–	(82.5)	(0.1)	**(82.6)**
Hedging Derivative financial instruments	–	(0.5)	–	**(0.5)**

(in billions of Russian Roubles)

42. Fair Values of Financial Instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2011:

	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	408.1	52.0	1.7	**461.8**
Financial assets designated as at fair value through profit or loss	19.1	1.9	9.8	**30.8**
Trading Derivative financial instruments	10.2	68.0	0.7	**78.9**
Hedging Derivative financial instruments	–	0.5	–	**0.5**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	3.4	–	–	**3.4**
Financial assets designated as at fair value through profit or loss	4.1	0.1	–	**4.2**
Financial assets available-for-sale	1.7	0.6	–	**2.3**
Investments in associates at fair value through profit or loss	–	–	0.7	**0.7**
Financial assets available-for-sale	20.6	97.7	49.4	**167.7**
Financial liabilities				
Trading Derivative financial instruments	(9.7)	(71.6)	(0.2)	**(81.5)**
Other financial liabilities	–	–	(21.1)	**(21.1)**

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

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 2012 is as follows:

	Financial assets at fair value through profit or loss					
	Financial assets held for trading	***Financial assets designated as at fair value through profit or loss***	***Financial assets available-for-sale***	***Investments in associates at fair value through profit or loss***	***Financial derivative assets and liabilities (net)***	***Other financial liabilities***
Fair value at 1 January 2012	**1.7**	**9.8**	**49.4**	**0.7**	**0.5**	**(21.1)**
Gains less losses / (losses net of gains) recognized in profit or loss for the year	0.2	(0.5)	–	0.4	2.0	0.8
Losses net of gains recognized in other comprehensive income	–	–	(2.5)	–	–	–
Initial recognition (purchase or issue)	–	0.2	11.5	0.2	4.5	–
Derecognition (sale or settlement)	–	–	(85.0)	–	–	20.3
Acquisition of subsidiary	–	–	–	–	–	–
Transfers into Level 3	–	–	80.4	–	–	–
Transfers out of Level 3 to other Levels	–	–	(2.1)	–	–	–
Transfers out of Level 3 due to reclassification from fair-valued financial instruments	–	–	(11.7)	–	–	–
Fair value at 31 December 2012	***1.9***	***9.5***	***40.0***	***1.3***	***7.0***	**–**
Unrealized gains less losses / (losses net of gains) recognized in profit or loss or other comprehensive income for the period for assets and liabilities held at 31 December 2012	***0.2***	***(0.5)***	***(3.8)***	***0.4***	***2.0***	**–**

(in billions of Russian Roubles)

42. Fair Values of Financial Instruments (continued)

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

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2011 is as follows:

	Financial assets at fair value through profit or loss					
	Financial assets held for trading	*Financial assets designated as at fair value through profit or loss*	*Financial assets available-for-sale*	*Investments in associates at fair value through profit or loss*	*Financial derivative assets and liabilities (net)*	*Other financial liabilities*
Fair value at 1 January 2011	***2.8***	***0.4***	***22.8***	***0.9***	***1.0***	***–***
Gains less losses / (losses net of gains) recognized in profit or loss for the year	–	2.5	2.4	(0.2)	(0.5)	(1.0)
Losses net of gains recognized in other comprehensive income	–	–	(0.1)	–	–	–
Initial recognition (purchase or issue)	0.3	9.1	29.9	–	–	(21.9)
Derecognition (sale or settlement)	(1.2)	(1.8)	(11.3)	–	–	1.8
Acquisition of subsidiary	2.1	–	7.7	–	–	–
Transfers into level 3	–	–	0.2	–	–	–
Transfers out of level 3	(2.3)	(0.4)	(2.2)	–	–	–
Fair value at 31 December 2011	***1.7***	***9.8***	***49.4***	***0.7***	***0.5***	***(21.1)***
Unrealized gains less losses / (losses net of gains) recognized in profit or loss or other comprehensive income for the period for assets and liabilities held at 31 December 2011	***–***	***2.4***	***(1.6)***	***–***	***0.5***	***(1.0)***

Methods and assumptions for 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 recent transactions prices. The fair value of structured financial assets was estimated based on stochastic modeling (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 instruments valued using Level 3 models

As at 31 December 2012 financial assets available-for-sale for the amount of RUR 40.0 billion (2011: RUR 49.4 billion) were valued based on valuation models by using the peer based valuations, discounted cash flow or combinations of these two methods and others.

(in billions of Russian Roubles)

42. Fair Values of Financial Instruments (continued)

The assumptions related to projections of discounted cash flows in the model up to 2018 were in the following range:

	_2012_	**_2011_**
WACC	9% - 20%	10.1-17.6%
Terminal Growth rate	2% - 7%	2-5%
Liquidity margin applied to the valuation	–	0-33%
Terminal ROE	21.5% - 22.3%	n/a
Aluminium price forecast	-10% +10%	n/a
EBITDA margin Assumptions	-1.5% - +1.5%	n/a
Exit multiple	0.4 – 0.8	n/a
COE	13.3% - 17.3%	n/a

If the Group had used other reasonably possible alternative assumptions at 31 December 2012, the fair value of the above equity securities valued based on valuation models, would have been in the range from RUR 37.7 billion to RUR 42.6 billion (2011: from RUR 43.6 billion to RUR 58.3 billion).

Transfers between levels

During the period ended 31 December 2012 the financial assets held for trading were transferred from Level 2 to Level 1 in the amount of RUR 1.6 billion as their fair values became determined using market quotes. Previously their fair values were estimated on the market internal model basis.

During the period ended 31 December 2012, the Group transferred financial assets available-for-sale from Level 2 to Level 3 of the fair value hierarchy in the carrying amount of RUR 78.9 billion. The reason for the transfers from Level 2 to Level 3 is that inputs to the valuation models became non-observable and the fair value of the instruments is determined incorporating significant non market-observable inputs.

During the period ended 31 December 2012, the Group transferred financial assets available-for-sale from Level 3 to Level 1 of the fair value hierarchy in the carrying amount of RUR 0.9 billion. The reason for the transfer from Level 3 to Level 1 is the change in the basis of valuation of the fair value due to the appearance of the active market for these instruments.

During the period ended 31 December 2012, the Group transferred financial assets available-for-sale from Level 3 to Level 2 of the fair value hierarchy in the carrying amount of RUR 1.2 billion. The reason for the transfers from Level 3 to Level 2 is that inputs to the valuation models became observable. Prior to transfer, the fair value of the instruments was determined incorporating significant non market-observable inputs.

During the period ended 31 December 2012 the financial assets held for trading in the amount of RUR 2.1 billion and the financial assets available-for-sale in the amount of RUR 2.0 were transferred from Level 1 to Level 2 as their fair values became estimated on the market internal model basis. Previously their fair values were determined using market quotes.

During the period ended 31 December 2012 the financial assets available-for-sale were transferred from Level 2 to Level 1 in the amount of RUR 10.2 billion as their fair values became determined using market quotes. Previously their fair values were estimated on the market internal model basis.

During the period ended 31 December 2011 the Group transferred financial assets designated as at fair value through profit or loss and financial assets available-for-sale from Level 3 to Level 2 of the fair value hierarchy in the carrying amount of RUR 2.3 billion. The remaining amount of RUR 0.3 billion was reclassified to investments in associates. The Group transferred financial assets held for trading from Level 3 to Level 2 in the amount of RUR 2.3 billion. The reason for the transfers from Level 3 to Level 2 is that inputs to the valuation models became observable. Prior to transfer, the fair value of the instruments was determined incorporating significant non market-observable inputs.

During the period ended 31 December 2011 the financial assets held for trading were transferred from Level 1 to Level 2 in the amount of RUR 11.2 billion as they became estimated on the market internal model basis. Previously their fair values were determined using market quotes.

There have been no transfers from Level 2 to Level 1 during the period ended 31 December 2011.

(in billions of Russian Roubles)

43. Related Party Transactions

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

Transactions and balances with related parties comprise transactions and balances with Russian government-related entities and associates and joint ventures and are stated in the tables below:

Statements of financial position

	31 December 2012		*31 December 2011*	
	Government-related entities	*Associates and joint ventures and other*	*Government-related entities*	*Associates and joint ventures and other*
Assets				
Cash and short-term funds	149.9	1.8	174.4	–
Mandatory reserve deposits with central banks	39.4	–	58.7	–
Financial assets at fair value through profit or loss	324.2	1.7	308.0	–
Financial assets pledged under repurchase agreements and loaned financial assets	284.5	–	191.4	–
Due from other banks	40.7	12.3	97.1	2.1
Loans and advances to customers	823.2	100.5	778.7	27.0
Allowance for loan impairment	(23.1)	(3.7)	(20.3)	(0.6)
Financial assets available-for-sale	36.2	–	19.4	–
Investment securities held-to-maturity	0.6	–	31.6	–
Liabilities				
Due to other banks	240.4	20.2	176.0	0.3
Customer deposits	1,093.0	41.8	1,276.5	8.4
Other borrowed funds	602.3	–	558.7	–
Subordinated debt	205.5	–	207.0	–
Other liabilities	33.2	–	35.6	0.2
Credit Related Commitments				
Guarantees issued	233.0	1.3	238.7	1.6
Undrawn credit lines	16.9	7.0	1.8	–
Import letters of credit	7.6	–	4.2	–
Commitments to extend credit	1.9	–	0.7	–

Income statements

	2012	*2011*
Interest income		
Loans and advances to customers	78.2	39.8
Securities	29.7	18.4
Due from other banks	1.5	3.0
Interest expense		
Customer deposits	(62.8)	(36.3)
Due to other banks and other borrowed funds	(49.5)	(9.2)
Subordinated debt	(16.8)	(16.4)
Provision for impairment	(3.4)	(2.4)

For the period ended 31 December 2012, the total remuneration of the key management personnel of the Group including pension contributions amounted to RUR 7.2 billion (31 December 2011: RUR 5.7 billion). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the key management personnel as at 31 December 2012 amounted to RUR 1.0 billion (31 December 2011: RUR 0.4 billion). Compensation to key management personnel primarily consists of short term employee benefits.

(in billions of Russian Roubles)

44. Consolidated Subsidiaries, Business Combinations and Disposal of Subsidiaries

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

Name	Activity	Country of registration	Percentage of ownership 31 December 2012	Percentage of ownership 31 December 2011
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%	99.97%
“VTB Bank (Armenia)”, CJSC	Banking	Armenia	100.00%	100.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	96.31%	96.31%
“VTB Bank (Belarus)”, CJSC	Banking	Belarus	71.42%	71.42%
“Bank VTB 24”, CJSC	Banking	Russia	100.00%	100.00%
“TransCreditBank”, JSC	Banking	Russia	99.66%	74.62%
“Bank of Moscow”, OJSC	Banking	Russia	95.52%	94.85%
“Leto Bank”, OJSC (former “Bezhitsa-Bank”, OJSC)	Banking	Russia	100.00%	100.00%
“Bank Moscow-Minsk”, OJSC	Banking	Belarus	100.00%	100.00%
“BM Bank”, Ltd	Banking	Ukraine	100.00%	100.00%
“Mosvodokanalbank”, OJSC	Banking	Russia	n/a	65.87%
“Bank of Moscow - Belgrade”, OJSC	Banking	Serbia	100.00%	100.00%
“Russian National Commercial Bank”, OJSC	Banking	Russia	98.78%	n/a
“VTB Bank (Deutschland)”, AG	Banking	Germany	100.00%	100.00%
“Bank VTB (Kazakhstan)”, JSC	Banking	Kazakhstan	100.00%	100.00%
“VTB Bank (Azerbaijan)”, OJSC	Banking	Azerbaijan	51.00%	51.00%
“VTB Bank (France)”, SA	Banking	France	96.22%	96.22%
“VTB Capital”, Plc	Banking	Great Britain	95.54%	95.54%
“Banco VTB Africa S.A.”	Banking	Angola	50.10%	66.00%
“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%
“Nevsky Property”, Ltd	Property	Cyprus	100.00%	100.00%
“Business-Finance”, Ltd	Finance	Russia	100.00%	100.00%
“VTB Dolgovoi centre”, LLC (former “VTB Dolgovoi centre”, CJSC)	Finance	Russia	100.00%	100.00%
“VTB DC”, Ltd	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	99.00%	99.00%
“VTB-Leasing Capital”, Ltd	Finance	Ireland	100.00%	100.00%
“VTB Specialized Depository”, CJSC	Finance	Russia	100.00%	100.00%
“VTB Capital 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%
“Financial Assistant”, CJSC	Finance	Russia	100.00%	100.00%
“VTB Registrar”, CJSC	Finance	Russia	100.00%	100.00%
“Hals-Development”, OJSC	Real Estate	Russia	51.24%	51.24%
“M”, CJSC	Real Estate	Russia	100.00%	100.00%
“Sistemapsys S.a.r.l.”	Development	Luxembourg	100.00%	n/a
“Hals-Technopark”, CJSC	Real Estate	Russia	100.00%	n/a
“StroyPromObyekt”, JSC	Real Estate	Russia	100.00%	n/a
“VTB Arena”, CJSC	Real Estate	Russia	75.00%	77.30%
“VTB Real Estate”, LLC	Real Estate	Russia	100.00%	100.00%
“Hotel and Office Complex ”Peking”, OJSC	Real Estate	Russia	100.00%	100.00%
“Citer Invest”, B.V.	Real Estate	Netherlands	50.50%	50.50%
“VTB Pension administrator”, Ltd	Finance	Russia	100.00%	100.00%
“FC Dynamo-Moscow”, OJSC	Sports	Russia	74.00%	76.09%
“Consolidated companies”, OJSC	Winery	Russia	100.00%	100.00%
“Orenburgskaya burovaya companiya”, Ltd	Oil and gas	Russia	53.30%	n/a
“Pension Reserve”, Ltd	Finance	Russia	100.00%	n/a

44. Consolidated Subsidiaries Business Combinations and Disposal of Subsidiaries (continued)

In January 2012, the Group obtained 100% control in “Sistemapsys S.a.r.l.” by purchasing additional 50% for RUR 1.3 billion from the third parties which are not related to the Group. As a result of the acquisition the Group recognized goodwill in the amount of RUR 0.7 billion and loss from disposal of associate of RUR 0.4 billion due to the fair valuation of previously held share in the subsidiary.

In February 2012, the Group obtained 84.91% controlling share in “Russian National Commercial Bank”, OJSC by purchasing additional 45.11% for RUR 0.4 billion from the third parties which are not related to the Group. As a result of acquisition the Group recognized an excess of fair value of the acquired net assets over cost in the amount of RUR 0.1 billion in Other operating income and non-controlling interests of RUR 0.2 billion. In June 2012, the Group increased its share in “Russian National Commercial Bank”, OJSC to 96.80%. In August 2012, the Group's interest in the share capital of “Russian National Commercial Bank”, OJSC increased from 96.80% to 98.78%.

In February 2012, CBR registered an additional share issue of “TransCreditBank”, JSC that increased its share capital to RUR 4.3 billion. The Group purchased the whole share issue, representing 334,373,607 shares, at price of RUR 22.69 per share for total amount of RUR 7.6 billion and increased its share in “TransCreditBank”, JSC to 77.86%. As a result of the additional share issue non-controlling interests have increased by RUR 0.3 billion. In September 2012 VTB increased its stake in “TransCreditBank”, JSC to 99.66% from 77.86% by purchasing 571,650,529 ordinary shares at price of RUR 38.67 per share under the purchase agreement with a related party to the Group to acquire a non-controlling interest share in “TransCreditBank”, JSC held by this related party. As a result of the non-controlling interests have decreased by RUR 11.7 billion

In March 2012, “VTB Dolgovoi centre”, CJSC was reorganized in “VTB Dolgovoi centre”, LLC according to the Group’s decision.

In March 2012, the non-controlling shareholders of “VTB Arena”, CJSC partially exercised their right to buy 33,812 additional shares issued with notional amount of RUR 24,010, which resulted in the increase of non-controlling interests by RUR 0.1 billion and decrease of VTB's ownership in “VTB Arena”, CJSC from 77.3% to 76.91%.

In August 2012, the non-controlling shareholders of “VTB Arena”, CJSC exercised their right to buy 28,177 additional shares issued with notional amount of RUR 24,010, which resulted in the decrease of VTB's ownership in “VTB Arena”, CJSC from 76.91% to 75.00% minus 1 share.

In the second quarter 2012, “VTB Arena”, CJSC has granted debt relief of RUR 1.4 billion to its subsidiary in which non-controlling interests have significant influence which resulted in the increase of non-controlling interests by RUR 0.3 billion.

In April 2012, the Group has increased its share to 94.87% in “Bank of Moscow”, OJSC following its voluntary offer to shareholders of “Bank of Moscow”, OJSC made in March 2012. Only shareholders who held their shares at the date VTB made its acquisition of the Moscow city government’s stake in “Bank of Moscow”, OJSC were eligible. The offer therefore applied to 1,030 shareholders of “Bank of Moscow”, OJSC, holding up to 0.05% of the bank’s shares. Less than 80 shareholders accepted the offer and sold 75,700 shares of “Bank of Moscow”, OJSC for a total consideration of RUR 0.1 billion.

In July 2012, the Group obtained 100% control in former associate “Pension Reserve”, Ltd by purchasing additional 81% of shares from the third parties, which are not related to the Group, for RUR 0.3 billion. As a result of the acquisition the Group recognized goodwill in the amount of RUR 0.2 billion.

In June 2012, the Group increased its ownership share in “Bank of Moscow”, OJSC to 95.52% by purchasing 1,745,965 shares from the non-controlling interests for RUR 1.6 billion which resulted in decreasing of non-controlling interests by RUR 1.5 billion.

In April 2012, the Group acquired 100% of the shares of JSC “StroyPromObyekt” for RUR 1.0 billion, which owns 50% of the shares of “Hals-Technopark”, JSC, a former associate of the Group. After the acquisition the Group owns 100% of the shares of “Hals-Technopark”, JSC.

In June 2012, the Group has increased its share in “Mosvodokanalbank”, OJSC to 92.74% by purchasing additional 26.87% for RUR 0.1 billion. In July 2012, the Group sold a 92.74% interest in the share capital of “Mosvodokanalbank”, OJSC for RUR 0.3 billion.

In July 2012, the Group acquired 53.30% of the shares of “Orenburgskaya burovaya companiya”,Ltd for RUR 0.9 billion. The prefinal fair values of the acquiree’s identifiable assets of RUR 6.2 billion and liabilities of RUR 4.3 billions were based on results of an independent external appraisal at the acquisition date. The Group recognized a gain of RUR 0.1 billion as excess of the net identifiable assets acquired over the cost of investment.

In September 2012, the Group sold its 96.36% share in “West Bridge”, CJSC to a third party for RUR 1.4 billion and recognized gain from disposal of subsidiary in the amount of RUR 0.1 billion.

(in billions of Russian Roubles)

45. Capital Management and Capital Adequacy

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

Capital adequacy ratio in accordance with CBR requirements

The CBR requires Russian banks to maintain a minimum capital adequacy ratio of 10% of risk-weighted assets, determined in accordance with CBR's requirements. In other countries the Group members comply with the regulatory capital requirements of the local central banks or other supervisory authorities.

During 2012 and 2011 the Bank's capital adequacy ratio in accordance with CBR requirements exceeded the minimum level and as at 31 December 2012 and 2011 was as follows:

	31 December 2012	***31 December 2011***
Capital	539.2	443.3
Risk-weighted assets	3,753.7	4,017.9
Capital adequacy ratio	14.4%	11.0%

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. These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord as disclosed below:

	31 December 2012	***31 December 2011***
Tier 1 capital		
Share capital	113.1	113.1
Share premium	358.5	358.5
Treasury shares	(13.7)	(0.6)
Perpetual loan participation notes	68.3	–
Retained earnings	193.7	102.2
Unrealized gain on financial assets available-for-sale and cash flow hedge	4.3	7.9
Currency translation difference	8.8	11.0
Non-controlling interests	12.3	21.6
Deducted: Goodwill	(104.9)	(104.7)
Total Tier 1 capital	***640.4***	***509.0***
Tier 2 capital		
Land and premises revaluation reserve	20.8	11.4
Subordinated debt	272.6	234.0
Total Tier 2 capital	293.4	***245.4***
Total capital before deductions	**933.8**	**754.4**
Deducted: Investments in the capital of other banks and financial institutions	(23.0)	(21.0)
Total capital after deductions	**910.8**	**733.4**
Risk-weighted assets		
Credit risk	5,547.2	4,684.5
Market risks	672.1	971.4
Total risk-weighted assets	**6,219.3**	**5,655.9**
Tier 1 capital ratio to total risk-weighted assets	**10.3%**	**9.0%**
Total capital ratio to total risk-weighted assets	**14.7%**	**13.0%**

46. Subsequent Events

From January to April of 2013, VTB issued Series 13-30 under Euro-Commercial Paper Program (ECP) denominated in USD, CHF and RUR in the total equivalent amount of RUR 13.8 billion with a tenor up to 1 year.

In January 2013, VTB issued Series BO-21 local stock exchange bonds in the amount of RUR 15.0 billion maturing in January 2016 with a coupon rate of 8.15% p.a. payable quarterly.

In January 2013, VTB tapped it's Series 22 eurobonds issued in October 2012 for the amount of CNY 1,000 million (RUR 4.8 billion).

In February 2013, VTB issued Series BO-22 local stock exchange bonds in the amount of RUR 15.0 billion maturing in February 2016 with a coupon rate of 7.9% p.a.

In February 2013, "VTB Capital", Plc issued eurobonds with the notional amount of TRY 300 million maturing in February 2015 with a coupon rate of 7.79% p.a.

In February 2013, "VTB Capital", Plc repaid its Series 2012-1004, USD eurobonds in the amount of USD 51 million (RUR 1.5 billion) upon maturity.

In March 2013, VTB repaid its Series BO-1, BO-2 and BO-5 local stock exchange bonds in the total amount of RUR 20.0 billion upon maturity.

In February 2013, "Bank VTB 24", CJSC has redeemed Series 2 local bonds in the total amount of RUR 8.9 billion upon maturity.

In March 2013, the Group received a syndicated loan of USD 2.0 billion (RUR 61.5 billion) maturing in March 2016 with a floating rate of LIBOR plus 1.5% p.a.

In April 2013, "VTB Capital", Plc repaid its Series 2012-1008, USD eurobonds in the amount of USD 15 million (RUR 0.5 billion) upon maturity.

In April 2013, the Group acquired 100% of Tele2 Russia, one of the largest telecommunication operators in Russia, for USD 2.4 billion (RUR 75.3 billion). The Group's control over this private equity investment is intended to be temporary because the investment was made and is held exclusively with a view to its subsequent disposal in the near future, generally within one year from acquisition, and accordingly, the Group plans to account for this investment as a subsidiary held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Following the liquidity crisis in Cyprus in the beginning of 2013, Cyprus government and the Eurogroup, together with the International Monetary Fund, reached an agreement on 25 March 2013 on a package of measures intended to restore the viability of the financial sector. The Cypriot authorities introduced a set of measures, including the closure of one of the leading banks, mandatory conversion of certain deposits into shares in another bank, temporary restrictions on cash withdrawals, compulsory renewal of maturing deposits and restrictions on capital movements. The Group does not believe these matters will have a material adverse effect on the Group's financial position or operating results.