VTB Annual Report 2013

Content

Mission and Values

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 become a premier player in all of our priority markets.

Statement of the Chairman of the Supervisory Council

Dear Shareholders, Clients and Partners,

In 2013, the Russian economy followed the same trends that emerged in 2012. Economic growth continued to lose momentum and reached its lowest level since 2009. All of this suppressed growth of the banking sector, which experienced reduced demand for loans, and was also impacted by measures introduced by the Bank of Russia to curb the pace of retail lending.

Despite the unfavourable market environment, VTB Group demonstrated excellent results. Net profit reached RUB 100.5 billion, a new record for the Group. This corresponds to a ROE of approximately 12%. Although this is lower than the figure for 2012, the Group's ROE in 2013 is comparable to the figure for 2012 due to the increase in the Group's equity.

Capital Raising

The second stage of VTB's privatisation was undoubtedly the key event of 2013. We managed to convince the Government of the Russian Federation of the benefits of issuing new shares compared to selling the existing state-owned shares. As a result of placing 2.5 trillion new shares on the Moscow Exchange, VTB's authorised capital grew by RUB 102.5 billion. This enabled the Group to not only increase its capital adequacy ratio, but also to continue to further develop its business. Prominent large sovereign wealth funds, including Norges Bank Investment Management, Qatar Holding and the State Oil Fund of the Republic of Azerbaijan, became our shareholders. They acquired more than half of the new share issue. In addition, many of VTB's current shareholders exercised their pre-emptive right and purchased shares for more than RUB 14.4 billion. We believe that attracting new strategic investors while maintaining established relationships with existing shareholders will further enhance the quality of VTB's corporate governance.

Development of Corporate Governance

We continued to improve the Group's corporate governance system throughout 2013. We have taken a number of important initiatives to strengthen the role of minority shareholders in the Supervisory Council's decision-making process. Elena Popova, a representative of the VTB Shareholder Consultative Council, was elected to the Supervisory Council in June 2013 in response to numerous requests from minority shareholders. Ms. Popova was also elected to the Supervisory Council's Strategy and Corporate Governance Committee, as well as to the Staff and Remuneration Committee. This initiative proved to be a success as it allowed us to further improve communications with minority shareholders.

The Group is committed to ensuring that its corporate governance meets best practice standards, and we monitor its performance closely. We use assessment procedures based on the Bank of Russia's recommendations to review corporate governance. In 2013, the corporate governance system was assessed by nine key parameters, eight of which demonstrated a positive trend. The average assessment rating increased to 3.8, representing 95% of the maximum score. In addition, the Supervisory Council conducted a self-assessment, which also showed improvements in its efficiency, including a reduction in the number of extraordinary Council meetings and members participating more regularly in Supervisory Council meetings.

In 2013, we continued developing anti-corruption and compliance procedures. The Supervisory Council approved a new edition of the Ethics Code, which contains provisions on anti-corruption measures, conflict of interest mitigation measures and procedures to prevent market manipulation and the misuse of insider information. In addition, we approved the concept for VTB Group's consolidated compliance function management, as well as regulations for interaction across the Group's companies in this field.

As a result of these measures, the Bank maintained its high position in the National Corporate Governance Rating (level "7 +"), which is compiled from the results of the Russian Institute of Directors' annual independent monitoring.

The New Strategy

In the beginning of 2013, we began to develop VTB Group's new three-year strategy for 2014-2016, superseding the outgoing 2010-2013 strategy. It was important to properly assess the macro-economic situation and the medium-term prospects of Russia's banking business in order to establish priorities and to set ambitious, yet achievable goals. The strategy was developed by the Group's Management Board and Supervisory Council. VTB minority shareholders also participated in developing the strategic objectives. We asked our shareholders to send their proposals and vision for the strategy. This was the first time that a large Russian company invited its minority shareholders to share their views on strategy. Over 130 various proposals were received, some of which were reflected in the strategy.

In April 2014, the Supervisory Council approved the new strategy, "Quality Growth," which focuses on improving business performance, reducing costs and enhancing risk management systems at the Group level. The strategy places emphasis on these key areas largely due to the significant slowdown in Russia's economic growth and the expected decline in the pace of the banking sector's development. All of this creates additional risks for the Group and compels it to pay more attention to responsible cost management. In the coming years, VTB will not be able to maintain the growth rates it has demonstrated over recent years. That is why it will be important for us to use our entire internal capacity to provide our shareholders with an acceptable level of income. We will still bet on faster growth in the retail business and an increase of its share in the Group's total assets and income.

At the same time, the Group intends to inject fresh impetus into developing the medium-sized business segment, the potential of which is far from being exhausted. Medium-sized businesses will be separated in a standalone operating segment and profit centre in our new strategy, and the necessary conditions for its rapid growth will be created. We expect that the Group's new development priorities and the tools its selects to meet its strategic targets will allow it to react promptly to external factors and to ensure the continued growth of VTB's business.

Chairman of the Supervisory Council of JSC VTB Bank

Sergey Dubinin

Statement of the President and Chairman of the Management Board

Dear Shareholders, Clients and Partners,

We are pleased to present the next annual report on VTB Group's results. Amid the continued slowdown of the Russian economy in 2013, we demonstrated growth across all major business lines and achieved impressive financial results. In 2013, the Group's net income increased by almost 11% compared to 2012 and amounted to RUB 100.5 billion. This is an undoubted success, which confirms the sustainability of VTB Group's business model.

One of the key events of the reporting period was the RUB 102.5 billion additional share placement, which took place in May 2013. This enabled us to strengthen our capital and to continue developing our core businesses, while optimising the level of risk we are exposed to. New world-class investors became our shareholders, who believe in VTB's long-term growth story. It is important to highlight that all the additional shares were placed on the Moscow Exchange, demonstrating how Moscow is becoming increasingly important in the international financial markets.

Raising this new capital provided substantial support to the growth of the Group's balance sheet. In 2013, the loan portfolio grew by 24%; retail loans increased by 36%, and the corporate loan portfolio was up 21%. Such performance is fully in line with our strategy to achieve faster growth of our retail lending business and to increase its share in the Group's portfolio as a more marginal type of business. The loan portfolio grew despite strict control over loan quality, and the share of non-performing loans (90 days +) in the loan portfolio decreased to 4.7% in 2013.

2013 was the first fully operational year for our retail bank, Leto Bank. The bank has become perhaps one of the most successful new brands in the Russian market. Leto Bank provided VTB Group with quick access to the very promising and profitable mass lending segment. Launching this project enabled us to increase our customer base by 500,000 customers. Today, Leto Bank and VTB24 cover almost all segments of the retail market, providing the Group with opportunities to take full advantage of its growth potential.

We demonstrated healthy growth not only in the retail segment, but also in our Corporate and Investment Banking Business, although the difficult economic situation had an impact on our growth rate. Nevertheless, both our retail and corporate businesses managed to increase their market share in loans and deposits. During the year, the Group's credit margin remained at a stable level, resulting in a 31% increase in net interest income in the reporting period. Due to active development of the retail and transaction banking businesses, VTB's net commission income grew by 15% in 2013, which fully meets our expectations.

In 2013, TransCreditBank became fully integrated into VTB Group. Its corporate unit became part of VTB Group's Corporate and Investment Banking business, while its retail line was integrated into VTB24. The acquisition of TransCreditBank allowed us to significantly expand the Group's business. We gained access to more than two million retail customers and 900 high-quality corporate clients, and our loan portfolio grew by RUB 425 billion.

In the uncertain external environment, cost control is becoming a major priority for VTB. In 2013, we dedicated significant resources to reducing our costs. Our costs rose less than operating income, while almost all our growth came from the retail segment, which we rely on for accelerated revenue growth. Expenses in the Corporate and Investment Banking business increased by only 0.8%, which demonstrates our ability to control costs. As a result, the cost-effectiveness ratio (CIR) for the year decreased from 50.5% to 49.1%.

Over the past four years, as part of the 2010-2013 strategic period, we have created a unique business model, which is based on combining Russia's leading corporate and investment bank with one of the country's most efficient retail banks. During this period, the Group increased its assets by 2.4 times to RUB 8.8 trillion, the loan portfolio grew by 2.5 times to RUB 6.6 trillion, while customer deposits were up 2.7 times to RUB 4.3 trillion. We strengthened our position as the market leader by increasing business volumes faster than our competitors, and outperformed our growth targets. However, our profitability margins did not always correspond to our targets, and that is why this will become a priority for the next cycle of the Group's development.

In April 2014, the Supervisory Council approved VTB Group's development strategy until 2016. The new strategy is based on expectations that there will be a slowdown in the banking sector amid stagnation in the Russian economy. Therefore, our new strategy is focused on increasing business efficiency and reducing spending. More details on our new strategy can be found on pages 18-23 of this report, but I would like to highlight the following key initiatives:

- Maintaining the Corporate and Investment Banking Business' market position while further improving its efficiency;
- Outperforming the market in the retail segment, and further increasing the retail business' share of the Group's total income streams;
- Prioritising medium-sized businesses as a separate operating segment;
- Focusing on operating efficiency and stringent cost control, establishing Group corporate centre;
- Continuing to enhance the Group risk management function;
- Achieving further synergies from Group integration, and preparing the ground for future merger of the Group's major banks.

These initiatives, combined with our clear operational and financial objectives, will help us to successfully complete all phases of the economic cycle and to ensure that we generate growth in the interests of our shareholders.

I would like to thank each and every member of the VTB team for their energy, effort and hard work to ensure the growth of our business in 2013. I also want to thank our partners, investors and shareholders for their trust and for the advantages that we get from working with you. VTB Group is looking forward to the next stage of its development. I'm confident that we will continue to be successful and generate growth for our shareholders.

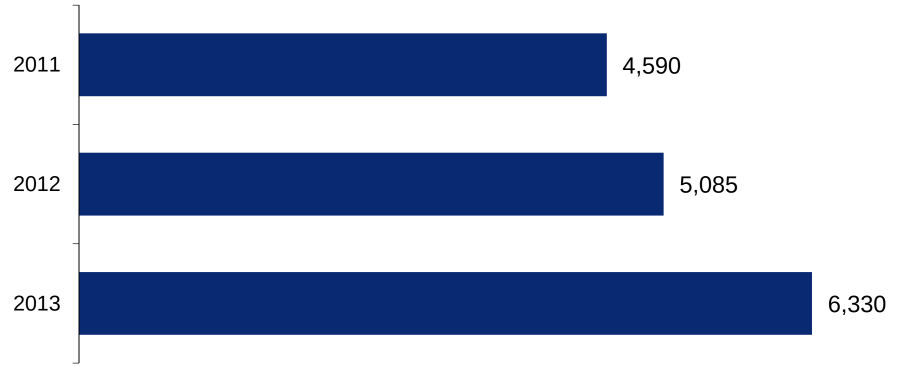
VTB Bank President and Chairman of the Management Board

Andrey Kostin

1. Financial Highlights

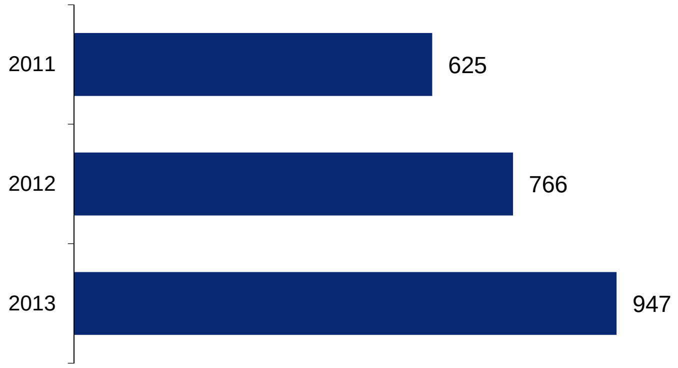
Total assets, RUB billion

Loan portfolio, RUB billion

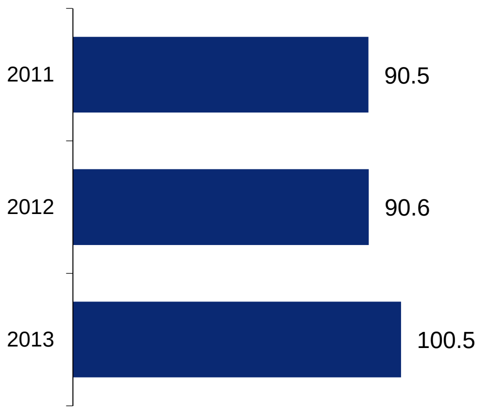


Customer deposits, RUB billion

Total shareholders' equity, RUB billion



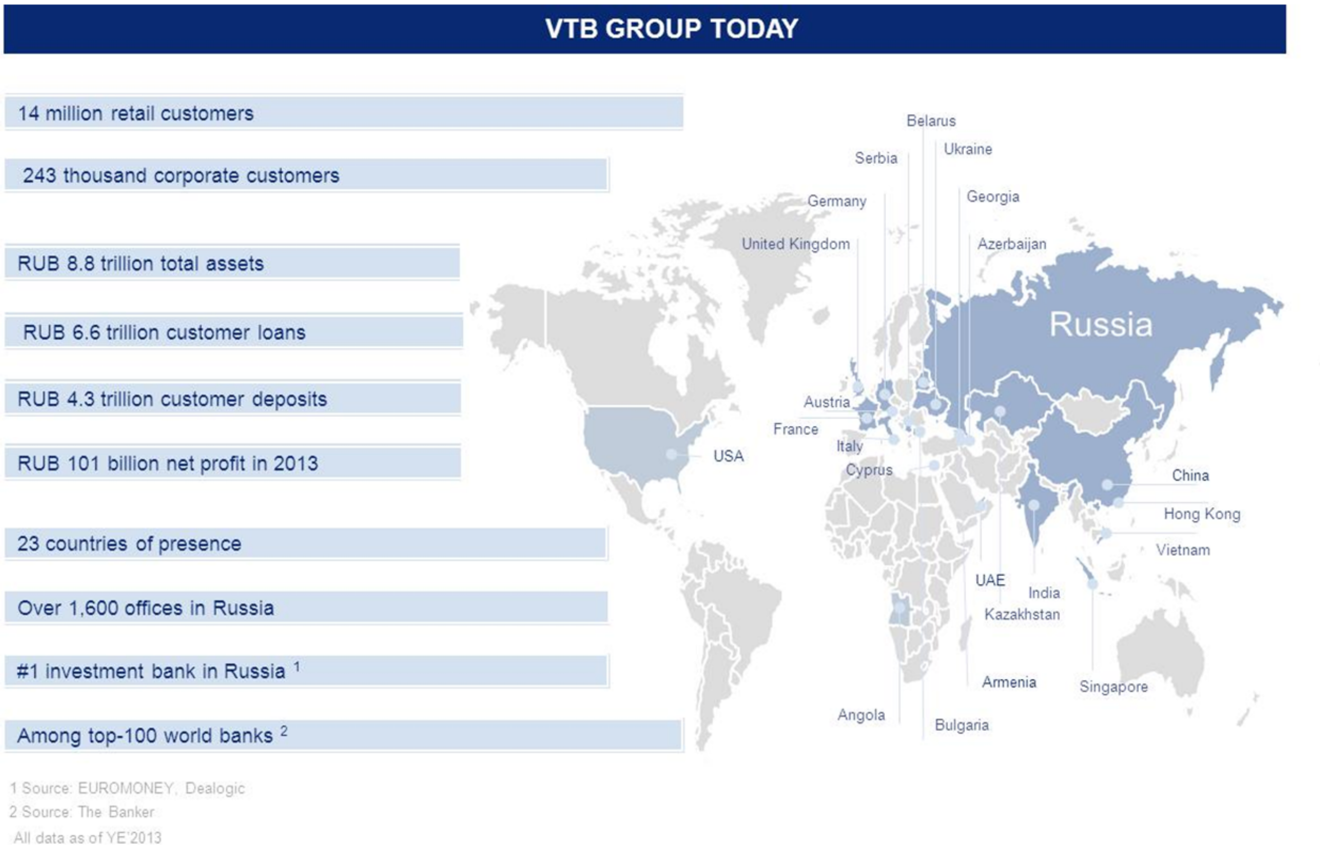
Net profit, RUB billion



Selected indicators, %

	2011	*2012*	*2013*
Net interest margin	5.0	4.2	4.5
Cost to operating income before provision (CIR)	49.4	50.5	49.1
Return on assets (ROA)	1.7	1.3	1.2
Return on equity (ROE)	15.0	13.7	11.8

2. VTB's Market Position



VTB Group is one of the leaders in the Russian and international financial services market, and is Russia's second largest banking group, which has 17% of the banking sector's total assets. The Group has an extensive branch network in Russia with over 1,600 sales points, and is present in the world's key financial markets. VTB employs approximately 100,000 people and its majority shareholder is the Russian Federation, which holds 60.9% of VTB's shares.

VTB Group's key businesses:

- Corporate and Investment Banking business (CIB) provides an integrated service offering to large and medium businesses.
  - Clients: 243,000 corporate customers
  - Loan portfolio: RUB 4,809 billion
  - Customer deposits: RUB 2,548 billion

- Retail Banking business provides services to individuals, entrepreneurs and companies with annual revenues of less than RUB 300 million in Russia. The Retail Banking business in Russia is represented by VTB24, Leto Bank and Bank of Moscow. In addition, the retail banking offering is available in the Group's subsidiaries in the CIS and Georgia, as well as in the European sub-holding banks.

- Clients: 14 million retail clients
- Loan portfolio: RUB 1,521 billion
- Customer deposits: RUB 1,793 billion

- Non-banking financial services, including leasing, factoring and insurance provided by VTB Group's financial companies.

VTB Group is the second largest Russian bank by all major indicators.

Segment	Market share in Russia,%
Corporate loans	15.5%
Corporate accounts and deposits	17.8%
Retail loans	13.4%
Retail accounts and deposits	9.3%

VTB Group possesses an international network unique among Russian banks, which is made up of over 30 banks and financial companies across 23 countries worldwide. VTB offers its customers a wide range of comprehensive financial services in the CIS, Europe, Asia and Africa, and is Russia's second largest corporate and retail bank.

3. The Economy and Banking Sector

3.1 The Russian economy in 2013

Russian economic growth has slowed over recent years and declined to 1.3% in 2013, which is the lowest level since 2009. In the reporting period, GDP amounted to RUB 66.7 trillion in nominal terms, or approximately US$ 2.1 trillion. Local and external factors influenced this trend, with deteriorating domestic demand being the main factor. Household consumption slowed to 4.7% in real terms in the reporting year, compared to 7.9% in 2012. In 2013, fixed capital investment decreased by 0.3%, while it increased by 6.4% in 2012. At the same time, industrial production effectively came to a standstill, with annual growth of 0.4 %, compared to 3.4% in 2012.

The fundamental trend in 2013 was that the private sector rather than the public sector became the main driver behind economic growth generation. The dynamics of investment spending demonstrate this trend. As the budget and state-owned companies reduced capital expenditure, private companies continued to increase investments at a steady, albeit slowing, pace.

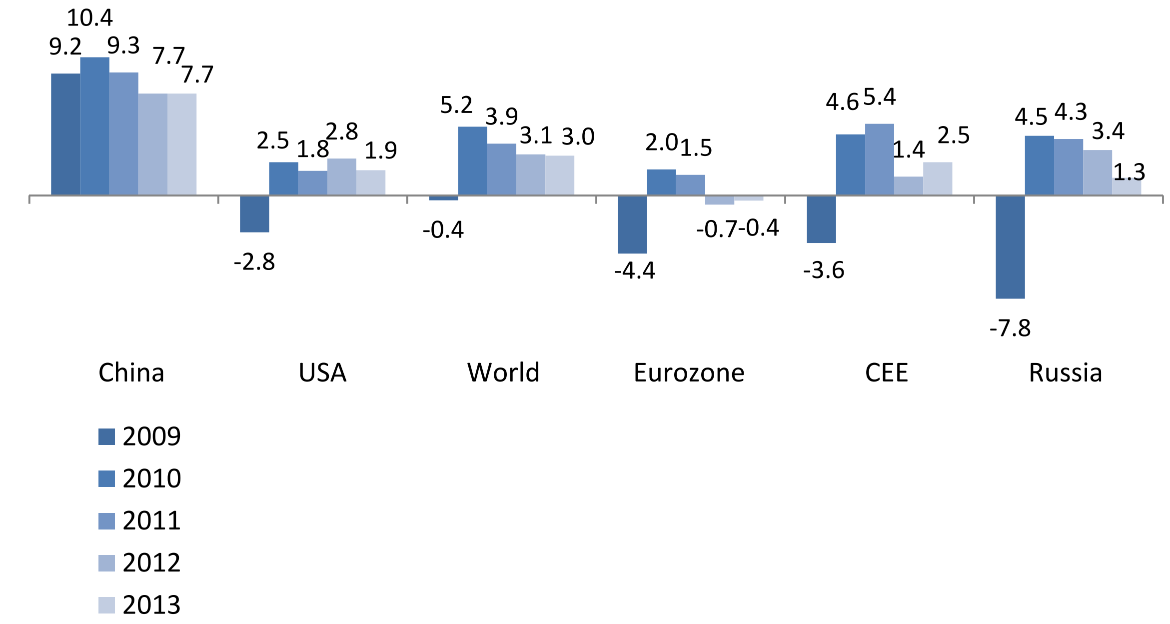
The inflation rate amounted to 6.5% at the end of 2013, exceeding the upper bound of the Bank of Russia's target range of 6.0%. This mainly resulted from prices for fruit and vegetables, as well as animal products, increasing at a faster pace. At the same time, since summer, there was a clear trend towards slower growth in prices for goods and services, which formed part of the base inflation rate calculation. However, since autumn, the core inflation rate stabilised at a moderate level of 4.5-4.6%.

Throughout 2013, the Bank of Russia kept its key rate at 5.5% while following a tight monetary policy to curb inflation expectations and to enhance the credibility of inflation targeting, despite a noticeable slowdown in economic growth. In the reporting period, the regulator also continued to transition to a fully flexible exchange rate. In particular, the value of accumulated interventions, resulting in a shift in the operating interval by 5 kopecks, was reduced from US$ 450 million to US$ 350 million. The size of targeted currency interventions was reduced to US$ 60 million a day.

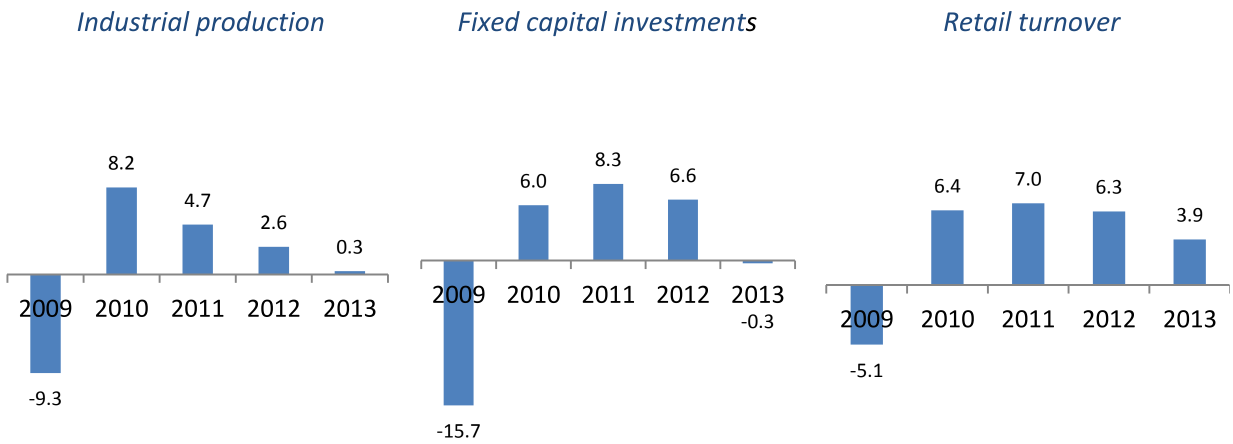
At the end of the reporting period, the rouble/US dollar exchange rate was RUB 32.73, weakening by 7.8% compared to the end of 2012. During the first nine months of 2013, the rouble/US dollar exchange rate demonstrated a weakening trend and after a maximum of RUB 29.85 was reached on 1 February 2013, it came close to approximately RUB 33.52 on 3 September 2013. During the last quarter of 2013, the rouble/US dollar exchange rate was mostly between RUB 32.0 and RUB 33.0. The fundamental factors putting pressure on the rouble were a sustainable reduction in the current account surplus and negative global sentiment on emerging market currencies (against the backdrop the U.S. Federal Reserve tapering its loose monetary policy).

According to the Bank of Russia, Russia's total external debt increased by US$ 95.6 billion to US$ 732.0 billion in 2013. The banking sector's liabilities increased by US$ 13.4 billion to US$ 214.9 billion, while corporate borrowers' external debt was up US$73.0 billion to US$437.8 billion.

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



Russian macroeconomic indicators, % year-on-year



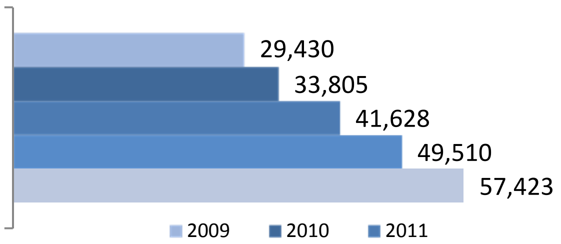
Source: Federal State Statistics Services (Rosstat)

3.2. The Russian banking sector in 2013

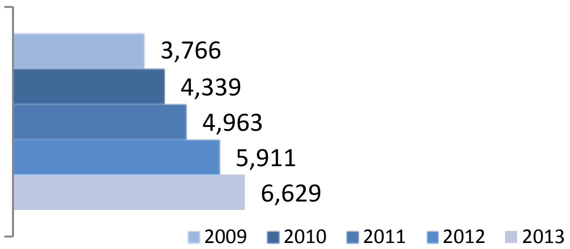
In 2013, growth in the Russian banking sector further decelerated to 16% year-on-year from 19% in 2012, as demand for loans weakened. Banks also tightened lending requirements as GDP growth slowed and the CBR introduced measures to curb consumer credit expansion. At the same time, banking sector penetration – defined as banks' total assets divided by GDP - increased to 85% in 2013 from 79% in 2012.

Russian banking system performance indicators (in RUB, billion)

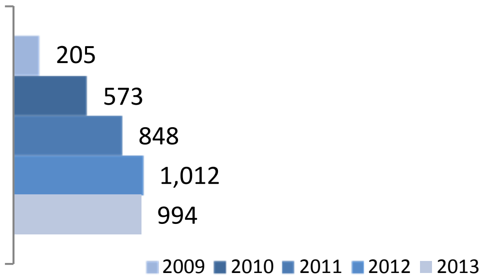
Assets



Equity



Net profit



The slower economic growth also weighed on the development of the sector's loan portfolio. While the growth rate of the corporate loan portfolio remained flat in 2013 at 13% year-on-year, growth in the retail loan portfolio slowed to 29% year-on-year from 39% in 2012. This slowdown can be attributed to banks tightening lending requirements amid lower demand from creditworthy borrowers, and to new CBR measures introduced in 2013 designed to curb consumer credit expansion.

Asset quality across the Russian banking sector improved in 2013. The share of overdue loans declined to 4.2% from 4.5% at the end of 2012, largely due to improvements in the corporate segment, where overdue loans dropped to 4.1% from 4.6%. Despite this, the share of overdue loans in the retail segment increased to 4.4% from 4.1%. Banks increased provisions by 15% year-on-year in nominal terms (the ratio of provisions to the gross loan portfolio declined slightly to 7.4% from 7.6%) and improved the coverage ratio to 176% from 169% at the end of 2012.

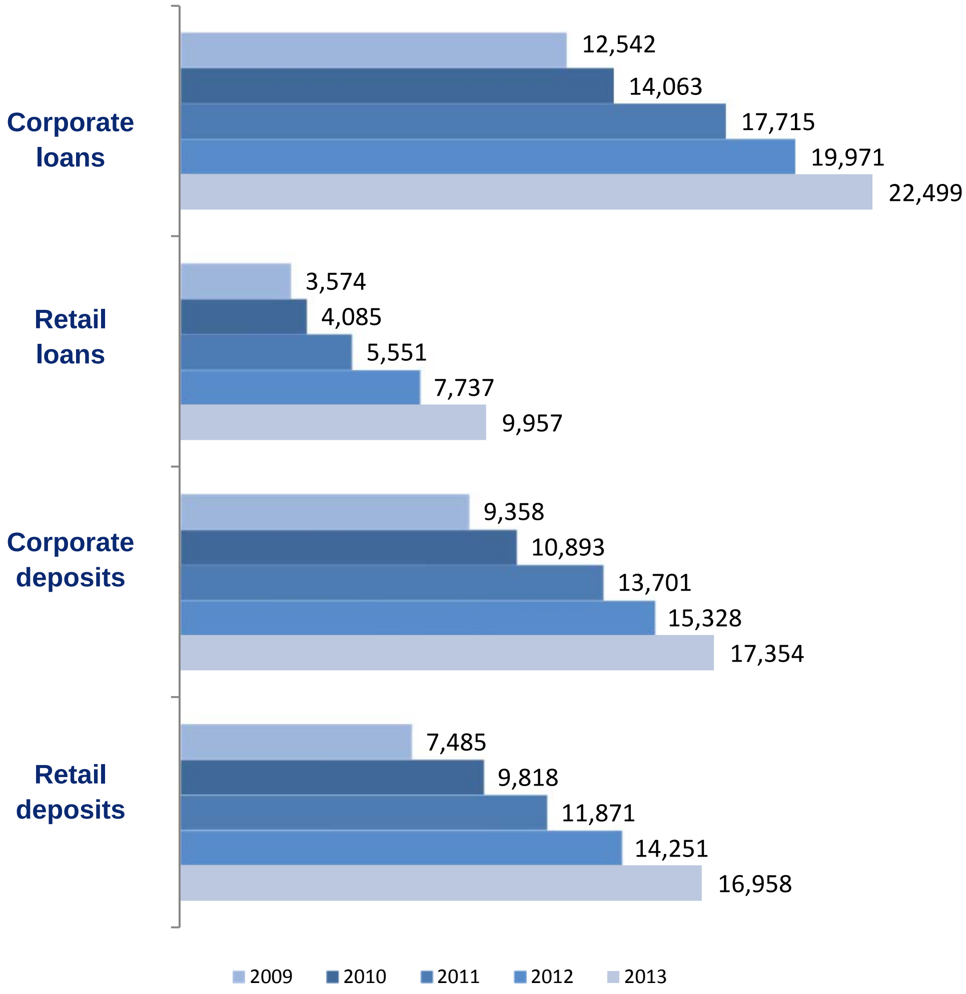
The sector's total profit slid by 2% to RUB 994 billion from a record level of RUB 1,012 billion in 2012, primarily due to higher provision charges. The number of unprofitable banks in the sector increased to 88 from 55 in the previous year.

The growth rate of customer deposits remained flat in 2013 at 16% year-on-year, as increased growth in the corporate segment to 13% from 12% in 2012 was offset by the mild deceleration of retail deposits growth to 19% from 20% the previous year. The share of customer deposits in gross liabilities stayed at 68%, while the net loan-to-deposit ratio edged up to 88% from 87% at the end of 2012, suggesting that there is still potential for further loan growth in the sector.

The sector's total capital adequacy ratio edged down to 13.5% from 13.7% at the end of 2012, as higher risk weightings and provisioning requirements for consumer loans were mostly offset by slower loan growth and capital generation.

The concentration of assets in the Russian banking sector increased in the reporting year. At the end of December 2013, the 30 largest banks accounted for 76.4% of total banking assets compared to 74.6% in the previous year. In 2013, the five largest banks had a larger share of the sector (including VTB Group), rising to 57.5% from 54.2% in 2012. State banks maintained their leading position. The four largest state-owned banks — Sberbank, VTB Group, Gazprombank and Russian Agricultural Bank —accounted for 55.1% of all assets in the Russian banking system in 2013 compared to 51.6% in 2012.

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



4. Management Report

4.1 Key events in 2013

February

- On 28 February 2013, VTB stock was upgraded to Quotation List A Level 1 on the Moscow Exchange. A1 is the top quotation list on MICEX.

April-May

- VTB Bank conducted a secondary placement offering (SPO) raising RUB 102.5 billion by issuing 2.5 trillion new ordinary shares at RUB 0.041 per share.

May

- VTB Bank completed the reform of its regional network, which was begun in 2012 to improve the quality of customer service and to consolidate its regional outlets. VTB has formed a matrix management system consisting of seven basic affiliates and three operations support centres, allowing the Bank to centralise its service and operational functions.

June

- On 28 June 2013, the Annual General Meeting of VTB Bank’s shareholders was convened. More than 300 VTB shareholders and shareholder representatives attended, and the event was broadcast live online via VTB Bank’s website.

July

- VTB Bank elected its new Shareholders Consultative Council. Over 850 shareholders took part in the voting, which began on 10 June.

November

- VTB Group completed the process of merging TransCreditBank with VTB24.

December

- As of the end of 2013, Leto Bank issued over 500,000 retail loans. The bank’s loan portfolio amounted to RUB 28.3 billion and grew by more than 40 times since the beginning of 2013.

4.2 VTB Group strategy

Implementation of the Group's strategy in 2010-2013

In 2010-2013, VTB Group focused its efforts on improving the structure of its business, growing its market share and improving operating efficiency. In addition, the Group paid particular attention to developing its “growth areas”, which are the most promising products and segments where VTB Group had the greatest potential for revenue growth.

Over the reporting period, VTB not only cemented its leading position in all segments of the banking business, supported by the integration of TransCreditBank and the Bank of Moscow, but also managed to bring new business lines, which have already become additional sources of growth for the Group, to a new level of business development. The Group also continued to invest in new businesses, thereby laying the foundation for growth, which will be achieved within the 2014-2016 period. Therefore, the Group fulfilled its objective of creating a business fundamentally different in terms of scale and efficiency, with a more diversified revenue base.

The Group outperformed its strategic growth objectives for 2010-2013. It continued to outpace the market, increasing its assets by 2.4 times. Moreover, VTB’s market share by assets in Russia grew from 12.1% at end of 2009 to 15.4% in 2013.

Fulfilment of performance targets for VTB Group’s assets growth, RUB trillion

Source: VTB Group consolidated financial statements under IFRS for 2009 and 2013; VTB Group’s strategic objectives for 2010-2013.

VTB Group strengthened its position in lending and deposits by fully implementing its growth objectives for these portfolios. Corporate loan portfolio increased by 2.4 times, while retail loans grew by 3.5 times. As a result, the share of the more profitable retail business in the Group's loan portfolio increased from 17% to 24%. The customer deposits segment demonstrated a similar trend, with faster growth in the retail segment.

At the same time, the Group continued to strengthen its market position in corporate lending and deposits, achieving a market share of 15.5% and 17.8% respectively and outperforming its growth targets. VTB’s market share in the retail deposit market rose from 6.2% to 9.3%. Amid growing retail credit risk, the Group decided not to pursue market share growth at any cost and to instead work with high-quality borrowers. As a result, during the 2010-2013 strategic period, the Group's share in the retail lending market grew from 10.2% to 13.4% (the aim was to achieve 15% market share).

Fulfilment of performance targets for VTB Group's loan portfolio[1] growth, RUB trillion

Source: VTB Group consolidated financial statements under IFRS for 2009 and 2013; VTB Group's strategic objectives for 2010-2013.

Fulfilment of performance targets for VTB Group's deposits growth, RUB trillion

Source: VTB Group consolidated financial statements under IFRS for 2009 and 2013; VTB Group's strategic objectives for 2010-2013.

During the period when the 2010-2013 strategy was in place, VTB Capital became the leading Russian investment bank, having prominent market positions in the trading of bonds, stocks, currencies and interest rates, placement of debt instruments in the capital markets and asset management. The Group's transaction banking business has developed considerably, particularly in its settlement and cash service, documentary business and factoring.

VTB Group implemented a number of significant reforms and major projects during the 2010-2013 period:

- Established a VTB Group management system along the Corporate and Investment Banking and Retail Banking global business lines, which synchronises business activities across the Group's companies; coordinating the support and control functions is currently being implemented;
- Reformed the regional network and centralised back-office functions;

[1] Total loan portfolio includes financial assets which are classified as loans and advances to customers, pledged under repurchase agreements.

- Acquired the Bank of Moscow, which is actively developing as a universal bank. A financial recovery plan for the bank is currently being implemented, and has been approved by the Deposit Insurance Agency. A programme aimed at improving operational performance, including optimising the sales network, is also underway;
- Over 900 corporate customers with a loan portfolio of more than RUB 300 billion were transferred to VTB Group following the integration of TransCreditBank into the Group's Corporate and Investment banking business, and approximately 2 million retail customers with a loan portfolio of RUB 125 billion joined VTB24;
- Conducted a RUB 102.5 billion additional share issue.

In addition, the Group successfully developed its non-banking financial business:

- VTB Insurance significantly increased its share of the gross premium in the Russian insurance market over the last three years, entering into the top-10 insurance companies;
- VTB Factoring became the undisputed market leader, outperforming its closest competitor in 2013 by 1.5 times in terms of receivables assigned;
- VTB Leasing maintained its leading position in the market, while continuing to remain among Russia's top-3 leasing companies.

When preparing the 2010-2013 strategy, VTB Group included ambitious plans for profitable growth in a stable market environment with economic growth. Many macroeconomic indicators during this period turned out to be lower than forecast. As a result, many borrowers were unable to service their debt, which led to a significantly higher level of risk and higher provisioning, which had an impact on the Group's profit. Nevertheless, despite a RUB 60 billion loss in 2009, the Group generated income of RUB 54.8 billion in 2010, RUB 90.5 billion in 2011, RUB 90.6 billion in 2012 and exceeded RUB 100 billion in 2013.

While implementing its strategy, VTB Group demonstrated high return on equity (ROE) compared to the global banking industry average. VTB's additional share issue in 2013, which raised RUB 102.5 billion for further business development, was the main reason for lower ROE. In 2013, the Group's ROE stood at 12% with the target ROE being over 15%.

As a result, the Group strengthened its competitive advantages:

- Increased its market share and strengthened its leading position across all key banking and financial services products and segments;
- Strengthened its position as a strong and reliable brand;
- Demonstrated its ability to grow assets and generate income at a rate equal to or faster than the market:
  - established new businesses and gained leading market positions (VTB24 and Leto Bank in the retail business; VTB Capital in the investment business; VTB Leasing, VTB Factoring and VTB Insurance in their respective financial markets);
  - acquired and integrated businesses - Promstroibank, TransCreditBank and the Bank of Moscow - and improved their financial performance;
- Proved a high degree of flexibility in decision-making as a result of the work of different legal entities;
- Demonstrated the ability to quickly structure and implement complicated transactions, many of which are of significant market importance;
- Continued to develop strong professional teams in the retail segment, corporate and investment banking services for large customers and other business units.

Despite the fact that VTB Group met or exceeded most of its targets for 2010-2013, there is still room to further improve the Group's performance.

"Quality Growth" – VTB's strategy for 2014-2016

In April 2014, VTB Group adopted a new three-year development strategy for 2014-2016.

Against the backdrop of a weaker economic environment and tighter financial markets regulation, the Group anticipates a slowdown in growth of the Russian banking sector both in terms of lending and deposit-taking. VTB expects to see continuing consolidation in the banking sector with the largest banks strengthening their market positions. In corporate lending, growth rates will remain stable, although loan yields and interest margins will gradually contract. In the retail lending business, it is expected that banks will reduce the level of risk they are exposed to, and therefore strengthen the role of mortgage loans as a driver of market growth.

In accordance with the Group's estimates, corporate and retail loans are forecast to increase at a compound average growth rate (CAGR) of 7-10% and 15-20%, respectively, while corporate and retail deposits will expand at respective CAGRs of 6-9% and 12-15%.

Key strategic objectives

The new strategy addresses the key opportunities and challenges for VTB Group in an environment of slower economic and banking sector growth. The Group's primary objectives for the next three years will be:

- To maintain the Corporate and Investment Banking business' position, while further improving its efficiency and non-interest earning capabilities;
- To outperform the market in retail loan and deposit growth, and further increase the retail business' share of the Group's total assets and income streams;
- To prioritise medium-sized corporate businesses as a separate operating segment and profit centre, and to achieve substantial growth in volumes, market share and profitability in this business;
- To focus on stringent cost control across all business lines;
- To further strengthen the risk management function;
- To achieve further synergies from integration, and to prepare the ground for the future merger of the Group's major banks.

Corporate and Investment Banking

Corporate and Investment Banking (CIB) will seek to grow in line with the market in loans and faster than the market in customer deposits, with a particular focus on current accounts. The segment's key objectives are:

- To diversify the business and improve concentration levels in revenues and risks;
- To further enhance the transaction banking business, aiming to increase the share of fee-generating products in the Group's revenues, including cash management and settlement products;
- To maintain the Group's leading position in the corporate and investment banking business;
- To improve efficiency by optimising headcount, streamlining business processes, upgrading infrastructure and IT, and optimising the Group's regional footprint.

Key targets	*2013*	*2016*
Market share in Russia by product type		
• Customer loans	*20%*	*20%*
• Current accounts	*10%*	*13-15%*
• Term deposits	*12%*	*16%*
Business structure and performance		
• Moderate CIR improvement		
• Increasing share of fee and commission income in revenues		
• Increasing product penetration per client		

Medium-sized businesses

Work with medium-sized businesses will develop as a separate operating segment, and is expected to become a significant contributor to the Group's revenue base. As the Group sees strong potential in doing business with medium-sized businesses, the segment's objective will be to boost its market share in key products including loans, current accounts, fees and commissions, in particular by enhancing cross-selling opportunities. The segment's customer base is expected to increase by 1.6-1.8 times to over 20,000 active clients during this strategic period. Another priority for the segment will be to substantially reduce its cost base.

Key targets	*2013*	*2016*
Market share in Russia by product type		
• Customer loans	*8%*	*10%*
• Current accounts	*13%*	*17%*
• Term deposits	*19%*	*22%*
Business structure and performance		
• Accelerated volume growth while maintaining risk profile and diversified income structure		
• Substantial CIR improvement		
• Growing contribution to the Group's performance		

Retail banking business

The retail banking business will continue to consistently grow its client base and market share in retail and small-business loans and deposits. By the end of 2016, the Group's retail customer base should include more than 20 million individuals (every fifth bank customer in Russia will be a client of the Group by 2016) and the number of the Group's small-business clients should exceed 300,000. To achieve this, the segment will expand the Group's retail branch network and further invest in its remote banking services. The total number of retail offices in Russia operating under the VTB24, Leto Bank and Bank of Moscow brands is expected to increase to about 2,600 compared to approximately 1,600 at the end of 2013. At the same time, the share of sales flow and service operations performed through ATMs, online and telephone banking is expected to increase further.

Key targets	*2013*	*2016*
Retail banking in Russia		
• Customer loans	*14.3%*	*18.5%*
• Customer deposits	*9.3%*	*12.0%*
Small business in Russia		
• Customer loans	*6.8%*	*10.0%*
• Customer deposits	*11.8%*	*12.8%*
Business performance		
• More than doubling profit		
• Maintaining stable CIR		

Improving efficiency

Improving efficiency and cost control across all business lines is a key priority for the Group in 2014 - 2016. The Group plans to achieve better efficiency by implementing the following key initiatives:

- Reducing staff costs in CIB by optimising headcount and remuneration;
- Integrating the Group's support and control infrastructure;
- Achieving closer cooperation on servicing corporate businesses between the branches of VTB and Bank of Moscow, and further optimising the Group's regional network;
- Improving back office efficiency and optimising administrative expenses.

To facilitate cost cutting initiatives, the Group is establishing a specialised office to manage this effort, which will involve introducing changes to the incentive programme in the Group's largest entities.

The Group will also take steps to further integrate its Russian banking entities with the aim of establishing a unified banking platform in the longer term beyond the span of this strategic period.

VTB Group's key financial targets for 2016

	2013	*2016*
Total assets, RUB trillion	8.8	12-13
Net interest margin,%	4.5	≈5
Net fee and commission income / Operating income before provisions, %	13	≈15-17
CIR, %	49.1	42-43
CoR, %	1.6	≈1.9-2.2
Net profit, RUB billion	100.5	160-180
ROE, %	12	≈15

4.3. REVIEW OF OPERATING PERFORMANCE

4.3.1 Corporate and investment business

The Corporate and Investment Banking (CIB) global business line specialises in servicing major corporate clients and medium-sized businesses, selling credit, transaction and investment products across all regions of VTB Group's presence, including Russia, the CIS countries, Europe, Asia, the USA, the Middle East and Africa.

VTB's credit services unit provides a wide range of lending products. The structure of the unit is designed to tailor customer service to the needs of clients operating across various industries and business segments. This helps the Group to improve credit analysis and the quality of the corporate loan portfolio.

The transaction banking unit's product line includes settlement and cash services, control of foreign exchange transactions, deposits and accounts, centralised settlements and liquidity management, as well as trade finance services.

VTB Group's investment business offers a full range of investment banking products, including trading operations in the global markets, organising debt and equity issuance, M&A transactions and consulting services, private equity investments, asset management and others.

Work with major corporate clients is organised along sector lines. The servicing model is based on sector desks/departments, each being responsible for doing business with clients from respective sectors of the economy, including state-controlled enterprises. This approach enables the Group to improve the quality of its sector expertise and build banking products tailored to the needs of specific clients.

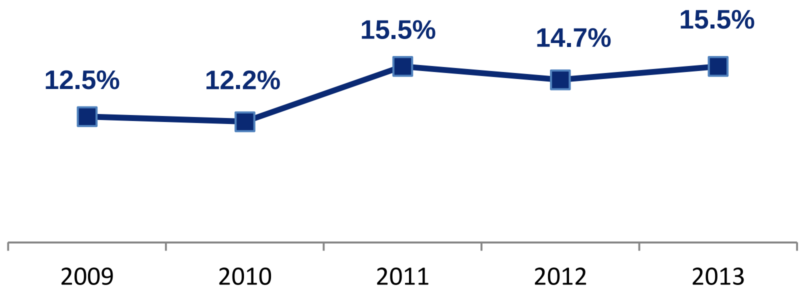
In 2013, the Bank successfully transferred TransCreditBank's corporate clients to VTB Bank and the Bank of Moscow. The project aimed at transferring TransCreditBank's business with the Russian Railways group was unique in terms of its scale, and involved synchronising and fine-tuning business processes in different time zones from Kaliningrad to Yuzhno-Sakhalinsk. In 2013, the Bank improved the quality of service it provides to its major corporate clients in VTB's regional offices.

Medium-sized corporate businesses are strategically important for VTB in terms of diversifying the Group's business and facilitating economic growth in the Russian regions. The servicing model in this segment is to be based on a standard range of banking products and services that can be provided an integrated, packaged offering. In 2013, VTB Bank completed the project aimed at optimising the Group's regional network in Russia.

Lending Business

Growth in Russian lending slowed in 2013 compared to 2012. VTB Group's corporate loan book reached RUB 4.8 trillion by the end of 2013, up 21.0% year-on-year. VTB Group ranked second in Russia's corporate lending market with a market share of 15.5%.

VTB Group market share in Russia's corporate lending market, %



Source: VTB estimates based on RAS financial results of VTB Bank

Corporate clients' focus on optimising the cost of lending and increased competition in the banking sector were the main factors affecting the Russian lending market in 2013. On this backdrop, most Russian banks were focused on improving their asset quality and enhancing cross-selling capabilities.

VTB Bank offers a wide range of lending products, including plain vanilla credit and structured finance. The lending business organises its departments along sector lines in order to facilitate efficient customer service. Financing for the Bank's clients is available for varying time periods and in all the major world currencies. The Bank also offers various types of credit lines – with drawdown limits, credit limits and with a combination of these limits.

VTB Group offers its large and medium business customers complex credit products, including structural repo, investment and project financing, debt and equity financing services, advisory services on structuring investment projects, trade financing services and direct financing from institutional investors and commercial banks. Loan leasing and factoring products are offered through the financial subsidiaries, VTB-Leasing and VTB Factoring.

The Bank is a key player in financing the "Western High-Speed Diameter" project of LLC Nothern Capital Highway in St. Petersburg. The construction is expected to be completed by 2015. This project is the world's largest public-private partnership, and was repeatedly nominated as the best project for infrastructure financing in Europe.

The Bank also enhanced its dual-currency products. In particular, VTB's structured financing facilities allow borrowers to significantly reduce their interest rate by informing the Bank of their preferred repayment currency.

As part of its commitment to financing concession projects in the Russian regions, the Bank became an investor and lender in the first regional project to build a toll bridge across river Kama. This project was carried out as part of the Private Public Partnership project with the Government of the Republic of Udmurtia.

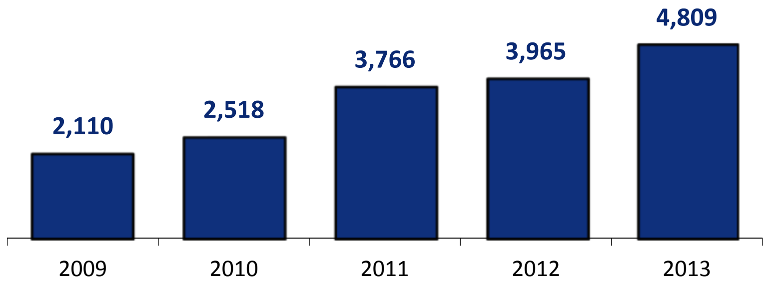
In 2013, the Bank began to actively develop import and export trade financing. New solutions were introduced offering VTB Group customers a wide range of import and export trade financing services, including those protected by the Export Credit Agencies. In 2014, the Bank plans to actively grow this business in all regions where VTB Group operates.

Lending to customers in the Russian regions and to medium-sized companies was one of the Bank's priorities in 2013. VTB Group holds a leading position in the medium-sized business segment in the food retail industry, restaurant business, film, IT and publishing industries. In 2013, medium-sized business customers were offered new loan products, including credit lines with pricing for individual tranches and remote banking products.

The Bank continued to actively participate in developing regional infrastructure by financing transport projects (particularly through Private Public Partnership projects), food and agricultural production, construction and modernisation of community facilities, including educational institutions and housing. In 2013, VTB Bank participated in the reconstruction and modernisation of water supply systems in the Kirov region; in a project for establishing a large centre for LNG production in the Yamal Peninsula; in expanding refining capacity of regional forest industries in the Vologda region; in launching large-scale production of plywood in the Novgorod region and large meat-processing and pig-breeding farms in the Kaliningrad region; in the construction of a dairy farm in Voronezh and in the modernisation of the airport in Stavropol.

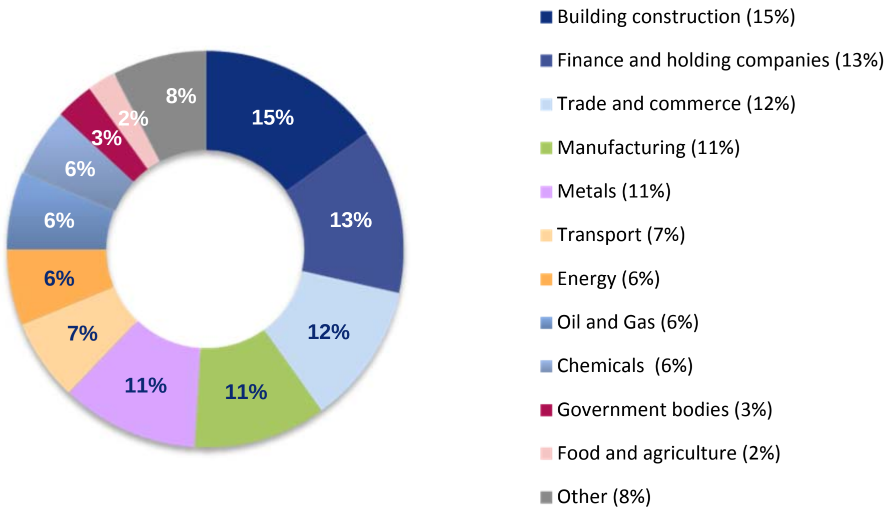
VTB continues to focus on optimising business processes in corporate lending and increasing efficiency in the Group's banking subsidiaries. The Group's priorities include the geographical expansion of the banking product offering and the development of specialised products for different customer segments.

Corporate loan portfolio, RUB billion



Source: VTB Group's IFRS consolidated financial statements.

2013 Corporate loan portfolio by segment breakdown



Source: VTB Group's IFRS consolidated financial statements.

Transaction banking business

In 2013, VTB Group continued to improve the quality of its customer service within the transaction business by introducing international best practices and responding promptly to market demands.

The Bank has significantly expanded its transaction banking capabilities, introduced new products, and optimised and improved the sales processes within this business.

Deposits

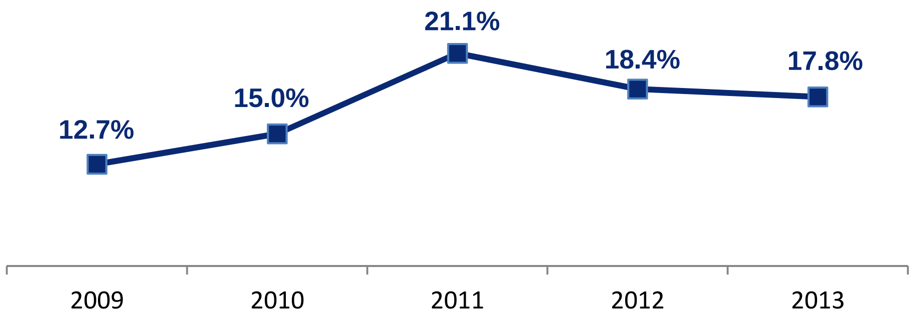
VTB Group's deposit portfolio has been steadily growing since the beginning of 2013. The Bank remained committed to its flexible interest rate policy, taking into consideration both customers' needs and the current market situation.

In order to make deposit products more attractive, VTB Group introduced the option for clients to terminate fixed-term deposits ahead of schedule and extended the time for closing deposit transactions to "overnight".

As the bank expanded its product range, a number of innovative strategies for placing excess liquidity were introduced. In particular, in 2013, the Bank started offering its customers the option to allocate funds at a floating rate linked to various benchmarks.

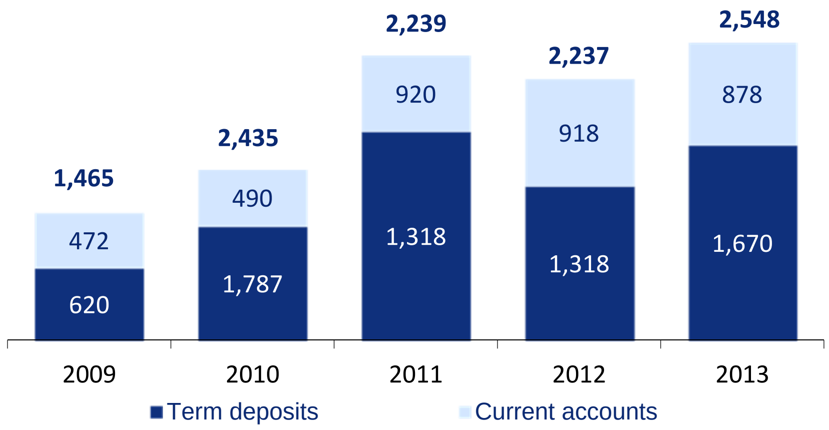
As at the end of 2013, VTB Group is the second largest player in the corporate deposits market in Russia with a market share of 18%. VTB's corporate deposit portfolio rose by 7% compared to 2012 and amounted to RUB2.5 trillion.

VTB Group market share in Russia's corporate deposits market, %



Source: VTB estimates based on RAS financial results of VTB Bank

Corporate deposit portfolio, RUB billion



Source: VTB Group's IFRS consolidated financial statements.

The transaction business' key results for 2013

The Bank improved its remote banking services during 2013. VTB introduced new options for rouble-denominated letters of credit in Russia, rolled out account statements in the SWIFT MT940 format, along with a number of other services to improve customer service quality.

During the year, the Bank established a centralised treasury and introduced other products within the transaction business for 150 large holdings, which include 1,150 legal entities.

VTB placed particular focus on developing the transaction banking business with medium-sized businesses. VTB increased the capacity of its customer settlement centre by developing its liquidity management products.

VTB Group's objectives in developing its documentary business in 2013 were to maintain its leading position in the Russian market, to increase its documentary portfolio, to improve service quality and the accessibility of documentary products and services for all types of corporate clients.

In 2013, the number of issued guarantees more than doubled compared to the previous year. Increased demand for documentary products (primarily the tender securities and cash collateral guarantees) resulted from external market factors, as well as the advantages of VTB’s product line with instant procedures and flexible pricing.

Decentralising the sales function and standardising operational support gave a powerful impetus to the development of business with regional medium-sized businesses. The number of new customers using documentary business services more than doubled compared to 2012.

Development of the transaction banking business in Russia’s regions and abroad

In 2013, a number of measures were taken to improve the effectiveness of transaction products sales across VTB Bank’s regional network. Therefore, specialised units were established for transactional products sales in key regions of Russia. This allowed the Bank to focus on attracting new customers, as well as increasing the efficiency of the existing customer base.

During the year, the transaction banking business began to develop a special product offering for medium-sized business customers. Improved cooperation with regional clients on documentary business products and liquidity management created the foundation for the growth of the Bank’s fees and interest income.

In 2013, the transaction banking business in VTB’s subsidiary banks in Ukraine, Belarus and Kazakhstan also performed well:

- PJSC VTB Bank (Ukraine) introduced individual deposit solutions for corporate clients and launched a number of initiatives to improve the security of its remote banking service. In 2013, the documentary portfolio of PJSC "VTB Bank" (Ukraine) increased by 30% compared to 2012 as a result of actively selling its documentary business products.

- CJSC VTB Bank (Belarus) has greatly expanded its product range for corporate clients. It improved its overdraft products, developed and implemented a new “import irrevocable standby unpaid letter of credit” product, and launched a project to introduce an “Internet Banking” service.

- JSC VTB Bank (Kazakhstan) further enhanced sales of transaction business products and expanded its offering with a remote banking system, new deposit products and treasury services. .

VTB plans to develop the transaction business in its European sub-holding in 2014.

Investment banking

VTB Group is the leader on the Russian investment banking market, providing VTB Group’s clients access to the global capital markets. Sales of investment banking services are primarily carried out by the VTB Capital brand. VTB Capital’s growing popularity in the global capital markets enabled the Group to successfully participate in a range of large and complex investment projects in 2013.

Trade operations in the global markets

VTB Group offers a full spectrum of trade operations services in the debt and equity markets, and also carries out currency exchange transactions and transactions in the global commodities markets. The Group also provides 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 2013, the Group retained its leading position in various segments of the investment banking market.

VTB clients are able to access equity capital markets of South Africa, Turkey, Poland, Czech Republic, Hungary, Israel and several Middle East countries. VTB Capital is a member of the London Stock Exchange (LSE), the Frankfurt Stock Exchange (Xetra), the Warsaw Stock Exchange. 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.

In 2013, VTB Capital strengthened its position on the Russian equity market and became the leading bank by trading volume for repurchase agreements on the MICEX-RTS Stock Exchange. OTC repo transactions are available to clients of the Group's Russian companies, and also to the clients of VTB Austria, VTB Deutschland, VTB France and the Russian Commercial Bank (RCB), Cyprus.

VTB Capital continued to actively develop its direct market access (DMA) service on the MICEX-RTS exchange. This service is provided by VTB Capital Broker. In 2013, VTB Capital Broker introduced a new fee structure for its clients and expanded its client base. In 2014, the Group plans to increase the geographical scope of its 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 2013, the Group conducted a significant number of its trade and investment operations with government securities, including bonds issued by the Russian Ministry of Finance and Russian Federation sovereign Eurobonds. In 2013, VTB Group's share of trades in the bond market exceeded 15% for both rouble-denominated bonds and Eurobonds.

VTB Group maintained its leading position in the foreign exchange operations market, as well as in operations with derivative products, accounting for 16% and 22% market share, respectively.

In 2013, VTB Capital Finance, which is part of VTB Capital, was the first in Russia to offer market participants capital protected structured bonds with yield linked to the performance of the Eurostoxx 50 and S&P 500 indices, , as well as bonds with yield linked to the share price changes of a chosen issuer.

In 2013, VTB Capital was recognised as the best transaction facilitator on Russia's currency instruments market for the third consecutive year, according to the US magazine *Global Finance.*

Investment banking operations

VTB Group offers its clients a full range of investment banking services, including consulting services in relation to M&A transactions, and placements of debt and equity issuances. The business is focused on working in the key sectors of economy and servicing clients in Russia and in the international markets.

In 2013, VTB Group strengthened its leading position in Russia and improved its reputation on the international M&A market. For the first time, VTB Capital acted as a financial consultant in accordance with the UK City Code on mergers and acquisitions during the USD 4.75 billion buyout and delisting of ENRC plc.

Despite the adverse market conditions in the equity capital market, VTB Capital strengthened its leading position by participating in a number of deals during the reporting period. In particular, VTB Capital acted as one of the book runners of OJSC VTB Bank's USD 3.3 billion equity placement, and also participated in the US$1.3 million privatisation of OJSC ALROSA, which was the first and largest public placement of shares with an exclusive listing on the Moscow Exchange. In 2013, VTB Capital took part in an IPO in the Middle East for the first time, by participating in Damac Real Estate Development Ltd's USD 348 million share placement.

In April 2013, VTB Group acquired 100% of shares in Tele2 Russia from the Swedish telecom operator Tele2 AB to further develop the company's business and to subsequently return on its investment. In October 2013, VTB Group sold a 50% stake in the company to a group of strategic investors, which includes Bank Rossiya Group and companies affiliated with Alexey Mordashov. The upcoming merger of the assets of Tele2 Russia and Rostelecom into a combined company, T2 RTK Holing LLC, will provide the operator with new development opportunities, including network roll-out in all Russian regions and offering high-speed mobile Internet services.

In the Middle East, VTB Capital conducted an Islamic financing deal for the first time for US$ 100 million. The structure of the deal involved Islamic bonds (Sukuk) and trade financing (Murabakh). VTB Capital won the mandate after competing with global investment banks and carried out the deal in conditions of a highly strict regulatory environment and client's requirements.

In 2013, VTB Capital strengthened its leading position on global markets in all investment banking service segments.

According to Dealogic, VTB Capital was ranked first by total volume of transactions on the debt capital markets in Central and Eastern Europe, Russia and the CIS countries, organising 121 placements for a total sum of USD 20.65 billion and holding an 11.6% share of the market. On the international market, VTB Capital became one of the organisers of Vivacom's EUR 400 million Eurobond issue, which was the first Eurobond issue since 2006 by a private Bulgarian company. According to Global Finance magazine's 2013 ranking, VTB Capital was named as the best investment bank in the debt capital market in Central and Eastern Europe.

Dealogic also ranked VTB Capital in first place in the equity capital markets in Russia and the CIS countries, organising 7 deals with a total value of USD 2.25 billion, holding 22.5% of the market.

Furthermore, the Bank was named the leading M&A consultant in Central and Eastern Europe, Russia and the CIS by Dealogic. In 2013, VTB Capital completed 23 transactions in Central and Eastren Europe with a total value of USD 24.96 billion, with a 15% share of the market. The company organised 20 deals in Russia where it has a 25.5% market share.

VTB Capital won an Infrastructure Journal award for financial consultancy in the infrastructure sector in Eastern Europe, after completing three project financing deals with a total value of USD 3.8 billion.

In 2013, VTB Capital won the "Best event organiser" award at the IPRA Golden World Awards for holding the investment forums, "Russia Calling!". This is a very prestigious award of the International Public Relations Association. Russia Calling Forum also won the Corporate & Financial Awards for "Best investment event with participation of research team/investors/media" and "Best strategy for communication with foreign investors and media." Communicate Magazine's (UK) Corporate & Financial Awards are one of the most reputable international awards in the communications sphere.

Among other awards, VTB Capital was named the "Leading financial consultant in Russia and the CIS" by the Financial Times & Mergermarket European M&A Awards in 2013. In addition, *Global Finance* magazine named VTB Capital as the best investment bank in Russia.

Research

In 2013, VTB Capital research reports provided full coverage of the capital markets and the main sectors of the economy, offering VTB's clients a well-rounded and thorough analysis. VTB Capital's Research Department covers more than 220 Russian and international companies. It also regularly conducts independent research on the fixed-income instruments markets, the equity and commodities markets, carries out analysis of the macroeconomic situation and provides analytical support to the Group's companies. In 2013, the geographical scope of research services was significantly enlarged to include Turkey, the Middle East, Central and South-East Europe, and Africa. VTB Capital analysts regularly score highly in the international rankings of *Institutional Investor* magazine and Thomson Reuters Extel Survey.

Operations in the commodities markets

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

The Group participates in trading precious metals, performs operations with derivative instruments, carries out export operations and sells precious metals acting in its own name on behalf of the clients, who are either precious metal producers or other banks. VTB Bank is a member of the London Bullion Market Association, which enables the Group's clients to gain direct access to a number of potential markets, primarily in Asia. This will further promote business development as part of the Bank's strategic diversification of its customer base and markets it operates in.

VTB Group is actively developing financing secured by commodities. In 2013, for the first time, VTB Capital completed a deal on advanced payment for supplies of raw materials to a large coal producer (SUEK). The structure of the deal enabled VTB Group to receive a high yield on the deal, while the leading commodities markets players had attractive financing terms for the supplies.

VTB Capital's largest investment transactions in 2013

VTB VTB Bank RUR 102.5 billion Follow-on offering VTB Capital Joint Global Coordinator Joint Bookrunner 2013	Rosneftegaz US$ 59.3 billion Acquisition of TNK-BP VTB Capital Financial Advisor 2013	TELE2 TELE2 US$ 3.55 billion Acquisition of TELE2 Russia VTB Capital Financial Advisor 2013	MOSCOW EXCHANGE Moscow Exchange RUR 15 billion IPO VTB Capital Joint Global Coordinator & Joint Bookrunner 2013
DTEK DTEK US$ 600 million new issue and US$300 million tender VTB Capital Joint Lead Manager & Bookrunner 2013	PIK GROUP PIK Group US$ 330 million Accelerated Follow-on Offering VTB Capital Joint Global Coordinator & Joint Bookrunner 2013	PHOSAGRO PhosAgro US$ 467 million Follow-on offering VTB Capital Joint Global Coordinator & Joint Bookrunner 2013	JOINT STOCK COMPANY RUSSIAN GRIDS Russian Grids Circa US$ 9.2 billion Restructuring Advisory VTB Capital Financial Advisor 2013
Russian Federation US$/EUR 7 billion 4-Tranche Eurobond with Debut Euro Tranche VTB Capital Joint Lead Manager, Bookrunner 2013	POLYUS Polyus Gold US$ 3.62 billion Acquisition Advisory and Financing to Purchasers VTB Capital Exclusive Financier & Financial Advisor 2013	Russian Railways Russian Railways CHF 675 million Dual Tranche Eurobond VTB Capital Joint Lead Manager & Joint Bookrunner 2013	LUXOFT Luxoft US$ 80 million IPO VTB Capital Joint Bookrunner 2013
ALROSA ALROSA US$ 1.3 billion IPO VTB Capital Joint Global Coordinator Joint Bookrunner 2013	KinoPoisk Kinopoisk US$ 80 million Sale to Yandex VTB Capital Sole Financial Advisor 2013	QIWI QIWI US$ 288 million Follow-on Offering VTB Capital Lead Manager 2013	BANK SAINT PETERSBURG Bank Saint Petersburg US$ 100 million Eurobond issue VTB Capital Joint Lead Manager / Joint Bookrunner 2013
DAMAC Damac Real Estate Ltd US$ 348 million Initial Public Offering VTB Capital Co-Manager 2013	Platinum Bank Platinum Bank Not disclosed Sale of Platinum Bank VTB Capital Exclusive Financial Advisor 2013	VIVACOM VIVACOM €400 million Eurobond issue VTB Capital Joint Global Coordinator, Joint Bookrunner 2013	Power Machines RUR 10 billion Debut local bond VTB Capital Joint Lead Manager 2013

OJSC Russian Utility Systems Rating advisory VTB Capital Rating Advisor 2013	Krasnoyarsk Region RUR 11 billion Local bond issue VTB Capital Joint Bookrunner 2013	Sollers Not disclosed Winner in privatisation auction for 13.2% of OJSC "UAZ" VTB Capital Exclusive Financial Advisor 2013	Russian Agricultural Bank US$ 800 million Eurobond issue VTB Capital Joint Lead Manager, Bookrunner 2013
Alrosa US$ 1.38 billion Sale of gas assets to OJSC Rosneft VTB Capital Exclusive Financial Advisor 2013	Enel US$ 1.8 billion Sale of 40% stake in Arctic Russia BV to Rosneft VTB Capital Financial Advisor 2013	Mechel Not disclosed Disposal of TPC Russe (heating utility) in Bulgaria VTB Capital Financial Advisor 2013	Barclays GBP 6.1 billion Rights issue VTB Capital Sub-underwriter 2013
Credit Suisse CHF 250 million Tier 1 Eurobond VTB Capital Senior Co-Manager 2013	Exillon Energy US$300 million Sale of 29,99% in Exillon Energy Plc VTB Capital Exclusive Financial Advisor 2013	Vnesheconombank RUR 20 billion Local bond issue VTB Capital Joint Bookrunner 2013	ENRC US$ 4.75 billion Advisor to BidCo re Take Private of ENRC VTB Capital Joint Financial Advisor 2013

VTB Capital's Awards in 2013

Global Finance World's Best Investment Banks **Best Investment Bank in Russia** 2011, 2012, 2013	Global Finance World's Best Investment Banks **Best Investment Bank in CEE** 2013	Global Finance World's Best FX Providers **Best FX Provider in Russia** 2011—2013	Euromoney **Best Investment Bank in Russia** 2013
Cbonds Awards **#1 Best Bond Market Trading** 2013	Cbonds Awards **#1 Best Bond Futures Team** 2013	Cbonds Awards **Best Primary Corporate Bond Deal** 2013	Cbonds Awards **Best Primary Subfederal/Municipal Bond Deal** 2013

Cbonds Awards **Best Macroeconomics Analyst – Vladimir Kolychev** 2013	dealogic *In Recognition of Excellence* **Russia Investment Banking** 2013	Cbonds Awards **#1 Best Bond Market Sales** 2013	Cbonds Awards **#1 Best Investment Bank (Company): Arranger for First Tier Issuers** 2013
Corporate & Financial Awards 2013 **Best Analyst / Investor / Press Meeting:** **"RUSSIA CALLING!" Investment Forum** 2013	Corporate & Financial Awards 2013 **Best Ongoing Communication with Overseas Investors and / or Media:** **"RUSSIA CALLING!" Investment Forum** 2013	INFRASTRUCTURE JOURNAL **#1 Financial Advisor in Eastern Europe** 2013	ipra **Best Event Management:** **"RUSSIA CALLING!" Investment Forum** 2013
mergermarket European M&A Awards **Financial Advisor of the Year in Russia & CIS** 2013	PEI PRIVATE EQUITY INTERNATIONAL Private Equity Awards **#1 Private Equity Firm in Russia** 2013	The Banker Global Financial Intelligence Since 1926 Investment Banking Awards **Most Innovative Investment Bank in CEE** 2013	Компания года **Investment Company of the Year** 2013
NAUFOR Elite of Securities Market Awards **Best Investment Bank** 2010—2012	NAUFOR Elite of Securities Market Awards **Best Equities Company** 2012—2013	INTERNATIONAL FINANCE MAGAZINE AWARDS 2013 **Best Investment Bank in Russia** 2013	emeafinance *Achievement Awards* **Best Securitisation House** 2013

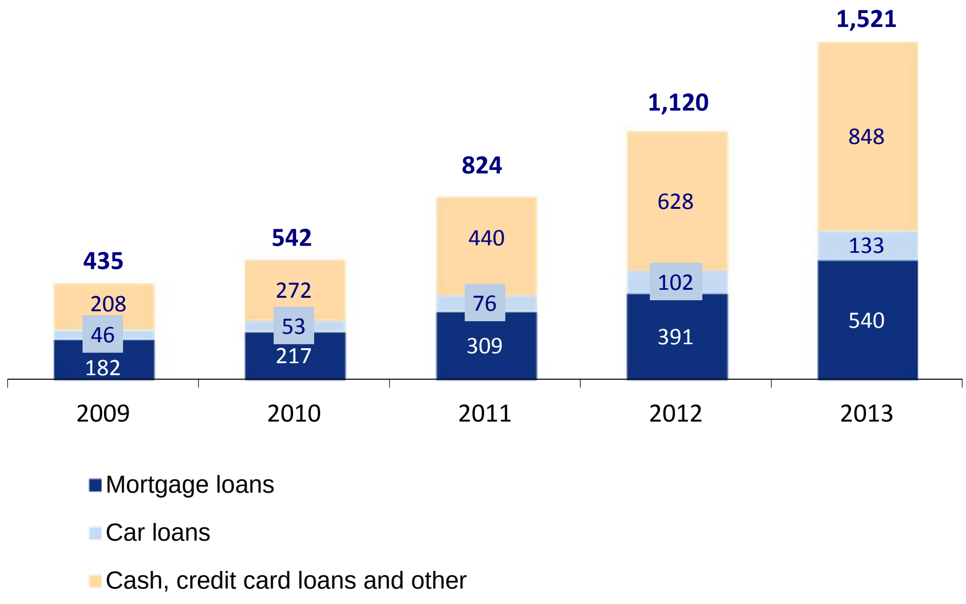
4.3.2 Retail Banking

In 2013, VTB Group's retail banking business continued developing in a dynamic fashion both in Russia and abroad. As the second largest bank in Russia serving individual customers, VTB24 continues to form a core part of the Group's retail business. In addition, VTB Group's retail banking services in Russia are also provided by the Bank of Moscow and Leto Bank, which began its operations in 2012.

In total, VTB Group's active Russian retail customer base exceeded 14 million, including customers of the Bank of Moscow and Leto Bank. As at the end of 2013, VTB Group banks outside Russia (Ukraine, Armenia, Azerbaijan, Kazakhstan, Belarus, Georgia, France, Austria and Germany) provided services to approximately 3 million individuals.

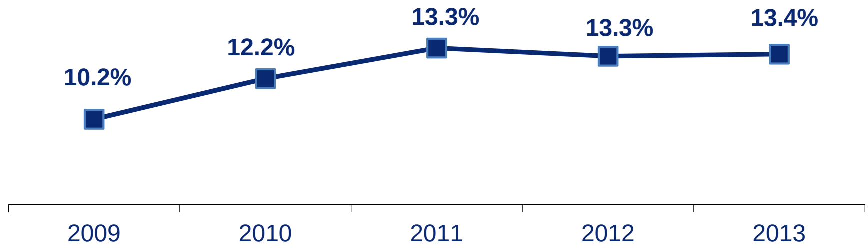
Despite the slowdown in economic growth in 2013 compared to 2012 and increased competition from both the largest universal banks and actively developing monoline banks, VTB Group's retail loan portfolio grew by 36% to RUB 1,521 billion in 2013. At the same time, VTB Group maintained its second position with 13.4% market share among Russia's retail lenders as at the end of 2013, which the Group has retained for the past six years. The launch of Leto Bank enabled the Group to strengthen its position in the lower and middle client segments.

Loans to individuals (in RUB, billion)



Source: VTB Group's IFRS consolidated financial statements.

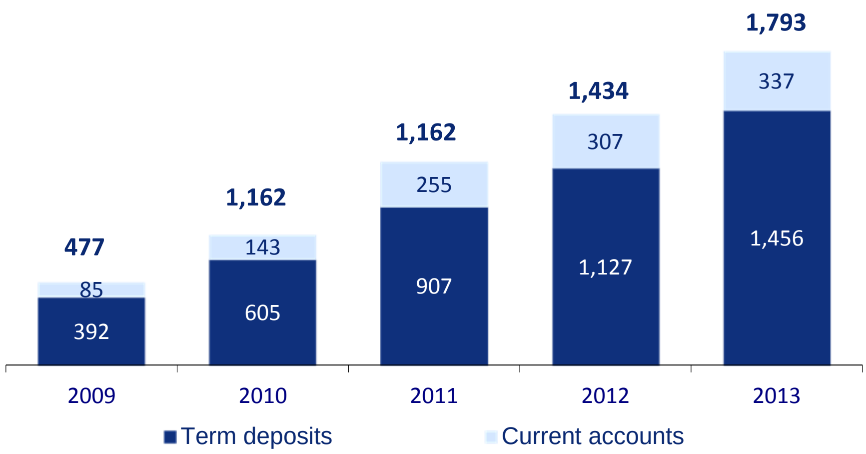
VTB Group retail lending market share, %



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

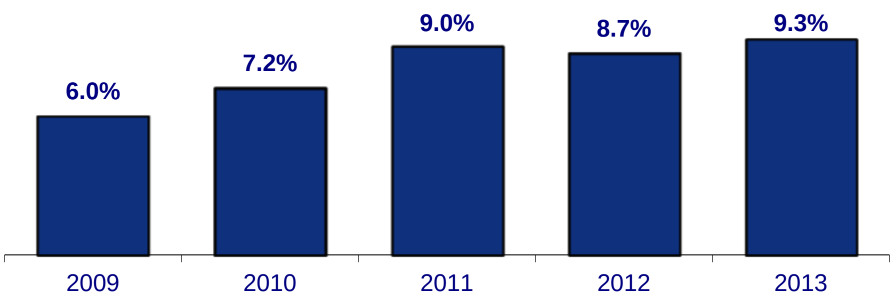
In the reporting period, the Group demonstrated rapid growth in retail deposits. At the end of 2013, VTB Group's portfolio of retail deposits reached RUB 1,793 billion, an increase of 25% compared to 2012. In an increasingly competitive environment, VTB Group was able to capitalise on its brand reputation and secure a significant inflow of customer funds. At the end of 2013, VTB's share in Russia's retail deposit market significantly increased from 8.7% to 9.3%.

Deposits by individual customers (in RUB, billion)



Source: VTB Group's IFRS consolidated financial statements.

VTB Group retail deposit market share, %



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

Loan products

Consumer loans

In 2013, the main objective of the Group, represented by VTB24, in the consumer lending segment was to ensure sales growth, profitability, and reduced levels of non-performing loans. In order to increase sales, the Bank conducted marketing campaigns, offering lower interest rates on loans for different types of borrowers. In addition, VTB24 expanded its target client audience and introduced its offer to new customers with a good credit history. In 2013, the Bank concentrated its efforts on working with corporate and payroll clients, who demonstrate a lower level of credit risk, and this had a positive impact on profitability.

In 2013, VTB24 issued over 1,105,000 consumer loans amounting to more than RUB390 billion.

The number of cash loans issued by the Bank of Moscow increased by 1.5 times in 2013 compared to 2012. This result has been achieved by implementing a number of initiatives, which allow cash loans to be granted with just one visit to a branch. These initiatives include expanding the list of documents used to verify indirect income, automating the process of early repayment and lowering the minimum credit limit to RUB 30,000.

Following its successful launch in 2012, Leto Bank expanded its footprint across more than 10,000 retail outlets in the reporting period, with its own employees working in approximately a thousand outlets and with representatives of trade organisations servicing the remaining outlets (11 federal and many regional retailers). As a result, the volume of loans granted in 2013 amounted to approximately RUB35 billion.

In 2013, Leto Bank modified its product offering by changing the range and rates of cash disbursement, and by introducing the option to use a reduced rate service in the absence of arrears over a long-term period. In addition, in 2013, the bank launched a large number of POS-products, began issuing loans through its bank counters, and introduced a wide range of products for repeat customers. Leto Bank also offered its clients the WEB POS and WEB CASH online services, which allows customers to apply for the bank’s products online.

VTB Group also managed to achieve dynamic growth of its consumer loans portfolio in the CIS market. Its total volume rose by more than 30% and exceeded RUB20 billion at the end of 2013.

Car loans

In 2013, VTB Group strengthened its leading position in the car loan market. The Group’s car loan portfolio increased by 30% to RUB 133 billion in 2013. In the reporting period, VTB24 became the market leader of the car loan market by volume with its market share increasing from 12.8% to 13.6%.

The Russian government launched a state programme to subsidise interest rates on car loans on 1 July 2013. At the end of 2013, VTB24’s share of car loan sales on this programme exceeded 60%. In October 2013, the Bank increased its securitised car loan portfolio from RUB13 billion to RUB18 billion, which enabled it to continue diversifying sources of funding.

In 2013, the Bank launched the following as part of car lending:

- new programmes for the purchase of additional equipment and motorcycles;
- new services/products: GAP-insurance and AutoMap;

- new projects with car manufacturers such as Chevrolet (which is among the top 5 in terms of foreign car sales in Russia), SsangYong and UAZ.

The car loan portfolio of foreign banks increased by more than 40% in 2013. The Group managed to take a leading market position in certain countries. The Group has become the market leader for loans on new cars in Georgia, representing 49% of all sales on credit.

Mortgage lending

In 2013, the mortgage market continued to expand at a steady pace comparable to 2012, despite many market participants' expectations. During the reporting period, the volume of the mortgage market reached RUB 2,765 billion, demonstrating an annual increase of 30%.

2013 was marked by a significant increase in lending activity in the new build housing segment. Demand for mortgages continues to remain high, and mortgage lending penetration in housing transactions is also growing. According to estimates of the Federal Service for State Registration, Cadastre and Cartography (Rosreestr) and the Agency for Housing Mortgage Lending, the share of housing transactions which involved a mortgage approached25% in 2013 compared to 21% in 2012. For new-builds, this figure reached 40% or above depending on the class of property.

The mortgage market in the reporting period continued to demonstrate improvements in the quality of mortgage debt. The level of overdue payments on housing mortgages for the year decreased from 2.24% to 1.57%.

As of 31 December 2013, VTB Group's mortgage portfolio grew by 38.1% year-on-year to RUB 540 billion, compared to RUB 391 billion in 2012.

VTB24 was the main contributor to the Group's total mortgage sales. In 2013, 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. VTB24 also launched new programmes and a number of pilot projects.

VTB24's effective cooperation with construction companies and its active participation in implementing the VEB programme, as well as a number of special events in the new housing mortgage market implemented in the second half of 2013, enabled the Bank to bring its share of new housing mortgage loans sales to a total of 50% by the end of the reporting year.

VTB24's mortgage sales network consisted of 230 sales points located in 138 cities across Russia.

The Bank of Moscow also actively developed its mortgage lending in the reporting year. The bank introduced sales and mortgage lending processes based on VTB24's infrastructure 2013. Customers of the Bank of Moscow were able to get a mortgage based on the VTB24's offering in the nearest branch of the Bank of Moscow.

In 2013, the mortgage portfolio of VTB Group's foreign banks grew at a moderate pace of 10% year-on-year and amounted to RUB 6.3 billion.

Services for small businesses

Small business customers make up a key part of VTB Group’s retail business. The Group provides services to individual entrepreneurs and small enterprises mainly through VTB24. In 2013, the growth rate of VTB24’s small business segment outpaced the market by almost three times in lending and mortgage products. In the reporting period, the volume of lending by the bank to small businesses increased 1.2 times compared to 2012.

Since the beginning of 2013, the total liabilities of the small business segment increased by 1.6 times. The segment’s deposit portfolio tripled year-on-year, while account balances of small businesses increased by 32%.

The small business’s guarantee portfolio significantly increased by more than five times in the reporting period. A significant portion of documentary business was also transferred to VTB24 as part of the integration with TransCreditBank. In addition to guarantees, the documentary business portfolio is represented by RUB 8.0 billion of corporate letters of credit.

VTB24’s positive dynamics in servicing small businesses mainly resulted from the bank’s customer-oriented approach towards business development aimed at improving the quality of service while also increasing profitability. VTB24 has also benefited from a segmented approach to customer service based on the standardisation of procedures:

- customers of the standard small business segment with an annual revenue of up to RUB20 million are offered standard types of credit products and packaged cash and settlement service products;
- clients of the priority small business segment are presented with an individual offering of banking products and a personal manager service.

VTB24 currently offers one of the most extensive product ranges in the market for small businesses, covering most segments and meeting almost any customer need.

VTB24 is actively working with regional guarantee funds in the area of small business lending. Therefore, in 2013, VTB24 collaborated with 55 regions as part of a state programme to provide credit guarantees under the guarantee funds. The volume of issued loans secured by guarantee funds amounted to RUB 6.0 billion in the reporting period. As part of the state support programme for small and medium businesses, VTB24, in cooperation with OJSC MSP Bank, provided a total of RUB 18.0 billion of financing to small businesses in 65 Russian regions.

In order to further develop its business in the small business segment, VTB24 implemented the following activities in 2013:

- Replicated a new platform for remote banking, “Bank- Client Online”, by which the Bank’s customers were able to not only conduct payment transactions, but also to acquire products and services remotely;
- Optimised the terms and conditions and technology of credit products, and launched new services and improved customer care in payment and commission-based products;
- Optimised the decision-making authority system for all kinds of products enabling the bank to generate offers tailored to individual customers;
- Updated banking guarantees product range with terms being reduced and arrangements for the provision of guarantees under the authority of VTB24’s regional branches being simplified.

The Bank of Moscow also paid considerable attention to the SME segment in 2013. This allowed the bank to take 9th place among Russian banks in terms of SME loan portfolio size (2012: 15th position) and to rank first among the Top 10 Russian banks based on its growth rates (according to Expert RA). In 2013, the Bank of Moscow launched three new loan products: “Perspective for business” (debt refinancing), “Commercial mortgages” and “Business Success” (scoring microcredit).

At present, nine loan products make up the Bank of Moscow’s credit offering for small businesses. The bank focuses on companies with revenues up to RUB300 million a year.

VTB24, the Group’s leader in retail lending, uses best lending practices, which have been replicated across the Bank’s subsidiaries. As a result, products from the “Kommersant” range, which are very similar to VTB24 products and are aimed at entrepreneurs and small business owners, were launched in Kazakhstan, Azerbaijan and Georgia.

Deposit products

As of 31 December 2013, the account balances of VTB Group’s individual customers amounted to RUB 1,793.4 billion, including term deposits of RUB 1,456.2 billion. During the course of the year, the term deposits portfolio increased by 25.0%.

In 2013, VTB24 deposits formed the main part of the Group’s total deposits. In the reporting period, the bank significantly upgraded its range of deposits for individuals by excluding the least requested deposits and introducing new products. In addition, “VTB 24 - Your bonus” was launched for payroll customers, which has a higher interest rate. Optimising the range of deposits primarily aimed at meeting customer needs.

VTB24 interest rates on individuals’ deposits in 2013 were repeatedly revised in accordance with the market situation. While the rates were raised in the first half of the year, starting from June 2013, VTB24 was forced to slightly lower rates on deposits in line with the market environment. However, lower rates on the main deposit products were offset by profitable promotional offers on certain types of deposits.

In 2014, VTB24 will continue to further develop its deposit product range. The bank, therefore, plans to launch a comprehensive deposit and investment product in the second quarter.

In turn, the Bank of Moscow launched a range of new deposit accounts in the reporting period, which include “Maximum Income”, “Maximum Growth”, “Maximum Comfort”, “Annual Bonus” and “Savings Account”. The process of obtaining a bank deposit account has become easier, as the time taken to open a new account has decreased by 2.5 times and takes up to 21 minutes, including a consultation.

In 2013, the deposit portfolio of individual clients in VTB Group’s foreign banks rose by 23.0% year-on-year, reaching RUB167.0 billion. Most of the deposits in this portfolio were in VTB Austria and VTB France, the Bank’s European sub-holdings.

Commission-based products

A significant proportion of the Group’s retail banking income is attributable to commission-based income. VTB24 makes the greatest contribution to the growth of this type of income. Commissions earned on card transactions continue to 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.

Bank cards

In 2013, the total number of VTB24 cards in circulation grew by 12.0% year-on-year. This positive dynamic resulted from attracting new customers, which, in turn, was driven by optimising and improving the product line. Over the course of the year, the bank has been working on improving its service offering for existing cardholders by conducting various marketing campaigns together with payment system providers.

As of 31 December 2013, the total number of VTB24 payment cards in circulation, including cards with an agreed overdraft facility, amounted to over 12.5 million (RUB 11.3 million as at the end of 2012).

In 2013, VTB24 attracted 6,095 payroll projects. Therefore, as of 31 December 2013, the total number of businesses using the bank's services exceeded 29,000, compared to 27,000 in 2012.

In 2014, 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 products. The bank intends to pay particular attention to conducting activation campaigns among cardholders, as well as measures to improve the bank's services within the card product offering.

The Bank of Moscow updated its range of credit cards in 2013. During the year, the bank conducted a number of credit card activation campaigns, including "Credit Card Rules!", "Not a gift, but gold", and "Summer of useful gifts" among others. These campaigns led to the credit card portfolio increasing by 1.6 times compared to 2012. In the reporting period, a national co-branded card was launched with the airline S7, and a new credit card "Sacred Gift" was released in conjunction with the Foundation to support the construction of churches in Moscow. The bank also expanded sales of pension cards in the regions. As of 31 December 2013, the total number of Bank of Moscow payment cards in circulation, including Muscovites' social cards, was 11.8 million (up from 10.3 million at the end of 2012).

Remote banking services

In 2013, the number of active clients using VTB24's remote banking service, "Telebank", increased by 21.0% year-on-year and reached 478,000 users, compared to 394,000 as at the end of 2012. In addition, the total number of users grew by 32.0%. The number of "Telebank" and "Teleinfo" users amounted to more than 2.4 million at the end of 2013. In the reporting period, the proportion of deposit accounts opened remotely increased by 5.2 p.p year-on-year to 19.26% of VTB24's total deposits.;

In 2013, substantial work was done to introduce new functions and services to VTB24 Telebank ("Telebank 2.0"):

- launched a new version of the system, "Telebank 2.0", for the bank's customers in all regions;
- introduced new security measures (authentication);
- changed the approach to validating transactions made within "Telebank" – clients can now choose their own way of confirming the transaction at the time it is made;
- introduced the option to make micropayments without confirmation;
- launched a service for paying taxes and STSI fines.

In 2013, the number of "SMS-notification" users increased by 46.0% year-on-year and exceeded 1 million, leading to an increase in fee income from the service to RUB220 million, compared to RUB149 million in 2012. In the reporting period, the bank launched "Salary", a new SMS package, which informs customers about salary enrolment wages free of charge (655,000 customers used this service as at the end of 2013).

As at the end of 2013, VTB24's mobile banking service doubled its share of all customer transactions to 10.7%. In addition, a new project, "Mobile Banking 2.0", was launched during the reporting year. As part of this project, the browser version (PDA) and mobile applications for the three major platforms will be completely redesigned in the near future, and separate applications will be developed specifically for tablets.

In 2013, the Bank of Moscow's main focus in the remote banking segment was to develop its Internet service. The bank introduced a number of new Web-banking services, including the ability to open a deposit account online, inquire about receiving a statement from the Pension Fund of Russia and pay STSI fines. Customers can use the online chat facility to receive advice from the bank's specialists, and also have access to a range of other services. In 2013, the Bank of Moscow launched BM Mobile, a free application available on the iOS, Android and Windows Phone 8 platforms. Using this application any user (not only Bank of Moscow customers) can pay for more than 200 services, including utility bills, and can transfer money on cards of any Russian bank in Moscow and the regions. This application can also be used to find the nearest Bank of Moscow branch or ATM.

Transfers and payments for services

In 2013, VTB24 continued to develop its payment and money transfer services. Transactions carried out by individuals to pay for services provided by various organisations increased by 21.0% year-on-year in the reporting period and amounted to RUB138 billion. The average payment size increased by 25.0% year on year. As in previous years, this significant increase was driven by high demand for services from the Bank's existing and new customers, continued expansion of its branch network and an increase in the number of organisations, whose products and services are available to pay for by using the Bank's different channels.

In 2013, VTB24 and the Bank of Moscow introduced the option to make government payments (taxes, fines and so on) with interest rate charges and account details taken from the Public information system for regional and local payments, which significantly simplified the payment procedure.

VTB24 customers were able to pay for services of Russia's largest association of housing and communal settlement centres, the Uniform Information and Accounting Centre in Moscow, by using the new "Telebank" service.

In February 2013, the Bank of Moscow launched an innovative service for transferring money to any Russian bank card (Money Send, Money Transfer) across all remote sales channels. In 2013, the bank carried out over 265,000 transfers totalling more than RUB2 billion.

Services for high-net-worth customers

In 2013, VTB24 continued to be active in attracting privileged and high-net-worth customers to use the bank's comprehensive services over the long term. In the reporting period, the bank launched the free ‘Privilege’ and ‘Priority’ packages for its high-net-worth customers, and expanded its range of services, resulting in improved customer loyalty, a stronger competitive position in the market and an increase in sales.

In the reporting year, customers of the ‘Privilege’ package also had the opportunity to receive new cards, since VTB24 was first Russian bank to launch the new status cards, VISA Signature and MasterCard World Black Edition.

In 2013, sales of the ‘Privilege’ and the ‘Priority’ packages increased by 40.0% year-on-year. As at 31 December 2013, 35,300 clients were subscribed to the ‘Privilege’ package, and 99,600 to the ‘Priority’ package.

Private banking

The Group’s private banking services in Russia are provided by VTB24 and the Bank of Moscow.

VTB24 Private Banking is the leader in Russia’s private banking market. VTB24 Private Banking offices operate in Moscow, St. Petersburg, Krasnodar, Yekaterinburg, Kazan, Samara, Rostov-on-Don, Nizhny Novgorod and Novosibirsk.

In 2013, ‘Prime’ package holders were offered the option to add up to three minors on their travel insurance policy with medical cover of up to US$50,000.

‘Prime’ package holders have been able to apply for ‘Prime’ cards based on MasterCard World Elite since July 2013. The bank introduced a cash-back promotion for purchases using the ‘Prime’ cards in order to stimulate an increase in turnover within the ‘Prime’ card sales and service network.

In 2013, VIP-clients’ funds were transferred from TransCreditBank to VTB24 Private Banking. The number of the bank’s VIP-clients increased by 39.0% year-on-year to 3,927 customers in 2013. In total, VIP-clients placed over RUB308 billion with VTB24, while the increase in total balances for 2013 was 44%. The average credit balance per customer reached RUB78.5 million at the end of 2013.

VTB24 Private Banking sells its products and services through a specialised premium network. A VIP-office was opened in Novosibirsk in the reporting period. Ten VTB24 Private Banking offices currently operate in nine Russian cities, including two offices in Moscow. VTB24 Private Banking is also represented in the retail network’s sales points in ten more cities in Russia.

In 2013, the Bank of Moscow introduced a number of new products for its Private Banking customers, including savings certificates; co-branding with the real estate developer “Donstroy”; co-brand with the Hermitage Gallery; limited edition cards with individual design and interspersed with semi-precious metals. In addition, the bank simplified the process of reviewing and approving credit card applications from private banking clients.

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. In 2013, VTB24 firmly held its position among the leading brokerage companies and banks providing brokerage services. It is ranked number one in terms of the number of customers registered on the Moscow Exchange, and fourth based on the number of active clients registered on the Moscow Exchange.

The volume of VTB24 customer transactions on the stock market amounted to over RUB650 billion, driving the bank to eighth place in the Moscow Exchange rating of the “Leading Market Operators – Shares: Main Trading Regime”. The average daily volume for marginal lending in 2013 totalled over RUB4.3 billion. The volume of VTB24’s customer transactions on the FORTS futures and options market amounted to approximately RUB1.8 trillion.

In 2013, through its brokerage services on the stock market, VTB24 successfully placed JSC VTB Bank’s additional share issue. At the end of 2013, 201,298 broker accounts were registered on the Moscow Exchange for the Bank’s customers. In 2013, VTB24’s customers had the opportunity to conduct brokerage transactions with shares of foreign issuers traded on foreign stock exchanges.

The volume of Forex transactions of VTB24’s customers in 2013 amounted to over US$ 200 billion, including swap transactions. In 2013, the number of customers using the Forex service increased by 1,400, or by 17 % year-on-year, compared to 2012.

In 2013, while developing its property trust service, VTB24 lowered the minimum investment amount for investment strategies, adhering to the stock index (or combination of indices), from RUB1 million to RUB 500,000. For basic investment strategies, the amount was lowered from RUB2.5 million to RUB1 million. As a result, VTB24 brought its terms and conditions in line with similar products from other banks. This led to an increase in active contracts.

In 2013, money raised in mutual investment funds through VTB24 agency offices amounted to more than RUB1 billion. The number of sales points of mutual investment funds increased by 73 agency offices to a total of 738 in 2013.

Access to VTB24 investment services is available through the entire network of branches and offices. All bank’s regional offices can share a united approach to providing investment services.

ATMs

VTB24’s ATM network increased by 1,500 units year-on-year and amounted to 12,100 ATMs as of 31 December 2013. VTB24 is continuously improving its self-service network, enhancing service quality, and expanding the network. During 2013, the number of self-service devices increased by more than 900 units, 400 of which are equipped with a cash pay-in function.

As of 31 December 2013, the number of devices used for cash withdrawal and pay-in and cash payments for goods (works, services), including non-card payments, amounted to more than 6,800 units (with TransCreditBank’s network of self-service devices, which merged with VTB 24, this number reached more than 9,500 units). 37% of these devices are equipped with a cash pay-in function.

In 2013, VTB24’s ATM network had processed more than 250 million transactions. More than RUB 1.7 trillion of cash was withdrawn, and over RUB 310 billion was received and credited to customers’ card accounts.

In 2014, the VTB24 plans to expand its own ATM network to 10,250 units and introduce new devices, such as information and payment terminals for non-cash payments.

The Bank of Moscow's ATM network increased by 138 units in 2013 and amounted to 2,013 ATMs. The bank plans to expand its ATM network to 2,150 units in 2014.

In 2013, the number of Leto Bank ATMs grew by 353 units year-on-year to 413 ATMs. Leto Bank plans to increase the number of ATMs to 680 units in 2014.

Network

VTB Group has one of the most developed networks of sales and service offices in Russia. This includes offices of VTB, VTB24, the Bank of Moscow and Leto Bank, which, when combined, amount to 1,610 units.

In 2013, VTB24 demonstrated impressive growth rates in the scale of its network, as well as high levels of quality and efficiency. In the reporting year, VTB24's branch network increased by 1.5 times to 1,034 offices in 341 cities across 72 Russian regions. The Bank opened 84 new offices, and another 259 offices were added following the merger with TransCreditBank. TransCreditBank's offices enabled VTB24 to significantly expand the geographical footprint of its network, increasing its coverage to 90 cities with a population of 3.5 million people.

In the largest metropolitan area, the Moscow region, there are 145 VTB24 sales points in operation. The bank has also established sufficiently strong networks in St. Petersburg (59 sales points), Sverdlovsk region (46 sales points), Tyumen region (30 sales points), Novosibirsk and Kemerovo regions (28 sales points) and in other regions.

In 2013, VTB24 outperformed its competitors by business volumes. The average loan portfolio per branch amounted to RUB1.3 billion, which was almost 60% higher than its closest competitor. The average volume of retail deposits per branch was RUB1.5 billion, outpacing VTB24's main competitors by at least one third.

For the fifth consecutive time, VTB24 won an award for the best service from the magazine The Retail Finance, which annually publishes an independent rating of customer service quality among Russian banks. According to a research company Finalta, VTB24's customer satisfaction levels and customers' willingness to recommend VTB24 is 1.5-2 times higher than the average for European banks. The average waiting time at VTB24 branches is 4.5 minutes, which is lower than the average of 5 minutes in European banks.

According to the network development plan for 2014, VTB24 aims to open 70 new sales points, with opening outlets in the country's largest cities being the priority.

During 2013, the Bank of Moscow also opened new branches and optimised its network. Many sales points were redeveloped functionally and visually to correspond with VTB Group's standards. At the end of 2013, the Bank of Moscow's network increased by six offices to 304 in 41 Russian regions.

In 2014, the Bank of Moscow will continue to work on improving the performance of its branch network and plans to leave 14 regions by transferring its business to VTB Group's banks.

The number of Leto Bank branches increased by 229 sales points in 2013 and amounted to 272 customer centres. The bank plans to increase the number of customer service centres to 550 in 2014, and the number of bank counters will be expanded to 400, representing a growth of 270 bank counters per year.

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.

Insurance

The Group's insurance business is represented by VTB Insurance and MSK Insurance Group.

VTB Insurance is one of the most dynamic players in the market. Between 2007 and 2013, the company's sales grew by more than 26 times. VTB Insurance managed to climb from 49th place in the insurers' ranking in 2007 to 9th place in 2013[2].

In 2013, the company saw significant growth. The insurance market in Russia increased by 13% in the reporting period, while the total volume of VTB Insurance premiums grew by 39%. VTB Insurance sales reached RUB 31.9 billion in the reporting period, making it one of the ten largest insurance companies in Russia (excluding companies providing life insurance services)[3]. VTB Insurance's market share by volume of premiums increased to 3.4% in 2013 compared to 2.8% in 2012.

In 2013, VTB Insurance continued to successfully develop its key business lines. Sales of corporate insurance increased by 24% to RUB 15.3 billion. The retail insurance business demonstrated a significant upward trend, growing by 56% in the reporting period. The total amount of insurance premiums in the company's retail business exceeded sales from the corporate business and amounted to nearly RUB 16.6 billion. Property insurance and voluntary health insurance saw the biggest gains with increases of 75% and 65% respectively. VTB Insurance's overall payments totalled RUB 11.8 billion in the reporting period.

As at the end of 2013, VTB Insurance increased its number of retail clients by 2.5 times and its corporate clients by 65%. This was largely driven by effective cooperation with other business of the Group and the synergies between them. In total, more than 800,000 people and over 12,000 companies operating in different sectors used VTB Insurance's services in 2013.

During the reporting period, VTB Insurance continued to partner with the Ministry of Internal Affairs for the mandatory personal life and health insurance programme for military servants of the Ministry's armed forces, for citizens called for temporary military training at the armed forces of the Ministry of Internal Affairs, as well as for employees of the Ministry.

In 2013, VTB Insurance offered a unique product for the Russian insurance market called "Onkopomosch", a voluntary type of personal insurance, which guarantees financial support in the event of being diagnosed with cancer during the insurance period. Another new product was launched called "Golden Parachute", which insures against job loss. This type of insurance has never been offered as a separate product before, without being linked to other types of insurance.

At the end of 2013, three insurance companies came under VTB Insurance's control: one of the largest Russian reinsurance companies, Moscow Re, the life insurance company, MSK-Life, and the

[2] According to data from the Bank of Russia Financial Markets Service.
[3] According to data from the Bank of Russia Financial Markets Service.

mandatory health insurance company, Solidarity for Life (Sovita). VTB Insurance plans to develop its life insurance business line under the MSK-Life brand and to start selling insurance products in 2014.

In 2013, VTB Insurance strengthened its position in a number of insurance market segments. In particular, the company became a leader in accident insurance. VTB Insurance is among the top five market participants of financial risks insurers and the top ten insurers in property insurance, fully comprehensive insurance of air transport and liability insurance for air transport owners.

VTB Insurance's successes have been recognised by international and Russian rating agencies. Standard & Poor's has assigned VTB Insurance a long term credit rating and financial strength rating of "BBB" ("ruAAA" rating on the national scale) with a Stable outlook. This is the highest reliability rating among insurance companies with Russian capital. The Expert RA Rating Agency has assigned VTB Insurance a rating of "A++" («Exceptionally high level of reliability").

In 2014, VTB Insurance plans to not only develop the potential synergies between the VTB Group companies, but also to deepen its interaction with each client by offering an integrated solution that meets the interests of every customer.

In 2013, VTB Insurance continued to strengthen and develop its regional network. The company opened six new branches, as well as three offices jointly with VTB24. Overall, 63 sale points, 13 regional sales offices and seven direct sales offices were opened in 2013.

MSK Insurance Group also developed well in 2013. The company has completely changed its motor insurance product line. The company has developed and rolled out complex products, providing packaged solutions to meet the needs of various categories of customers. The company widened the range of risks covered by insurance and launched new products such as "Accident manager" and "Technical Assistance".

In 2013, MSK Insurance Group also substantially modified its product offering in the personal property insurance segment. The company developed various kinds of packages and cross products. Furthermore, the company introduced package insurance products for businesses of various sectors and sizes, including small and medium-sized businesses. The voluntary health insurance product line was updated for individuals and corporates. The company launched the universal products NS-Express, My Megapolis and My Russia, which allow customers to be accepted for insurance without filling an application form and with a number of broad benefits.

Leasing

VTB Leasing is one of Russia's leading leasing companies, providing world class services. Today, VTB Leasing has 51 regional offices across Russia and subsidiaries in the CIS and Europe. VTB Leasing is among the top-five leasing companies in Russia[4] and ranks among the top-50 leasing companies in Europe.

2013 was extremely successful for all of VTB Leasing's business lines. Leasing of light motor vehicles and freight transportation, as well as leasing of specialised equipment, was actively developing in the reporting period. As at the end of 2013, the combined leasing portfolio of VTB Group companies amounted to RUB 346.3 billion, and the volume of new leasing contracts totalled RUB 112.8 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.

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[4] According to Expert RA Rating Agency

In 2013, VTB Leasing won the award “Deals of the year” by international publication *Trade Finance* for signing the loan agreement between VTB Leasing and JP Morgan for export-loan guarantee, provided by US EX-IM Bank.

In 2014, the Group continues to actively develop its leasing business. It plans to pay particular attention to 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 an absolute leader in the Russian factoring market. The scope of the company’s activity covers the whole territory of Russia though its own branch network in 18 of Russia’s largest cities and VTB Bank’s regional branches. The company offers a full range of financial services for working with accounts receivables and accounts payable.

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

In 2013, the turnover reached RUB 453 billion, increasing by 33% year-on-year, while the factoring portfolio came at RUB 90 billion, showing a 24% increase compared to 2012. Using these indicators, the company is ranked first among factoring firms in Russia by the size of the factoring portfolio (with a 28% market share) and by assigned receivables (with a 24% market share), as well as by revenue.

***NPF VTB Pension Fund*.**

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

In 2013, NPF VTB Pension Fund’s assets grew by more than 80% to RUB 68 billion, compared to RUB 36.8 billion in 2012.

As at the end of the reporting period, the fund attracted pension savings from more than one million clients. During 2013, the Fund actively cooperated with VTB Group’s banks and regional banks in order to attract new clients. The vast majority of contracts were signed in the sales offices of VTB24 and Bank of Moscow.

In 2013, VTB Pension Fund ranked 8th by the number of contracts signed for mandatory pension insurance during the year and in 7th place by the total number of clients for mandatory pension insurance. Furthermore, the Fund also moved up from 9th to 6th by total pension assets under management[5].

VTB Pension Fund practises a conservative investment policy, ensuring that clients’ funds grow while remaining protected. The yield on pension savings in 2013 amounted to 8.07% per annum, and to 8.89% per annum on pension reserves.

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[5] According to data from the Pension Fund of the Russian Federation at the end of2013.

The Fund was granted a “A++” rating (“Exceptionally high level of reliability”), with a “stable” outlook[6]. In 2013, the Fund won the “Reliability” award at the Financial Elite of Russia Awards 2013.

In 2014, due to the changes in legislation, the Fund is planning to review its funding procedure. Effective internal procedures and prompt decision-making will enable NPF VTB Pension Fund to comply with all the Bank of Russia’s requirements and to continue operating under the new rules.

[6] According to the Expert RA Rating Agency

4.4 Financial Report

Financial Highlights

- VTB Group's 2013 net profit increased by 10.9% to RUB 100.5 billion, corresponding to an ROE of 11.8%;
- As a result of VTB Bank's RUB 102.5 billion additional share issue in May 2013 , the Tier 1 capital adequacy ratio increased by 80 b.p. and amounted to 10.9%, while the total capital ratio was 14.7%;
- The Group demonstrated significant growth across all core income items: net interest income increased by 31.3%, driven by robust loan book growth combined with a net interest margin expanding to 4.5% compared to 4.2 % in 2012; net fee and commission income increased by 14.7%, driven by retail and transaction banking;
- Against the backdrop of Russia's macroeconomic slowdown, the Group's cost of risk increased to 1.6%, up from 1.2% in 2012;
- Staff costs and administrative expenses increased by 16.4% to RUB 210.9 billion driven by the expansion of the Group's retail business, while the cost to income ratio (CIR) was 49.1%, a decrease of 140 b.p. compared to 2012;
- The Group's balance sheet demonstrated significant growth: total gross loan portfolio increased by 24.5% to RUB 6,330.1 billion, and customer deposits were up 13.8% to RUB 4,341.4 billion.

VTB Group key financial indicators

in RUB, billion	2012	2013	Change
Net interest income	246.0	323.0	31.3%
Net fee and commission income	48.3	55.4	14.7%
Operating income before provisions[7]	358.7	429.3	19.7%
Provision charge for impairment of debt financial assets	(59.4)	(96.9)	63.1%
Staff costs and administrative expenses	(181.2)	(210.9)	16.4%
Net profit	90.6	100.5	10.9%
Total gross loans and advances to customers	5,084.8	6,330.1	24.5%
Customer deposits	3,672.8	4,341.4	13.8
Net interest margin	4.2%	4.5%	30 b.p.
Provision charge for loan impairment / Average gross loan portfolio (CoR)	1.2%	1.6%	40 b.p.
NPL ratio (90 days+)[8]	5.4%	4.7%	-70 b.p.
Tier 1 ratio	10.1%	10.9%	80 b.p.
ROE	13.7%	11.8%	-190 b.p.

[7] Here and below, operating income before provisions is calculated before provisions for impairment of debt financial assets and impairment of other assets, credit-related commitments and legal claims.

[8] 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

VTB Group’s operating income was mainly driven by net interest income, the source of which are loans and advances to customers, securities and cash held with other banks.

In 2013, the Group’s net interest income before provision for impairment amounted to RUB 323.0 billion, up 31.3% compared to 2012. This increase primarily reflected greater growth in average lending volumes, mainly on loans and advances to customers, than in interest-bearing liabilities.

Net Interest Income

in RUB, billion	2012	2013	Change
Interest income			
Financial assets at fair value through profit or loss	**27.5**	**37.0**	**34.5%**
Loans and advances to customers	513.3	637.4	24.2%
Due from other banks	9.8	7.2	(26.5%)
Other financial assets, including securities	5.1	4.7	(7.8%)
Financial assets not at fair value through profit or loss	**528.2**	**649.3**	**22.9%**
Total interest income	**555.7**	**686.3**	**23.5%**
Interest expense			
Customer deposits	(173.8)	(208.3)	19.9%
Debt securities issued	(48.2)	(49.7)	3.1%
Subordinated debt	(19.3)	(22.1)	14.5%
Due to other banks and other borrowed funds	(68.4)	(83.2)	21.6%
Total interest expense	**(309.7)**	**(363.3)**	**17.3%**
Net interest income	**246.0**	**323.0**	**31.3%**

In 2013, VTB’s interest income increased by 23.5% to RUB 686.3 billion. The Group generates interest income on loans and advances to customers, its securities portfolio and amounts due from other banks. The table above outlines the principal components of the Group’s interest income for the periods indicated.

The key contributing factors to the interest income growth were the expansion of the Group’s loan portfolio, which was up 24.0% in the reporting period, as well as an increase in share of higher-yielding retail loans in the total loan portfolio.

As at the end of the reporting period, income from lending to customers amounted to RUB 637.4 billion, up 24.2% compared to 2012. Interest income from the retail banking business continued to outperform interest income dynamics in the Group’s corporate and investment banking business. This was primarily due to more robust growth in the retail loan portfolio (a 36.0% increase compared to 21.0% growth in the corporate loan portfolio), while maintaining its high profitability compared to the corporate loan portfolio.

VTB Group's interest income on amounts due from other banks fell by 26.5% to RUB 7.2 billion, resulting primarily from a decrease in the average interest rate on interbank loans from 1.9% to 1.1%. This was partially offset by a slight growth in average balances to RUB 638.5 billion from RUB 518.3 billion.

VTB Group's interest expenses in 2013 grew at a slower pace than interest income totalling 17.3% and 23.5%, respectively. The increase in expenses resulted mainly from a 19.9% year-on-year rise in servicing customer deposits, which amounted to RUB 208.3 billion in the reporting period. The increase in these costs was due to organic growth in funds raised (+13.8%), with the simultaneous increase in deposit rates. Liabilities to other banks had a noticeable effect on the rise in the Group's interest expenses, the costs of which were up 21.6% to RUB 83.2 billion

In the reporting period, the Group's costs of funding increased to 5.0% compared to 4.8% in 2012. VTB Group's expenses related to handling customer deposits in 2013 accounted for 55% of total interest expenses, 1 p.p. lower than in 2012.

Net interest margin

The Group's net interest margin increased by 30 b.p. year-on-year to 4.5% in 2013.

Net interest margin

in RUB, billion	2012	2013	Change
Average interest rate on interest earning assets	9.5%	9.6%	10 b.p.
Average interest rate on interest bearing liabilities	5.2%	5.2%	-
Net interest margin	4.2%	4.5%	30 b.p.

Net fee and commission income

VTB Group continues to actively develop its transaction banking business by expanding and optimising its product line and improving the sales system of commission-based products. In 2013, the Group continued to consistently grow income in the transaction banking business, with net fee and commission income increasing by 14.7% to RUB 55.4 billion.

Gross fee and commission income in 2013 increased by 14.9% to RUB 70.3 billion, compared to RUB 61.2 billion in 2012. The bulk of fee and commission income is generated by settlements and cash transactions, although the share of these transactions in total fee and commission income decreased to 67.6% from 70.6% in 2012. In 2013, commission on settlement and cash transactions increased by 10% year-on-year to RUB 47.5 billion.

Securities and capital markets transactions made a significant contribution to the increase in fee and commission income, with the fee and commission income from these transactions rising by 31.2% to RUB 8.4 billion. This dynamic income growth was attributable to further strengthening of the Group's investment banking business.

In 2013, VTB fee and commission expenses increased by 15.5% to RUB 14.9 billion, which was slightly above the income performance. In the reporting period, commission expenses on settlement and cash transactions grew by 5.2% versus 10% income growth on them.

Net fee and commission income

in RUB, billion	2012	2013	Change
Commission on settlement transactions	37.1	42.7	15.1%
Commission on guarantees issued and trade finance	9.2	10.2	10.9%
Commission on cash transactions	6.1	4.8	-21.3%
Commission on operations with securities and capital markets	6.4	8.4	31.2%
Other	2.4	4.2	75.0%
Total fee and commission income	**61.2**	**70.3**	**14.9%**
Commission on settlement transactions	(9.2)	(10.0)	8.7%
Commission on cash transactions	(2.4)	(2.2)	-8.3%
Other	(2.3)	(2.7)	17.4%
Total fee and commission expense	**(12.9)**	(14.9)	15.5%
Net fee and commission income	**48.3**	**55.4**	**14.7%**

Source: VTB Group's IFRS consolidated financial statements for 2012 and 2013

<u>*Net gains arising from financial instruments and currency*</u>

In 2013, net gains arising from financial instruments, including gains from financial instruments at fair value through profit or loss , and gains from financial assets available for sale, increased by 37 % year-on-year to RUB 20.5 billion. This increase was mainly driven by profitable private equity projects, including a number of successful divestments and de-risking of the Group's balance sheet.

Gains less losses arising from dealing in foreign currencies amounted to RUB 20.4 billion in 2013 (RUB 14.5 billion in 2012), while foreign exchange translation losses net of gains reached RUB 29.1 billion. As a result, the Group incurred a RUB 8.7 billion loss from foreign currency transactions, compared to a profit of RUB 6.8 billion in 2012.

Provision charge for impairment

During the reporting period, VTB increased its provision charge for impairment of debt financial assets to RUB 96.9 billion, compared to RUB 59.4 billion in 2012. The increase in provision charges was due to the provision charge for loan impairment growing to RUB 96.2 billion in 2013 from RUB 59.5 billion in 2012. During the reporting period, contributions to the provision charge for loan impairment grew to 1.6% of the average gross loan portfolio, compared to 1.2% in previous reporting year (cost of risk).

In 2013, the allowance for loan impairment increased to RUB 361.1 billion from RUB 323.3 billion in 2012. A 55.0% increase in reserves was achieved through the provision charges for retail loan impairment, which amounted to RUB 82.9 billion compared to RUB 62.1 billion in 2012. The allowance for corporate loan impairment increased by 6.5% to RUB 278.2 billion, while its share in total allowance for loan impairment amounted to 77.0% compared to 80.8% in 2012.

In the reporting period, the Group demonstrated improvement in asset quality as a result of policy tightening in lending and risk management, as well as increasing the number non-performing loan write-offs (90+ days). In 2013, impairment provision write-downs amounted to RUB 66.3 billion compared RUB 17.7 billion in 2012. At the same time, the share of non-performing loans (90+ days) in the loan portfolio, which includes financial assets classified as loans and advances to customers, pledged under sales and purchase agreement, decreased to 4.7% as at 31 December 2013 compared to 5.4% as at 31 December 2012.

As a result of an increase in non-performing loan write-offs, the ratio of provisions to the total loan portfolio[9] decreased from 6.1% to 5.5%. The Group continued to maintain its coverage ratio of non-performing loans at a prudent level, increasing it to 115.5% at the end of the reporting year, compared to 112.4% in 2012.

Staff costs and administrative expenses

In 2013, VTB Group's staff costs and administrative expenses increased by 16.4% to RUB 210.9 billion, driven by the expansion of the Group's retail business (in accordance with the strategy of increasing the share of the relatively higher margin retail business in the Group's assets and income). The cost-effectiveness ratio improved during the reporting period with the cost-to-income ratio before provision for impairment decreasing to 49.1% compared to 50.5% in 2012.

Net profit

In 2013, VTB Group once again generated a record net profit, amounting to RUB 100.5 billion compared to RUB 90.6 billion for the previous year. The increase was driven by solid balance sheet growth and strong performance in core income lines. .

Analysis of VTB Group's financial position

Assets

In 2013, VTB Group's total assets stood at RUB 8,768.5 billion, compared to RUB 7,415.7 billion at the end of 2012. Asset growth in the reporting period was mainly a result of positive growth dynamics of the loan portfolio. The loan portfolio's share in the Group's total assets increased to 68% in 2013 from 64% in 2012.

In the reporting period, the Group's gross loan portfolio (loans and advances to customers before provisions for impairment) increased by 24.5% to RUB 6,330.1 billion. A 68.0% increase in the gross loan portfolio was driven by a rise in the corporate loan portfolio, which amounted to RUB 4,809.3 billion in 2013 compared to RUB 3,964.6 in 2012. The corporate portfolio increased by 21.3% in 2013 compared to 5.3% in 2012.

In 2013, the growth in retail lending was higher than in corporate lending, but remained at the level of 2012. As at the year-end, the retail loan portfolio increased by 35.8% and reached RUB 1,520.8 billon, with a 24.0% share in the gross loan portfolio compared to 22.0% in 2012. Mortgages demonstrated the fastest growth rate, increasing by 38.2% to RUB 844.8 billion. Growth in consumer lending slowed in the reporting period and amounted to 35.5% compared to 43.1% in the previous reporting year.

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

In line with the Group's strategy of de-risking the balance sheet, VTB continued to reduce its investments in non-interest earning assets during the reporting period, including VTB Capital profitable y exits from some large private equity projects, including projects in the real estate and IT sectors. The Group's investments in equity securities during 2013 decreased by 37.4% to RUB 65.1 billion as of 31 December 2013, while the share of equity instruments in VTB's total securities portfolio decreased to 6.0% from 11.0% in 2012. The Group's securities portfolio in 2013 decreased by 9.0% to RUB 1,013.8 billion.

Assets

in RUB, billion	2012	2013	Change
Cash and short-term funds	569.0	354.3	-37.7%
Mandatory reserve deposits with central banks	63.8	58.7	-8.0%
Financial assets at fair value through profit or loss	528.8	411.1	-22.2%
Financial assets pledged under repurchase agreements and loaned financial assets	302,9	466.6	54.0%
Due from other banks	358.6	443.4	23.6%
Net loans and advances to customers	4,761.5	5,969.0	25.4%
Group assets for disposal, held for sale	15.3	36.7	39.9%
Financial assets available for sale	97.4	135.4	39.0%
Investments in associates and joint ventures	48,3	87.6	81.4%
Investment securities held-to-maturity	0,9	0.7	-22.2%
Land, premises and equipment	142,5	170.3	19.5%
Investment property	148.0	160.7	8.6%
Intangible assets and goodwill	137.3	162.5	18.4%
Deferred tax asset	42.9	45.5	6.1%
Other assets	198.5	266.0	34.0%
Total assets	**7,415.7**	**8,768.5**	**18.2%**

Source: VTB Group's IFRS consolidated financial statements for 2012 and 2013

Liabilities

The Group's total liabilities in 2013 increased by 17.6% to RUB 7,821.4 billion, mainly as a result of an increase in funding from customer deposits and from the Bank of Russia.

In 2013, VTB's deposit portfolio increased by 13.8% to RUB 4,341.4 billion. Customer funds remain the major contributor to the Group's resource base. In 2013, customer funds accounted for 55.0% of the Group's liabilities, compared to 57.0% in the previous year. A 68% growth in the deposit portfolio was driven by funds raised from individuals, with the Group's retail deposits growing by RUB 359.3 billion to RUB 1,793.4 billion in 2013.

The reduction in the proportion of customer deposits within the Group's liabilities, against the background of their substantial growth, was mainly due to increased funding from the Bank of Russia, which was raised through repo operations, MTRO auctions, backed by non-market collateral, and FX swaps.. At the end of the year, the Bank of Russia's funds amounted to 12% of the Group's liabilities, compared to 6% in 2012. The Group considers the Bank of Russia's resources as reliable instruments for funding operations and as a source of rouble liquidity.

Liabilities

in RUB, billion	2012	2013	Change
Due to other banks	759.9	666.6	-12.3%
Customer deposits	3,813.4	4,341.4	13.8%
Group's liabilities for disposal, held for sale	6.1	20.7	239.3%
Other borrowed funds	806.2	1,485.9	84.3%
Debt securities issued	753.9	738.2	-2.1%
Deferred tax liability	12.3	15.0	22.0%
Other liabilities	212.0	262.0	23.6%
Total liabilities before subordinated debt	**6,363.8**	**7,530.4**	**18.3%**
Subordinated debt	285.8	291.0	1.8%
Total liabilities	**6,649.6**	**7,821.4**	**17.6%**

Source: VTB Group's IFRS consolidated financial statements for 2012 and 2013

Total capital and capital adequacy

During 2013, VTB Group continued to improve its capital adequacy ratios. In May 2013, the Group issued new ordinary shares on the Moscow Exchange in the amount of RUB 102.5 billion. Along with generating a significant amount of profit during the year, this deal enabled VTB Group to strengthen its capital base.

As at 31 December 2013, the capital adequacy ratio and Tier 1 capital adequacy ratio amounted to 14.7% and 10.9%, respectively, compared to 14.4% and 10.1% in 2012.

Total capital and capital adequacy

in RUB, billion	2012	2013	Change
Tier 1 capital	624.9	806.6	29.1%
Tier 2 capital	293.4	292.0	-0.4%
Less: deductions from total capital	(23.0)	(5.8)	-74.8%
Total capital	**895.3**	**1,092,8**	**22.1%**
Risk weighted assets	6,203.8	7,430.8	19.8%
Tier 1 capital ratio	10.1%	10.9%	80 b.p.
Capital adequacy ratio	**14.4%**	**14.7%**	**30 b.p.**

Source: VTB Group's IFRS consolidated financial statements for 2012 and 2013

4.5 Risk management

VTB Group-level risk management

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

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, and compiling regular risk reports on risks.

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

- The compliance with regulatory requirements of the countries where the Group operates; transparency of risk associated activities for shareholders, investors and other interested parties;
- The analysis and management of VTB's risks on a consolidated basis, covering all VTB Bank's Russian and international subsidiary banks and the key financial companies of the Group;
- The optimal distribution of risks within VTB Group; minimising exposure and potential losses from risk effects in the national and international markets;
- The development of a risk management culture within the Group's companies, including operating skills to identify and prevent possible risks and losses in areas within employees' responsibility;
- The introduction of modern methods of risk assessment and monitoring based on the best industry standards.

The risk management system in VTB Group has a multi-layered structure, which includes levels of centralised (consolidated) and local risk management, and is based on the Group's global business lines.

The standard organisational structure of the Group's banks and financial companies includes an independent division of risk assessment and control, which corresponds to the appropriate risk profile and scale of business, and a high-ranking manager responsible for comprehensive risk management.

To coordinate risk management policies and practices across the Group, implement and improve analysis of consolidated 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.

In 2013, VTB Group's risk management policy of, including capital adequacy, was designed in view of possible adverse effects of the risk factors associated with the fragility of the economy and possible stress scenarios.

Control over organisation and 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, and the Group further developed its risk management procedures and methods, including:

- A test procedure for calculating “economic capital” (RAROC) was launched as part of integrating the “economic capital” model (ECap, Capital-at-Risk) into financial planning and forecasting;
- A gap-analysis was conducted across the Group’s main banks in line with international Basel II standards; the Group continued implementing Basel II standards in certain VTB Group companies;
- The methodology of calculating main risk indicators and assessing risk management procedures was harmonised across the Group;
- The Group improved its structure and processes for preparing risk consolidated reporting;
- Stress testing methodology was developed for credit and trading portfolios for the Group’s companies with the most significant risks.

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 in 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 2013, 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 consolidated risk management at the Group level, implementation of the Basel II standards and general Group-wide standards.

Credit Risk

Credit risk is the risk of financial loss (loss of revenue or additional expenses) should a borrower/counterparty/issuer fail to meet its contractual obligations.

VTB Group and VTB Bank are 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 in operations with corporate and financial institutions, which are exposed to credit risks, are defined by the Basic Principles and Provisions of VTB Group's Credit Policy for 2013-2014, 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.

The key elements of consolidated credit risk management are as follows:

• regular review of the Group's credit risk policy, harmonising and streamlining credit risk management policies of the Group's companies;
• unifying credit procedures and methods of credit risk assessment (credit rating systems – for corporate customers and financial institutions, scoring systems – for retail customers);
- establishing consolidated limits and other restrictions within the Group (including limits on counterparties/groups of related counterparties, large transactions, countries, industry sectors);
- assessing the "economic capital" sufficient to cover the Group's credit risks;
- stress-testing;
- preparation of consolidated reports on the Group's credit risks.

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 and regulation for the Group's credit risk management relating to lending operations with individual borrowers and small business clients. VTB subsidiary banks that perform the above mentioned operations are guided by a set of documents approved by the Group's Management Committee and which establish the standards and approaches for managing retail lending 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-Core Bad Assets Department) work to identify, monitor and resolve potential problems and bad debt at the Group level.

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 regularly monitoring 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.

The Group continued to undertake measures to improve the credit risk management system in 2013:

- Introduced a new approach to determining the calculated credit exposure limit assumed for medium business customers;

- Developed a ranking methodology for investment projects (project financing);

- Developed a new approach to setting limits for independent credit risk-taking by VTB's branches and its regional offices;

- Expanded the general procedure for setting limits for independent credit risk-taking on VTB's branches outside the Russian Federation;

- Granted the right to credit committees of VTB's subsidiaries to set credit limits for customers (groups of related customers) within the independent authority of taking credit risks;

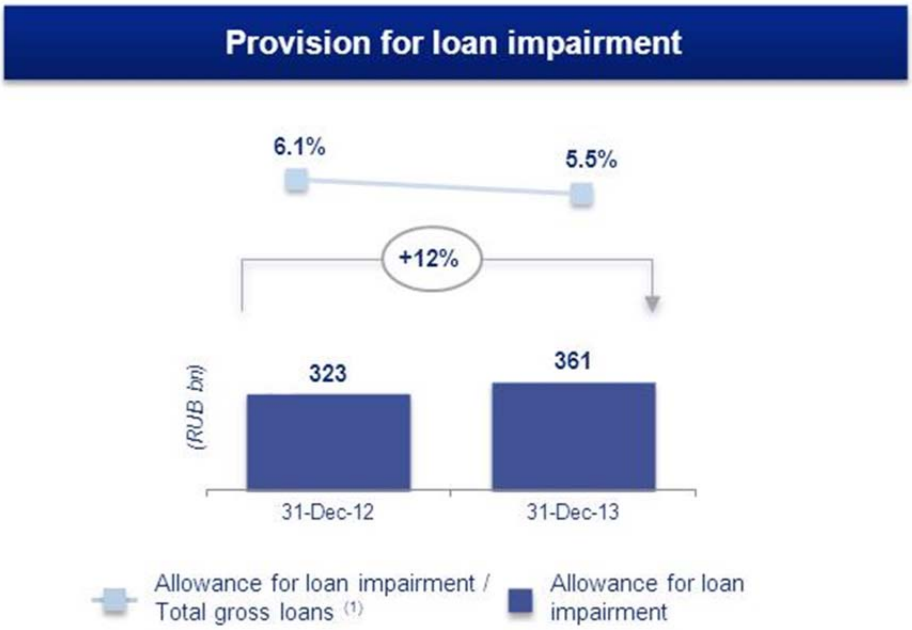
- Improved the accounting limits procedures on operations with derivative financial instruments, taking into account new types of transactions and financial instruments used in VTB Bank;

- Extended the credit limits system, which regulates credit risks assumed for corporate clients, on financial institutions;

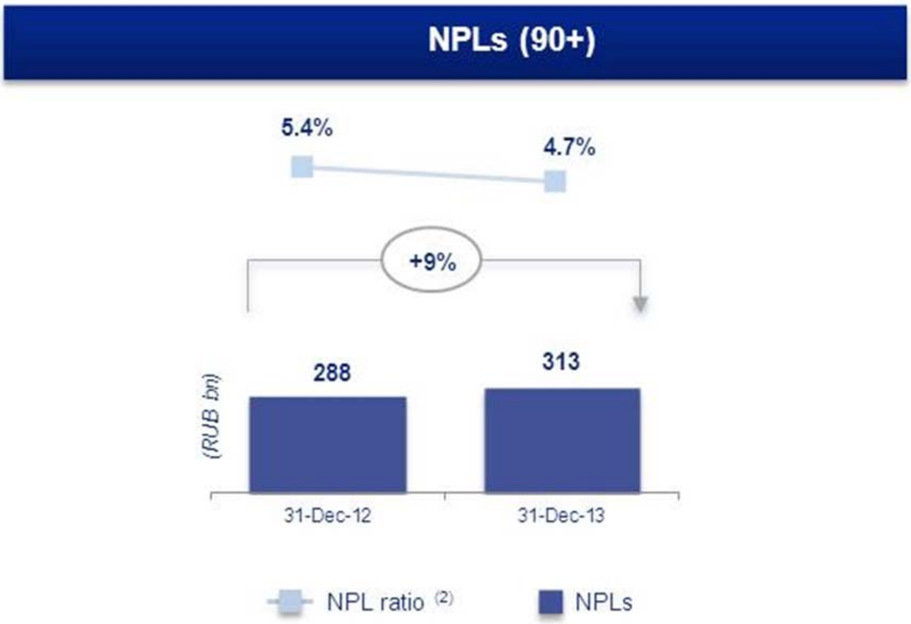
- Enlarged the powers of the Credit Transactions Monitoring Committee in terms of suspension of loan disbursement under the loan transactions for up to one month if credit risk factors were identified;

- The Management Committee of VTB Group approved the Standards for credit transactions monitoring, which represent unifying principles applied in monitoring credit risk transactions, identifying credit risk factors and determining the status of transactions.

VTB Group loan portfolio quality



(1) Ratio is calculated to total gross loans including financial assets classified as loans and advances to customers pledged under repurchase agreements.



(2) Non-performing loans (NPLs) represent impaired loans with repayments overdue by over 90 days. NPLs are calculated including the entire principal and interest payments. Ratio is calculated to total gross loans including financial assets classified as loans and advances to customers pledged under repurchase agreements.

Liquidity Risk

VTB Group-level liquidity risk management

VTB's liquidity management policy was applied in 2013 within VTB Bank and 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 has current and forecasted liquidity risk management in place.

Management of current liquidity 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 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 liquidity 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 Group's Management Committee and the Assets and Liabilities Commission operating under the Group's Finance Committee.

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

- planned transactions;
- possible extension 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 liquidity forecast and takes into consideration the Bank's additional opportunities to raise finance.

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

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 Russian stock exchanges. 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, the diversification of these liabilities and VTB's past experience indicate that these liabilities are consistently refinanced by customers, and they are, for the most part, 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 the financial results of the Group's operations in response to the overvaluation of both balance sheet and off-balance sheet assets 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, taking into account current market conditions;

- Calculating interest rate risk (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, measured in terms of (1) the size of the reduction in the net present value of the interest position and (2) the net interest income under an unfavourable parallel movement of the yield curves by 100 basis points;

- The economic capital for covering interest rate risk is an assessment of a reduction in the net present value of the Bank's position in case of potentially unfavourable interest rate movements.

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 (Value-at-Risk) limits and regulatory OCP limits set by the regulator.

A quantitative risk assessment is carried out using the VaR 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 conducted via historical modelling over a period of two years with a ten trading day time horizon and a confidence interval of 99%.

VTB Group currency risk indicators (in RUB, billion)

	31 December 2012	31 December 2013
Open currency position	54.5	136.6
VaR[10]	1.5	6.6

Source: VTB Group's IFRS consolidated financial statements.

Price risk

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;

[10] VaR figures take into account all currencies with exposure over RUB 100 million.

- Controlling adherence to established limits and restrictions for taking on price risk (a minimum discount size on "reverse repo" operations and margin call conditions);
- Organising 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 200 trading days in the reporting year.

For instruments not satisfying these criteria (but nevertheless circulating in the market and carrying market risk), historical prices used were those 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 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 of approximately a quarter of the securities in the portfolio (the Group implemented VaR assessments in 2010).

VaR for VTB Group's portfolio of securities, RUB billion

	Financial assets available for sale, RUB billion		*Financial assets, mark to fair value through profit and loss, RUB billion*	
	31 December 2012	*31 December 2013*	*31 December 2012*	*31 December 2013*
Debt securities	0.9	1.4	3.3	3.9
Equity securities	0.2	-	2.8	1.4
VaR[11]	**0,8**	**1.4**	**4.4**	**4.5**

Source: VTB Group's IFRS consolidated financial statements.

Operational risk

Operational risk is the risk of loss resulting from flaws in the type and scale of the Group's operations or inconsistency between internal processes and legislative requirements for banking operations, their violation by VTB staff or other persons (due to unintentional or intentional acts or omissions), lack of functionality of IT and other systems or their breakdown, as well as damaging external events.

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.

[11] VaR is calculated based on the following parameters: historical period of two years, holding period of 10 trading days, confidence interval, and via historical simulation.

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. To implement its operational risk strategy, VTB carried 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 the operational risk, the Bank has implemented unified mechanisms to collect information on incidents of operational risk and those related to operating losses, as well as key risk and control indicators. This enables a quantitative assessment of operational risk to be carried out. This includes identifying sources of risk, implementing risk prevention measures and reflecting these in management reporting in the context of individual risk categories and the Bank's activities..

The key methods for reducing and 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; 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 and its IT resources;
- A well-managed HR policy, good staff training and education;
- Prevention measures to ensure continuity of financial and economic activity related to banking operations and transactions by setting up alternative communications channels, geographically distributed server rooms, independent sources of power, heat and water supply, and by taking fire protection measures.

To eliminate violations of the Bank's normal activity in a timely manner, VTB introduced a system notifying authorised employees and IT managers about incidents, which may disrupt the banking systems. In 2013, there were no significant failures registered in the Bank's financial and economic activities.

The above risk limitation strategies are supported by insurance programmes diversified by the type and scope of operations. These insurance programmes included the Financial Institution's Blanket Bond scheme (including electronic and computer crime), insurance of funds and valuables while in storage and during transit, insurance of the card business, including the insurance of cash machines and the cash in them, as well as cover against bank card fraud. VTB Bank also insures against risks relating to business activities (including buildings, equipment and vehicles), as well as risks of loss of property received as collateral for credit transactions.

Operational risk, being subject to the Bank's constant monitoring, did not have any material impact on VTB's operating results in 2013.

Programme for implementing Basel II standards

VTB Bank and VTB Group are conducting systematic work to incorporate Basel II practices. This takes into account the relevant recommendations and requirements of the Bank of Russia, as well as the degree to which Basel standards have been integrated into Russian banking legislation.

VTB Group persistently develops internal banking methods stipulated by the Basel II standards. These methods are designed to assess internal capital adequacy by introducing the concept of "economic capital", based on Basel II practices. In 2013, the Group started implementing the active phase of the project. During the first stage, a correspondence analysis of VTB Bank and VTB24 was conducted based on internal ratings, including an assessment of the potential impact of the Basel II standards for capital calculation. At the same time, the Group is working through issues around implementing Basel II standards in its other banks, taking into account the national regulatory requirements in the countries where they operations[12].

Key priorities in 2014

In 2014, the Group plans to further develop its risk management system, including compliance with the new regulatory requirements and international standards, by implementing the following measures:

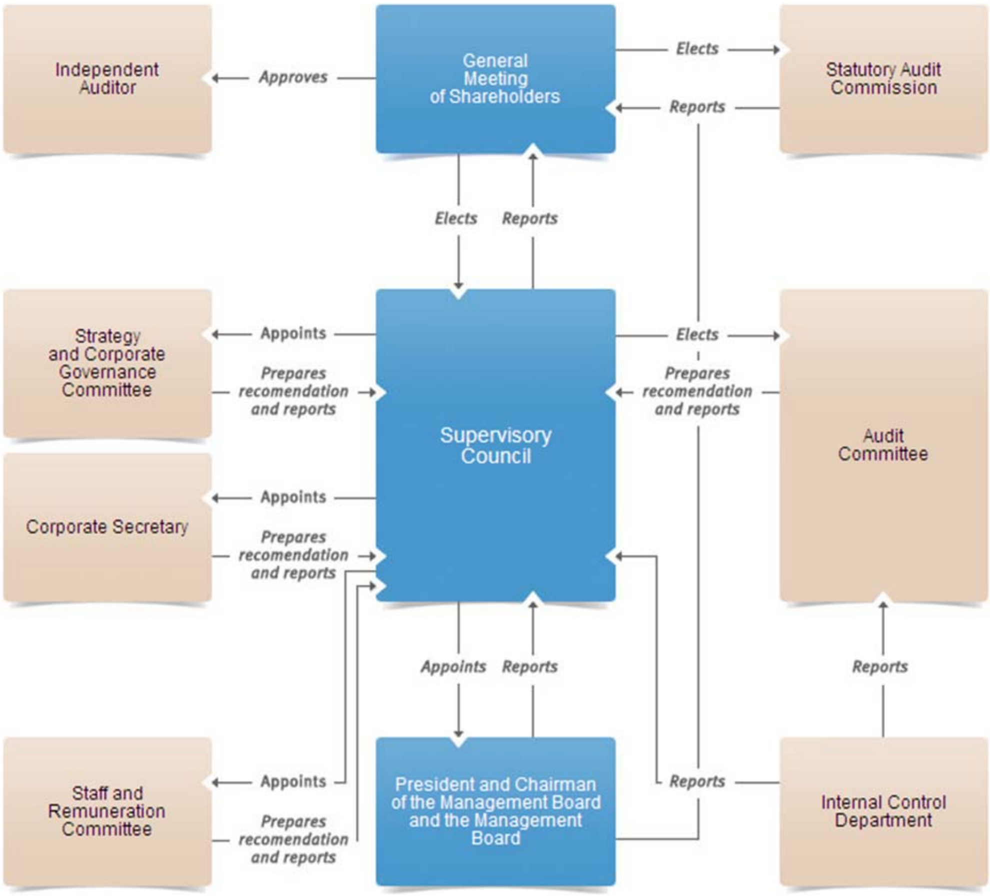
- Developing and adopting the target risk management model, which includes the key parameters of international best practices;
- Developing VTB's risk and capital management strategy and its subsequent review by the Supervisory Council;
- Continuing the phased implementation of the Group's "risk appetite" models, which are in line with best practice, and ensuring their effective incorporation into the system, along with processes of establishing aggregated limits and other restrictions on the risk which the Group takes on;
- Further improving the "economic capital" calculation methodology and expanding its scope of usage in accordance with best practice;
- Implementing, developing and widely applying modern methods of quantitative risk assessment, classifying ways of building and validating the models and methods used, including rating borrowers and determining the probability of default;
- Carrying out further work on automating key processes and analytical risk management tasks, including developing specialised software for operational risk control.

[12] VTB Group's western European banks have been operating in accordance with Basel II standards since 1 January 2008 (in accordance with the requirements of national regulators, taking into account the implementation of Basel II standards in the banking legislation of European countries).

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 Bank of Russia Financial Markets Service. It also takes into account international best practice, including the generally 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 Statutory 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 under the Supervisory Council 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 improving VTB's corporate governance, as well as on streamlining the management of the Bank's own stock. In May 2013, 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 Federal Conduct Authority (FCA). VTB Bank also has its own Regulation on Information Policy which establishes rules for the protection of confidential and insider information.

5.2. Development of the corporate governance system in 2013

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

In 2013, 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;
- Election of independent directors to the Supervisory Board's Audit Committee and Strategy and Corporate Governance Committee;
- Election of members of the Shareholders' Consultative Council to the Supervisory Council, the Committees of the Supervisory Council for Strategy and Corporate Governance Committee and for Staff and Remuneration;
- Approval of a new edition of the VTB Bank Charter, which includes an improved information disclosure procedure in accordance with corporate governance best practice;
- Approval by the Bank of a number of key internal documents: the framework for the consolidated management of VTB Group's compliance control function a protocol on cooperation across VTB Group's companies on the compliance function; and a new edition of the VTB Group's Code of Ethics.

The result of measures taken by the Bank was maintaining its high rating position in the National Corporate Governance Score (NCGS) at "7+", which corresponds to the level of "Developed

Corporate Governance Practice". The corporate governance rating for VTB Bank was based on the results of the annual independent review of the Russian Institute of Directors (RID). VTB is currently the only Russian bank that has been assigned the national corporate governance rating.

Following the Bank's additional share issue in May 2013, the Russian Federation's share in VTB's authorized capital decreased from 75.5% to 60.9%. According to RID experts, the decrease of the government's ownership in the Bank has had a positive impact on VTB's corporate governance practices in terms of protecting the rights of all shareholders to participate in managing the Bank.

In 2013, the Bank continued actively developing its compliance control function across the Group in line with international best practices and the requirements of supervisory and regulatory bodies. VTB has therefore approved a number of internal documents, including the framework for the consolidated management of VTB Group's compliance control function and a protocol on cooperation across VTB Group's companies on the compliance function.

The Annual General Meeting of Shareholders to review the 2012 results was held in June 2013. The AGM approved the new composition of the Supervisory Council, which included Elena Popova, a representative of the VTB Shareholder Consultative Council and Professor of Management Theory and Business Technology at Plekhanov Russian University of Economics. RID experts consider the current composition of the Supervisory Board of the Bank to be balanced and sensitive to the interests of all investors and shareholders.

In December 2013, VTB Bank's Supervisory Council approved the new edition of its Code of Ethics, which contains a number of provisions on measures taken by the Bank to counter corruption, to settle conflicts of interest, to prevent the misuse of insider information and market manipulation. The Code of Ethics is published on VTB Bank's website.

5.3. The General Shareholders' Meeting of JSC VTB Bank

The Annual General Shareholders' Meeting (AGM) is VTB Bank's highest governing body. Any shareholder can exercise their right to directly participate in the Bank's management by voting on the AGM's agenda. The Supervisory Council decides when to convene an AGM. According to the applicable Russian law, the Annual General Shareholders' Meeting must be held no earlier than the 1^{st} of March and no later than the 30^{th} of June.

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.

In 2013, the meeting was held on 28 June at the Oktyabrsky Grand Concert Hall in St Petersburg and was led by Sergey Dubinin, the Chairman of VTB Bank's Supervisory Council.

More than 300 shareholders and shareholder representatives participated in the meeting. The meeting was also broadcast live via the Company's official website for those shareholders unable to attend the meeting in person. Analysts and others interested in the Company were also able to watch this broadcast. More than 1000 users watched the meeting online. A live broadcast was also shown at the Shareholder Liason Centre in Ekaterinburg.

The shareholders held discussions and voted on 16 matters, including:

- approval of VTB Bank’s Annual Report;
- approval of VTB Bank’s annual accounts, including the profit and loss statement;
- approval of the distribution of profits based on the financial results for 2012;
- approval of the size, timing and form of dividend payments for 2012;
- approval of remuneration payments to those Supervisory Council members that are not state employees in the amount stated in VTB Bank’s internal documents;
- determining the size of the Supervisory Council;
- electing members of the Supervisory Council;
- determining the size of Audit Commission;
- electing members of the Audit Commission;
- approval of the auditor;
- approval of the new Charter;
- approval of the new edition of the regulations for preparing for, convening and holding an Annual General Shareholders’ meeting;
- approval of new editions of the Regulation on the Supervisory Council and Regulation on the Management Board;
- terminating VTB’s participation in the Professional Association of Registrars, Transfer Agents and Depositaries (PARTAD);
- approvial of related-party transactions which may be completed by VTB Bank in the future in the normal course of business.

One of the most important decisions made at the AGM was electing Elena Popova, a minority shareholder and member of the Shareholders’ Consultative Council, to the Supervisory Council. The Executive Director of the State Oil Fund of Azerbaijan (SOFAZ), Shahmar Movsumov, was also elected to the Supervisory Council. SOFAZ is a large shareholder of the Bank having participated in its SPO.

In addition, new members of the Shareholders’ Consultative Council were elected at the AGM. As is traditional, a consultation zone was set up where shareholders could receive necessary information on the Bank and its subsidiaries from experts.

The AGM decided that profits based on the results for 2012 should be distributed as follows:

- net profit to be distributed – RUB 18,095,755,130.14;
- dividend payments amounting to RUB 14,958,574,112.39;
- net profit not to be distributed – RUB 3,137,181,017.75.

Allocations were not made to the reserve fund.

The shareholders decided to pay dividends in the amount of RUB 0.00143 per registered ordinary share of VTB Bank with a par value of RUB 0.01, having increased dividend payments by 62.5% compared to the previous year.

As of 31 December, 2013, the amount of dividends paid reached RUB 14,956,541,819.36, and the share of dividends paid of the total amount set aside for dividends was 99.986%. The main shareholder, the Russian Federation represented by the Federal Agency for State Property Management, received RUB 11,293,392,682.42 in dividend payments. There are no dividends payable to the Federal Budget.

The results of the AGM are published in Rossiyskaya Gazeta. The voting results and the details on the decisions made can be found on the Bank's official website: www.vtb.ru

Besides from the AGM, shareholders can hold Extraordinary General Meetings. No EGMs took place in 2013.

5.4. The Supervisory Council of JSC VTB Bank

The scope of responsibilities of the Supervisory Council

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[13], 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 coming into effect at the end of 2013 was elected at the Annual General Shareholders' Meeting on 28 June 2013. As of 31 December 2013, the Supervisory Council consisted of 11 members, ten of whom were Non-executive Directors and four of whom were Independent Directors. The combination of Executive and Non-executive Directors, including 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.

The appointment of independent directors is an important component of VTB Bank's corporate governance. The role of independent directors is to strengthen shareholders' and investors' trust towards the Bank through participation in the decision-making process together with the Supervisory Council. Together they analyse a number of matters, including strategy and its implementation, the Bank's performance and its competitive position and the extent to which set objectives and tasks have been achieved. They also assess mechanisms and systems of internal control and risk management, as well as settle corporate conflicts and improve the level of transparency.

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. VTB Bank 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.

In accordance with the decision taken at the Annual General Shareholders' Meeting on 28 June 2013, the remit of the Supervisory Council has been aligned with the new edition of the Bank's

[13] New editions of the Bank's Charter and the Supervisory Council Regulation were approved by the AGM on 28 June 2013 (Protocol N42 dated 28 June 2013)

Charter and extended to comply with the application for listing of the Bank's shares and/or its equity securities, which are convertible into shares.

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

Liability insurance of Members of the Supervisory Board

Responsibility 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 2013, the Supervisory Council reviewed and approved the extension of the director's liability insurance contract for the new term. The Procurement Commission and the Staff and Remuneration Committee approved the feasibility of the extension of this contract.

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 Dubinin has been the Chairman of VTB Bank's Supervisory Council since June 2011 in accordance with the decision of the Supervisory Council.

Composition of the Supervisory Council

On 28 June 2013, the Annual General Shareholders' Meeting elected four new members to the Supervisory Council: Yves-Thibault de Silguy (independent member), Shahmar Movsumov (independent member), Alexey Moiseev and Elena Popova.

In 2013, new members of the Supervisory Council were provided with an Induction Pack, which included, amongst other things, off-site meetings, information about members' duties, the Bank's and the Supervisory Council's activities.

Leonid Kazinets, Leonid Melamed, Alexey Savatyugin and Alexey Uvarov left the Supervisory Council in June 2013 after a new Supervisory Council was elected at the Annual General Shareholders' Meeting.

Sergey Dubinin
Chairman of the Supervisory Council of VTB Bank since 16 June 2011

Member of the Supervisory Board of JSC ALROSA, member of the Board of Directors of CJSC VTB Capital, Otkritie Financial Corporation, JSC 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;
1994-1994 – 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 Department of 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";
- Winner of the Aristos award for "Best Independent Director of the Year" (2013).

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 0.00164% of the authorised capital of the Bank as of 31 December 2013.

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 CoStar Group Inc. and General Motors Company; member of Board of Directors of the following non-profit organisations: The Wilderness Society, The Grand Canyon Trust and The American Himalayan Foundation; Chairman of the Board of Directors of Ryanair Holdings plc.

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, Arnold & Porter, 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 2013.

Matthias Warnig

Member of the Supervisory Council of VTB Bank since 20 June 2007

2006 to date – Managing Director of Nord-Stream AG (Switzerland). Chairman of the Board of Directors of JSC Transneft and United Company RUSAL Plc; Board member of JSC Bank Rossiya and JSC Rosneft Oil Company; President of the Board of GAZPROM Schweiz AG and Gas Project Development Central Asia AG; 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 2013.

Yves-Thibault de Silguy
Independent member of the Supervisory Council of VTB Bank since 28 June 2013

President of YTSeuropaconsultants (France); Vice-Chairman, member of the Board of Directors and President of the Administrative Council of the VINCI Group; Chairman of the Supervisory Council of Sofisport (France); member of the Supervisory Council of VTB Bank (France); member of the Board of Directors of LVMH (France) and SOLVAY (Belgium).

Previous positions:
2008-2011 – Member of the Board of Directors of SMEG (Societe monegasque d'eau et d'électricité);
2006-2010 – President of the Administrative Council of the VINCI Group;
2007-2008 – Member of the Supervisory Council of JSC VTB Bank;
2005-2012 – Member of the Council for Foreign Affairs, French Foreign Ministry;
2002-2010 – Member of the Economic Council, French Defence Ministry;
2002-2010 – Member of the Board of Directors of SUEZ-Tractebel;
1995-1999 – Member of the European Commission, responsible for economic, monetary and financial affairs;
1993-1995 – Secretary-General of the Interdepartmental Committee for Questions of Economic Cooperation in Europe. Adviser for European affairs assisting in the preparation of summits of industrialized nations in the Cabinet of Eduard Balladur;
1988-1993 – Director of International Affairs of Usinor Sacilor Group;
1986-1988 – Adviser for international economic affairs in the Cabinet of Jacques Chirac;
1985-1986 – Counsellor for Economic Affairs, French Embassy in Washington;
1981-1984 – Advisor, deputy head of Cabinet, then Vice President of the Commission for Economic and Monetary Affairs, Commission of the European Communities;
1976-1981 – Authorised representative of the Department for Economic Cooperation at the Ministry of Foreign Affairs of France.

Awards:
- Knight of the Order of the Legion d’Honneur;
- Knight of the Order of Merit;
- National order of merit for distinguished service in agribusiness;
- National order of merit for distinguished service in arts and literature;
- Bronze medal of the French Republic for voluntary military service.

Born in 1948. Graduated in 1981 from University of Rennes II – Upper Brittany, from University of Paris I, Pantheon-Sorbonne and from Paris Institute of Political Studies (Sciences Po) in 1972 and from the École Nationale d’Administration in 1976 (ENA), "Guernica" promotion.

Holds no shares in the Bank as of 31 December 2013.

Leonid Kazinets
Independent member of the Supervisory Council of VTB Bank until 28 June 2013

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. Obtained an MBA degree from INSEAD Business School (Paris) in 2009. Ph.D in Economics.

Holds no shares in the Bank as of 31 December 2013.

Andrey Kostin
Member of the Supervisory Council of VTB Bank since 2002

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; Deputy Chairman of the Board of Directors of JSC Rosneft Oil Company; Board member of CJSC VTB Capital, CJSC VTB Capital Holding, VTB Capital IB Holding Ltd.; member of the Council of the Association of Russian Banks; and President of the Non-commercial Partnership Financial and Banking Council of the CIS.

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 as of 31 December 2013.

Nikolay Kropachev
Independent member of the Supervisory Council of VTB Bank since 26 June 2008

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 and 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 2013.

Leonid Melamed

Independent member of the Supervisory Council of VTB Bank until 28 June 2013

2011 to date – Chairman of the Board of Directors of JSC Team Drive. Member of the Board of Directors of OJSC Rusnanomedinvest and OJSC NovaMedika since 2012. Advisor to the Chairman of the Board of JSC RUSNANO since 2013.

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.

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

Holds no shares in the Bank as of 31 December 2013.

Gennadiy 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; Advisor to the President and Chairman of the Board of Directors of JSC Rosneft Oil Company; 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 the 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 graduated from the Economics Department of Lomonosov Moscow State University in 1977. PhD in Economics.

Holds no shares in the Bank as of 31 December 2013.

Shahmar Movsumov

Independent member of the Supervisory Council of VTB Bank since 28 June 2013

2006 to date – Executive Director of the State Oil Fund of Azerbaijan and Chairman of the National Committee on the Extractive Industries Transparency Initiative.

Previous positions:
2005-2006 - General Director of the National Bank of Azerbaijan;
1995-2005 - Various positions at Central Bank of the Republic of Azerbaijan including Chief FX Markets Economist, Head of Group, Head of Section, Deputy Head of Department, Head of Department, Chief Advisor to CEO.

Awards:
- “Tereqqi” Medal of the Republic of Azerbaijan.

Born in 1972. Graduated from Moscow State Institute of International Relations in 1995 with a degree in Economics, and from the John F. Kennedy School of Government at Harvard University in 2004 with an MPA in Public Finance.

Holds no shares in the Bank as of 31 December 2013.

Alexey Moiseev

Member of the Supervisory Council of VTB Bank since 28 June 2013

2012 to date – Russian Deputy Finance Minister. Member of the Supervisory Council of Sberbank of Russia since 2013.

Previous positions:
2010-2012 – Deputy Head of Analytics Department, Head of Macroeconomic Analysis Division at CJSC VTB Capital;
2001-2010 – Senior Economist, Deputy Head of Analytics Department at Renaissance Capital – Financial Adviser LLC;
1998-2001 – Economist and Senior Analyst in Sovereign Instruments Market, Fixed Income Instruments Market Department of BNP Paribas, London, UK;
1995-1996 – 1st Rank Economist, Leading Economist of the Central Bank of Russia.

Awards:
- Certificate of Honour of the Government of the Russian Federation;
- Letter of Gratitude of the Russian Central Bank Chairman;
- Letter of Gratitude of Igor Shuvalov, First Deputy Prime Minister of the Russian Federation.

Born in 1973 in Moscow. Graduated in 1995 from Ordzhonikidze State University of Management and from University of Rochester in 1998.

Holds no shares in the Bank as of 31 December 2013.

Elena Popova

Member of the Supervisory Council of VTB Bank since 28 June 2013

Member of VTB Shareholder Consultative Council since 2009.

2009 to present – Academic Secretary at Russian Academy of Science's Council for the Study of Manufacturing Resources; since 1986 – Professor of Management Theory and Business Technology, Plekhanov Russian University of Economics.

Previous positions:
2002-2012 – Deputy Director, Professor of Innovation Management and Investment Business of State Regulation of the Economy, Head of General Theoretical and Language Training at the State Academy of Professional Development and Training for Senior Management and Investment Specialists;
2003-2009 – Professor of the Department of Economic Theory at Institute of Economics of the Russian Academy of Sciences.

Awards:
- Russian Government award for services to science and technology;
- Honoured Worker of Higher Professional Education;
- Honoured Worker of Science and Technology.

Born in 1958. Graduated in 1981 from Moscow State Management University (Ordzhonikidze State University of Management), from the Russian Interior Ministry Law Higher School in 1999, and from Russian Institute of Professional Accountants and Auditors in 2007. Received PhD in Economics in 2003 and became a Professor of the Regional Economy in 2004.

Holds shares equivalent to 0.000048% of the authorised capital of the Bank as of 31 December 2013.

Alexey Savatyugin
Member of the Supervisory Council of VTB Bank until 28 June 2013

2010-2013 – Deputy Finance Minister of the Russian Federation; Member of the Board of Directors 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 2013.

Alexey Uvarov
Member of the Supervisory Council of VTB Bank until 28 June 2013

From November 2012 – 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 the 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 2013.

Alexey Ulyukaev
Member of the Supervisory Council of VTB Bank since 2004

Deputy Chairman of the Supervisory Council of JSC Sberbank, Chairman of the Supervisory Council of the Russian Direct Investment Fund (RDIF).

Minister of Economic Development of the Russian Federation since June 2013.

Previous positions:
2004-2013 - First Deputy Chairman of the Russian Central Bank;
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 2013.

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, each member of the Council has one vote at Supervisory Council meetings.

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. Meetings of the Supervisory Council are scheduled in advance, based on the business cycle of the Bank.

In accordance with the work schedule for the Bank's Supervisory Council, the mandatory number of meetings and postal ballots was set at 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 2013, the Supervisory Council held nine meetings and ten postal ballots. During the reporting period, the Supervisory Council reviewed 201 different issues in total.

	2012	2013
Number of meetings in presentia	9	9
Number of meetings conducted by postal ballots	14	10

Supervisory Council member	Number of meetings / postal ballots attended by each Supervisory Council member in 2013
Sergey Dubinin	19 out of 19
David Bonderman	19 out of 19
Matthias Warnig	19 out of 19
Yves-Thibault de Silguy	10 out of 10
Leonid Kazinets (left office on 28.06.2013)	9 out of 9
Leonid Melamed (left office on 28.06.2013)	9 out of 9
Gennadiy Melikyan	19 out of 19
Shahmar Movsumov (elected on 28.06.2013)	10 out of 10
Alexey Moiseev (elected on 28.06.2013)	10 out of 10
Andrey Kostin	18 out of 19
Nikolay Kropachev	18 out of 19
Elena Popova (elected on 28.06.2013)	10 out of 10
Alexey Savatyugin (left office on 28.06.2013)	8 out of 9
Alexey Uvarov (left office on 28.06.2013)	9 out of 9
Alexey Ulyukaev	9 out of 19

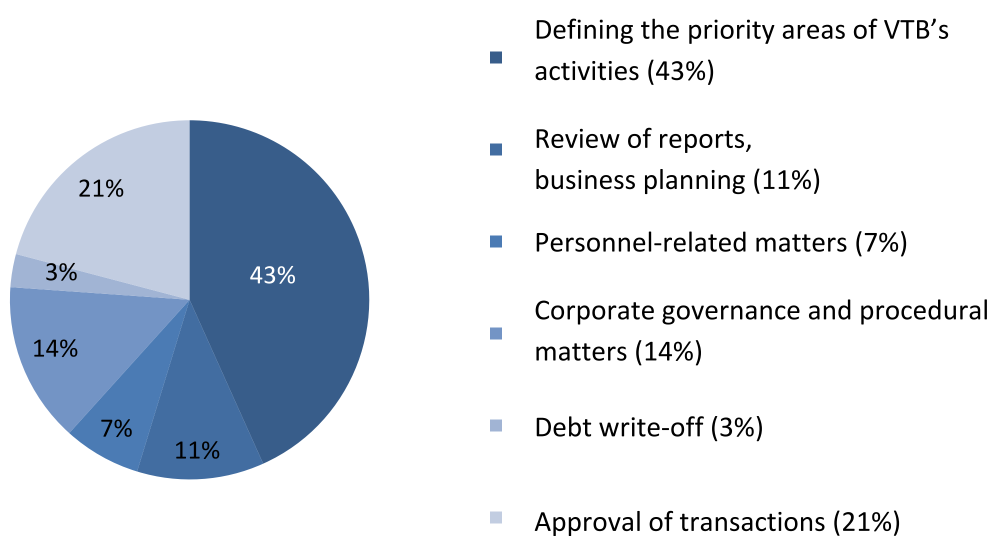
During 2013, the Supervisory Council made a number of decisions on priority areas of the Bank's activities, which included increasing the Bank's share capital by issuing additional common shares; reviewing a progress report on VTB Group's Development Strategy for 2010 – 2013; placement of the Bank's bonds; acquiring/disposing of shares in the Bank's subsidiaries; increasing charter capital (funds) and reorganising the Bank's subsidiaries.

In addition, the Supervisory Council considered the following matters in 2013:

- review of the report on interaction with the Bank's shareholders and approval of plans for activities with shareholders in the next calendar year;
- approval of amendments to the Bank's Charter and Regulation of the Staff and Remuneration Committee under the Supervisory Council;
- review of the implementation of the principles of banking supervision in accordance with Basel III;
- review of the report on the Bank's sponsorship and charity activities, as well as approval of the plans for sponsorship and charity activities in the next calendar year;
- review of the reports on the activities of the Supervisory Council Committees;
- review of the quarterly reports by inspectors on 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;
- review of reports on the state and efficiency of risk management;
- 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 Deputy President and Chairman of the Management Board;
- 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 new editions of the Bank's Code of Ethics and Regulation on the Bank's procurement of goods, works and services .

The issues which were considered by the Supervisory Council in 2013



Details on work of the Supervisory Council can be found at:
http://www.vtb.ru/ir/governance/council/activity/

Assessment of the state of the corporate governance system

In 2013, 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 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.

The comprehensive assessment of the corporate governance system was implemented based on the following nine components:

1. distribution of powers among managing bodies;
2. work of the Supervisory Council;
3. approval of the Bank's development strategy and control over its implementation;
4. coordination of the Bank's risk management;

5. prevention of conflicts of interest between shareholders, members of the Supervisory Council , the executive bodies of the Bank and its employees;
6. cooperation with affiliates;
7. establishment of rules and procedures to ensure compliance with the principles of professional ethics;
8. coordination of the Bank's disclosure;
9. monitoring of the internal control system.

Following this assessment, a report and plan were presented for review by the Strategy and Corporate Governance Committee with a further review by directors at the Supervisory Council meeting.

Overall, based on the assessment of the corporate governance, the members of the Supervisory Board view the level of development of the corporate governance system as relatively high. The average assessment of the main elements of corporate governance was 3.8 points (95% of the maximum score). An increase in assessment was seen in most components of the corporate governance system, except for the "distribution of powers among the management bodies", which has remained at the last year's level of 3.8 points.

Following the Bank of Russia's assessment of corporate governance practice and risk management among Russian banks, VTB Bank was praised for its work in improving corporate governance.

Assessment of internal activities

An assessment of the Supervisory Council's internal activities was conducted as part of the overall assessment of the corporate governance system. The assessment of the Supervisory Council's internal work increased from 3.6 in 2012 to 3.8 in 2013.

In 2013, the number of meetings by absentee voting decreased in comparison to 2012, and the meeting attendance improved by members of the Supervisory Council. Approximately 50% of the issues addressed were related to the primary activities of the Bank and VTB Group. This was mainly due to the Supervisory Board's active position on matters summarising VTB Group 2010-2013 strategy and development of the new 2014-2016 strategy.

Detailed information on the Supervisory Council's internal activities can be found on VTB Bank's website: 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 2013, 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.

As of 31 December 2013, the Audit Committee comprised the following members:

- Yves-Thibault de Silguy, Committee Chairman, independent member of the Supervisory Council of VTB Bank
- Matthias Warnig, member of the Supervisory Council of VTB Bank
- Gennadiy Melikyan, member of the Supervisory Council of VTB Bank;
- Alexey Savatyugin, member of the Supervisory Council of VTB Bank;
- Aleksey Ulyukaev, 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*
Yves-Thibault de Silguy (since 28.06.2013)	6 out of 6
Matthias Warnig	12 out of 12
Gennadiy Melikyan	12 out of 12
Alexey Savatyugin (until 28.06.2013)	3 out of 6
Alexey Ulyukaev (until 28.06.2013)	6 out of 6

During the reporting period, a total of three meetings and nine 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 reviewed:

- Strategic development and risk management of the Bank and VTB Group, including VTB's individual business segments;

- 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;

- Results of the tender for an external auditor;

- 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;

- Regular consolidated financial reporting in compliance with International Financial Reporting Standards (IFRS).

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.

As at 31 December 2013, the Staff and Remuneration Committee comprised the following members:

- Nikolai Kropachev, Committee Chairman, independent member of the Supervisory Council;
- Gennadiy Melikyan, , member of the Supervisory Council;
- Elena Popova, 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 Kropachev	6 out of 6
Leonid Kazinets (until 28.06.2013)	3 out of 3
Leonid Melamed (until 28.06.2013)	3 out of 3
Gennadiy Melikyan (since 28.06.2013)	3 out of 3
Elena Popova (since 28.06.2013)	3 out of 3

In 2013, a total of two meetings and four 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.

As of 31 December 2013, the Strategy and Corporate Governance Committee comprised of the following members:

- Sergey Dubinin, Committee Chairman, Chairman of the Supervisory Council;
- David Bonderman, Independent member of the Supervisory Council;
- Andrey Kostin, President and Chairman of the Management Board, member of the Supervisory Council;
- Shahmar Movsumov, Independent member of the Supervisory Council;
- Alexey Moiseev, member of the Supervisory Council;
- Elena Popova, 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 Dubinin	13 out of 13
David Bonderman	13 out of 13
Leonid Kazinets (until 28.06.2013)	7 out of 7
Andrey Kostin	13 out of 13
Shahmar Movsumov (since 28.06.2013)	6 out of 6
Elena Popova (since 28.06.2013)	6 out of 6
Alexey Savatyugin (until 28.06.2013)	4 out of 7
Alexey Uvarov (until 28.06.2013)	6 out of 7
Alexey Ulyukaev	6 out of 13

During the reporting year, the Committee held 13 meetings, including six in-person meetings and seven postal votes, during which a range of matters were considered, including the results of implementation of the Group's development strategy for 2010-2013, the integration of TransCreditBank into VTB Group and the new edition of the Bank's Code of Ethics. Other issues that were discussed included 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 the 2012 financial results, and the issue of the Bank's participation in its subsidiary companies.

More information on the Supervisory Council and its Committees can be obtained on 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 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.

On 28 September 2011, Evgeniy Ignatyev was elected as the Council's Corporate Secretary by the Supervisory Council based on recommendations provided by the Strategy and Corporate Governance Committee and the Staff and Remuneration Committee.

Evgeniy Ignatyev is one of the founders of and member of the Board, and is a member of the Russian public organization, “National Association of Corporate Secretaries”. He has also been a registered member of the Corporate Secretaries Business Club of the Russian Institute of Directors since 2005.

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

(For a detailed biography see the Supervisory Council section on p. 83)

Yuri 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; a member of the Board of Directors of VTB Capital Investment Management Holding AG, VTB Capital Private Equity Holding AG, OJSC Bank of Moscow, OJSC United Aircraft Corporation, VTB Capital Russia & CIS Equity Fund Ltd., VTB Capital Russia & CIS Fixed Income Fund Ltd., Airport Alliance (Netherlands) B.V., Tele2 Russia Holding AB, T2 (Netherlands) B.V.

He previously held the following 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 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, and in 2002 from London Business School with an MBA degree.

Holds shares equivalent to 0.00341% of the authorised capital of the Bank.

Vasily 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) and OJSC VTB Bank (Azerbaijan); Chairman of the Board of Directors of CJSC VTB Bank (Belarus), CJSC Moscow Dynamo Football Club and JSC Bank of Moscow (Belgrade); Deputy Chairman of the Supervisory Council of PJSC VTB Bank; member of the Supervisory Council of OJSC Evrofinance Mosnarbank, VTB24 (CJSC), OJSC Bank Moscow-Minsk; member of the Board of Directors of OJSC ROSKINO, CJSC National Satellite Company.

He previously held the following positions:

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.

Holds shares equivalent to 0.00112% 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, VTB Factoring Ltd, VTB Capital IB Holding Ltd, CJSC Holding VTB Capital, CJSC VTB Capital, OJSC Hals-Development, OJSC Bank of Moscow and VTB Debt Centre Ltd.; member of the Supervisory Council of CJSC Bank VTB24, OJSC Leto Bank and PJSC VTB Bank.

He previously held the following 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.

Holds shares equivalent to 0.00341% of the authorised capital of the Bank.

Mikhail 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. He is a member of VTB24's Supervisory Council

He previously held the following positions:

2011–2012 – Deputy Minister of Economic Development 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.

Holds no shares in the Bank.

Andrey 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. Prior to 2008 he 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 Council of PJSC VTB Bank, VTB24 (CJSC), CJSC VTB-Development, and Chairman of the Board of Directors of VTB Debt Centre Ltd, OJSC Bank of Moscow and OJSC Hals-Development.

He previously held the following 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.

Holds shares equivalent to 0.00030% of the authorised capital of the Bank.

Yulia Chupina
Deputy President and Chairman of the Management Board of VTB Bank

Ms Chupina was appointed as Deputy President and Chairman of the Management Board of VTB Bank between 2007 and 2009, and from September 2009 to present. She is also a member of the Board of Directors of CJSC Holding VTB Capital.

She previously held the following positions:

2004-2009 – Vice President, Vice President and Head of the Corporate Development, Senior Vice President and Head of the Corporate Development, member of the Management Board, Deputy President and Chairman of the Management Board of VTB Bank;
1998-2004 – Junior Consultant, Senior Consultant, Project Manager at the Moscow office of McKinsey and Company , Inc. FSU.

Born in 1970. Graduated from Moscow State Linguistic University in 1993 and from EADA Business School in Barcelona in 1997.

Holds shares equivalent to 0.000397% of the authorised capital of the Bank.

Denis Bortnikov
Member of the Management Board

Mr. Bortnikov joined VTB in January 2006 and has been a Member of the Board since November 2011. Prior to this he served as Head of the North-West Regional Centre of VTB Bank and Senior Vice President in 2011.

He previously held the following positions:

2007–2011 – Deputy Chairman of the Management Board and Head of the Department, 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 and Deputy General Manager of the North-West Branch of GUTA-BANK;
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.

Holds no shares in the Bank.

Victoria Vanurina
Member of the Management Board

Ms. Vanurina joined VTB Bank in October 2009 and has been a member of the Board of Directors since October 2012. She is also a member of the Board of Directors of CJSC Holding VTB Capital and CJSC VTB Specialized Depository.

She previously held the following 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.

Holds shares equivalent to 0.000504% of the authorised capital of the Bank.

Chaba 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.

He previously held the following 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, then 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.

Holds no shares in the Bank.

Valery 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 Corporate Business Division; Senior Vice President of the Corporate Business Division; Vice President and Head of Fourth Division of Large Corporate Business in the Corporate Business Division; Vice President; and Advisor to the President and Chairman of the Management Board of VTB.

He previously held the following 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 Doctor Council.

Holds shares equivalent to 0.00046% of the authorised capital of the Bank.

Erkin Norov
Member of the Management Board

Mr. Norov joined VTB Bank in 2002 and was a member of the Management Board from 2002 to 2007, and from September 2009 to present. He is also a member of the Board of Directors of OJSC Bank of Moscow and Airport Alliance (Netherlands) B.V.

He previously held the following 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 of the merged 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.
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 incurred by 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 28 June 2013, 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 the 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 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 by air and/or rail.

In 2013, the amount paid to the independent members of the Bank's Supervisory Council was RUB 51,060, compared to RUB 43,094 in 2012. Other members of the Supervisory Council did not receive any remuneration in 2013.

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 2013, the members of the Management Board received remuneration (salaries and bonus) in the amount of RUB 1,325,135 thousand (compared to RUB 1,325,669 thousand in 2012).

5.7 Internal Control and Audit of VTB Group

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 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 (and his/her deputies);
- Branch Managers (and their deputies) and Chief Accountants (and 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 composition of the Statutory Audit Commission, elected at the Bank's Annual General Shareholders' Meeting on 28 June 2013, is as follows:

- Zakhar 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 Kostina – Member of the Statutory Audit Commission; Deputy Head of the Trade Organisations' Unit and of Foreign Property of the Federal Agency for State Property Management;
- Aleksey Mironov – Member of the Statutory Audit Commission; Member of the Board of Directors of OJSC Roskhimzashchita Corporation, General Director of OJSC "ЫЪ";
- Nikita Tihonov – Member of the Statutory Audit Commission; Head of Division of the Financial Policy Department of the Ministry of Finance of the Russian Federation;
- Maria Turuhina – Member of the Statutory Audit Commission; Head of Financial and Credit Institutions, Oil, Gas, Fuel and Energy, Coal Industry and Natural Resources of the Department for industry organisations and Foreign Property of the Federal Agency for State Property Management;
- Olga Filippova – Member of the Statutory Audit Commission.

In 2013, the Bank did not remunerate members of the Statutory Audit Committee.

More detailed information on the Bank's Statutory Audit Commission can be found on the Bank's website: http://www.vtb.ru/ir/governance/control/revission_commition/

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 VTB Bank's Supervisory Council, 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:

- Monitoring 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 insufficiencies identified by the department during the period being audited.

Compliance Control Department

The Compliance Control Department operates within VTB 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;
- Developing and implementing compliance policies and procedures, in accordance with the Bank's compliance internal documents:
- Assessing new products and services offered by the Bank for compliance risk, and suggesting ways to minimise such risks;
- Regulating any conflicts of interest and developing internal documents to prevent these from occurring;
- Assisting with drafting VTB Bank's internal documents, containing the rules of corporate conduct, and advising employees on the applicable rules of professional ethics;
- Supporting the Bank in its cooperation with the regulatory authorities, investors, self-regulatory organisations, associations and international partners with regard to compliance;
- Fulfilling legal requirements on combatting the improper use of inside information and market manipulation;
- Reviewing the Bank's internal regulations, which contain anti-corruption measures in accordance with the Bank's anti-corruption policy;
- Considering reports of violations or potential violations, which are brought to the Committee's attention by employees via the "Violations and Misuse Hotline";
- Monitoring changes to the legal base (laws, by-laws, the Banks' internal documents and the standards of self-regulating bodies) falling within the remit of compliance, and informing the relevant departments about these changes.

In 2013, VTB Group defined compliance as a functional business line, which is important from the point of view of the Group's effective and stable development. VTB Bank's Compliance Control Department is the functional coordinator of compliance across the Group's companies.

The Coordination Commission for compliance and internal control operates under VTB Group's Management Committee with the aim of combatting money laundering and the financing of terrorism, and considers issues falling within the remit of the Group's compliance.

In order to ensure that information is exchanged more effectively between the Group's compliance departments, VTB developed and introduced an internal information portal on the compliance function, which is used by the Group's banks and financial institutions and contains documents, reports and other information of VTB Group's companies on compliance.

The main requirements for the organisation 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 following compliance documents were developed and introduced across the Group in 2013:

- The concept of a VTB Group compliance management function;
- A protocol on liaising with companies within the Group on compliance matters;
- Key Performance Indicators (KPIs) for the heads of compliance across the Group's subsidiary companies;
- A series of reports for the VTB Group companies, including quarterly updates on the performance of compliance and a yearly assessment of the compliance system in the Group's companies.

In order to ensure that unified approaches and methods are used more effectively, VTB Bank offered secondments and opportunities to share experience for representatives of the Group's compliance departments at the Compliance Control Department.

VTB Bank's External 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. The tender procedure is subject to Federal Law No. 94 from 21.07.2005.

Tender documents are prepared as part of the tender process in VTB Bank. The Audit Committee of VTB Bank's Supervisory Committee considers the tender documents and the initial price of an audit service contract.

VTB Bank's tendering committee carries out the open tender process to select an auditor. During the course of the tender process, members of the committee review the proposals they have received. The applications are then assessed based on the criteria set out in the tender documentations, and the committee selects the supplier with the best financial and technical terms.

The auditing firm selected through the tender process is recommended to VTB Bank's Supervisory Committee and is presented to the Annual General Shareholders' Meeting for approval.

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 2013.

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, and has no relationship of affiliation with the Bank, with members of its governing bodies or VTB subsidiaries.

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 2013, VTB Bank continued to strengthen the coordination of activities between units and increased monitoring for fulfilment of requirements in order to improve the quality of programme implementation and compliance with 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.

5.8 Investor relations

One of the key principles of VTB Bank's operations is its open and effective communications with its shareholders and investors. The Bank's departments responsible for the maintaining and developing communications with minority shareholders are the Investor Relations Department, responsible for communications with institutional investors, and the Shareholder Relations Department, responsible for communications with individual shareholders.

In 2013, the following projects became priorities in the Group's communications with shareholders:

- The Bank's additional share issue;
- Annual General Meeting of Shareholders (for more details see "Corporate Governance");
- Election of new members to VTB's Shareholder Consultative Council;
- Continued training sessions and workshops for individual shareholders in different regions

Additional share issue

In April - May 2013, VTB Bank conducted an additional share issue totalling 2.5 trillion new ordinary shares. The offering price determined by the Bank's Supervisory Council amounted to RUB 0.041 per share.

1,245 shareholders used their statutory pre-emptive rights and participated in the placement, purchasing 14.048% of the total amount of issued shares worth approximately RUB 14.4 billion. Holders of GDRs (global depository receipts), using their statutory pre-emptive rights, bought 9.03 % of the total additional issue for RUB 9.3 billion, which accounted for 57.12% of the maximum possible number of shares offered in this category of shareholders. The Bank's shareholders, individuals and legal entities, excluding the Federal Agency for State Property Management, acquired 5.01% of the total issue for RUB 5.1 billion, or 57.72% of the possible number of shares offered in this category of shareholders with statutory pre-emptive rights.

The remaining 85.95% of the shares were sold on the open market, allowing several large investors, including sovereign wealth funds, to become the Bank's shareholders. Among them are:

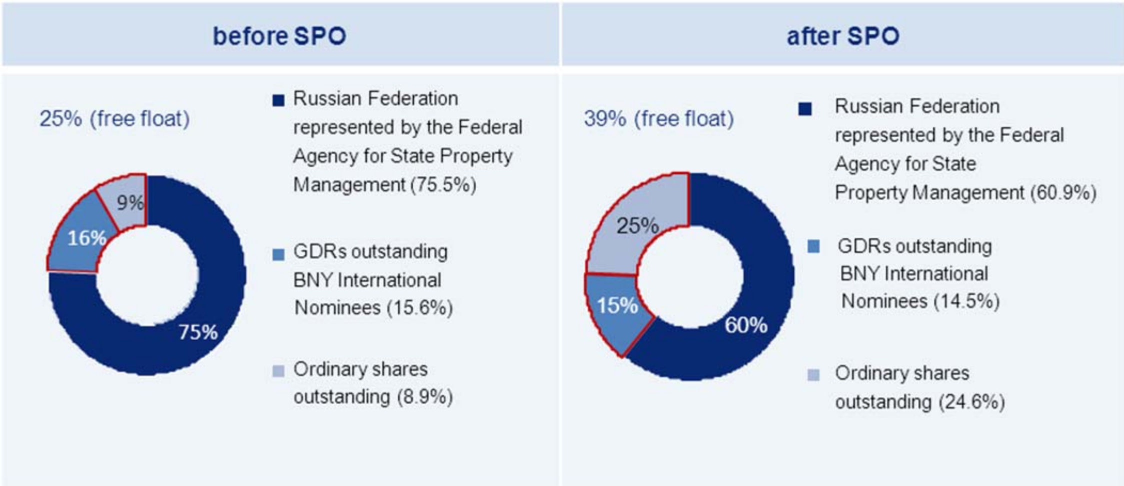
- The Central Bank of Norway;
- State Oil Fund of the Republic of Azerbaijan;
- A division of the sovereign fund of Qatar - Qatar Holding LLC.

It should be noted that during the preparation and implementation of the offer, Russian legislation underwent some significant changes. This led to the development of new procedures to govern the process starting from receiving applications from shareholders to transferring shares to the depositary accounts.

Following the additional share placement, VTB Bank's authorised capital amounts to RUB 129,605,413,373.38 and is divided into 12,960,541,337,338 ordinary registered shares issued in book-entry form. The par value per share is RUB 0.01. The number of shares placed is 2,500,000,000,000, including 351,204,477,443 shares placed with shareholders using their statutory pre-emptive rights.

As a result of the additional share issue, VTB Bank's free float increased from 24.5% to 39.1%, while the share of the Russian Federation represented by the Federal Agency for State Property Management has decreased from 75.5% to 60.93%.

VTB Bank shareholder structure



Shareholders' Consultative Council (SCC)

The Shareholders' Consultative Council (SCC), an independent advisory body representing the interests of VTB Group's minority shareholders and relaying their views to the top management, continued its active work in 2013.

The SCC's work during the year was based in accordance with the approved plan. In 2013, the SCC held six meetings, including the two meetings of the SCC's first tier members, one joint meeting and three meetings with the new members of the SCC. The Council discussed the most fundamental issues, as well as matters relating to shareholders' interests, including:

- VTB Group's financial performance;
- Results of the implementation of VTB's development strategy in 2010-2013;
- New VTB's development strategy;
- Dividend policy;
- Election of new members of the SCC.

During the 19th meeting of the SCC, the Council reviewed the results of the tier one composition. A number of the Council's initiatives were implemented over a four year period, including the share buyback from the shareholders that participated in the Group's IPO in 2007. The Council processed over 600 requests from shareholders and conducted more than 50 consultation meetings. The SCC has become an important element of VTB Bank's corporate governance system.

As the four year term of the first SCC expired, a new Council was elected in 2013.

All the Bank's shareholders over the age of 21 had the opportunity to present their candidature. Applications from minority shareholders were accepted from 22 April to 31 May 31 2013. In early June, 30 candidates were selected out of the applications that were received. An expert jury selected candidates based on their skills, experience, areas of activity, education and plans for their work on the Council.

Following this, an open vote for the candidates was launched. The Bank's shareholders could vote from 10 June to 2 July 2013 inclusive using whichever method was most convenient for them: remotely via VTB's website, in person at shareholders' centres, as well as by sending their vote by e-mail or by post through Russian Post. Shareholders could also vote for the SCC's candidates at VTB Bank's Annual General Meeting of Shareholders in St. Petersburg. Information about the candidates, the form and instructions for voting were posted on the VTB website and sent to the shareholders, together with the ballot papers for voting at the AGM.

On 2 July 2013, the process of electing new members to the SCC was completed. Over 850 shareholders participated in the voting. A significant amount of voting forms was received at the AGM on 28 June 2013. Both individual shareholders and legal entities registered as of 13 May 2013 could participate in the voting. The amount of shares they held did not affect their number of votes. Preliminary results were published on VTB's website.

Ten new candidates to the SCC were expected to be named according to the voting results; however, three candidates received the same number of votes for the final, tenth position. As a result, the decision was made to expand the number of SCC members to twelve.

Below are the new members of the SCC:

- Leonid Volkov, authorised representative of the Chuvash Republic under the President of the Russian Federation (Moscow);
- Sergei Gavrilov, Chairman of the Property Committee in the State Duma (Moscow);
- Stanislav Kleshchev, Managing Director and Chief Analyst at CJSC VTB24's Investment Department (Moscow);
- Evgeniy Korchevoi, Director of the Russian Association, Rosagromash (Moscow region);
- Svetlana Mironyuk, Editor-in-chief of RIA Novosti (until February 2014);
- Valery Petrov, Deputy Chairman of the Board of the Institute for the Development of Financial Markets (Moscow);
- Elena Popova, member of the Supervisory Council of JSC VTB Bank;
- Igor Repin, Deputy Executive Director of the Investor Protection Association (Moscow);
- Maksim Sergeev, Engineer of the Zh.I. Alferov Academic University (St. Petersburg);
- Vasiliy Sidorov, member of the Board of Directors of OJSC Aeroflot;
- Vadim Soskov, Deputy General Director of CJSC Kapital Asset Management (Moscow);
- Elena Shtykanova, Advisor to the Deputy General Director of OJSC Norilsk Nickel (Moscow).

Valery Petrov was elected Chairman of the SCC.

In the second half of 2013, the SCC members met with key managers of VTB Bank to discuss the new Council's work plans and the format of interaction with the Bank's top management, as well as the Group's financial performance, dividend policy and the Group's development strategy. A number of suggestions have been made on these issues, including proposals to increase dividend payments, develop key business areas and improve financial results.

At the end of 2013, the SCC collected proposals from minority shareholders on a new development strategy for VTB Group. Over 130 different proposals were received, processed, thoroughly studied, systematised and sent to the Bank's management for further review. Some proposals were implemented as part of the Group's new development strategy.

Investor and Shareholder enquiries

The most important area of VTB Bank's activity is to maintain and improve the way it communicates with shareholders and potential investors, which is considered to be one of the most effective among the largest Russian public companies.

Having a large number of communication channels allows shareholders and investors to obtain necessary information in the most convenient way for them. Enquiries from shareholders are handled through personal communication with the Bank's representatives and SCC members, as well as through remote means of communication: call centre service, e-mail, shareholders' support centres and the SCC. Shareholders and investors can also communicate directly via phone.

In 2013, VTB received an average of approximately 1,100 enquiries per month through various communication channels.

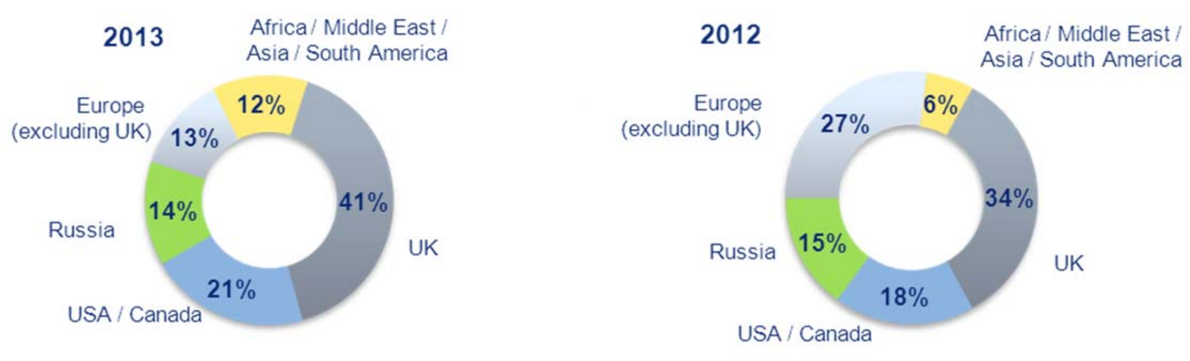
Meetings with individual shareholders and investors

Since 2007, VTB Bank has been holding regular meetings with its investors and shareholders, where they can receive all the information about the activities of VTB Group, its financial and operating performance, dividend policy and shares.

The Group paid great attention to personal meetings with institutional investors in 2013. VTB Bank held 379 meetings with investment funds and participated in 16 conferences with investors from the USA, Europe and Asia in 2013. A number of meetings were held as part of the Bank's four roadshows to major global financial centres, including London, New York, Boston, Toronto, Melbourne and Sydney.

In 2013, the Group's management team and Investor Relations team focused on interaction with European investors, which accounted for 54% of all meetings. These teams also significantly strengthened ties with investors from Asia and the Middle East during the additional share placement.

Geographical spread of meeting participants



In 2013, VTB Bank continued holding meetings with individual shareholders in different regions. Nearly 50 meetings were held with shareholders, including meetings with the SCC, during the year. The key formats of these meetings were:

- Investor Day held by the VTB's management team and representatives of the Group's subsidiaries in major cities where the Bank's shareholders are. The main purpose of these meetings is to inform shareholders about the Group's activities, as well as most common trading strategies and techniques;

- Open Day, which offered shareholders individual consultations in VTB's branches and offices.

In 2013, the agenda of regional meetings with individual shareholders had been revised. The focus was shifted to a more in-depth analysis of VTB Group's operating and financial performance, review of 2010-2013 strategy implementation results, VTB dividend policy and interaction with shareholders.

During the reporting period, VTB held 16 Open Day events in different regions, where individual shareholders were 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.

In 2013, the Bank expanded its activities to improve the financial literacy of VTB's individual shareholders and potential shareholders. The Bank continued its work with students of Russia's leading universities, which started in 2012, through a model programme it developed, which provides for a two-year cycle of workshops.

The first series of workshops was held in November-December 2013. These events took place in the Peoples' Friendship University of Russia (Moscow), the Baikal State University of Economics and Law (Irkutsk) and the Ural State University of Economics (Ekaterinburg).

Workshops were held for senior students of economics, along with postgraduate and MBA students. Over 600 undergraduate students, postgraduate and MBA students attended workshops during the year. VTB plans to further develop this practice by expanding the geographical reach and the number of universities.

Printed publications for individual shareholders

VTB Bank publishes a quarterly newspaper for its shareholders and investors called "The Controlling Interest", which is an important element of communications with shareholders. In 2013, the newspaper's circulation grew to over 17,000 copies, which were distributed to shareholders at the General Shareholders' Meetings, at VTB branches and Bank VTB24's offices.

"The Controlling Interest" newspaper includes information on the activities of the Bank and the Group, important news and product updates, exclusive interviews with top management, expert opinions and detailed comments from leading analysts on the stock and currency markets, as well as on other investment instruments.

In the autumn of 2013, an online version of the newspaper was launched in addition to the printed version. The online version of the newspaper is immediately available on the Bank's website following the publication of the print version.

Electronic communication channels

One of the most effective channels of communications with shareholders and investors is IR section of the VTB website. The website content is not only up-to-date, but also provides the most complete information about the Group's corporate activities. The number of visitors increased by 22% compared to the previous year with peak activity occurring in April-June 2013 (additional share issue and the AGM).

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. Starting from 2013, depositors of JSC National Settlement Depository receive the newsletter. The subscriber base comprises over 40,000 recipients. In 2013, the newsletter was issued 13 times.

In 2013, social networks became VTB's new channels of communications with shareholders. The SCC launched its official page on Facebook and opened a Twitter account in August 2013. The SCC's Facebook page registered a maximum number of 5,569 views in one week.

In 2014, the Group plans further development of electronic channels of communications with shareholders and the investment community.

5.9 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:

- Administrative management – realising the rights of the parent bank as the main shareholder by allowing its representatives to participate in the management bodies of subsidiary companies;

- Functional management – managing the Group's business areas and other functional divisions within the Group as a whole. Functional coordination is a supplementary governance mechanism that guarantees expert elaboration of management decisions while they are at the development stage.

At the 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 2013, the VTB Group Management Committee consisted of the following members:

Andrey Kostin – Chairman of the GMC, President and Chairman of VTB Bank Management Board, member of VTB Bank's Supervisory Committee;

Yuri Soloviev – First Deputy Chairman of VTB Bank Management Board;
Vasily Titov – First Deputy Chairman of VTB Bank Management Board;
Herbert Moos – Deputy President and Chairman of VTB Bank Management Board;
Mikhail Oseevskiy – Deputy President and Chairman of VTB Bank Management Board;
Andrei Puchkov – Deputy President and Chairman of VTB Bank Management Board;
Yuliya Chupina – Deputy President and Chairman of VTB Bank Management Board;
Chaba Zentai – Member of VTB Bank Management Board;
Denis Bortnikov – Member of VTB Bank Management Board;
Victoria Vanurina – Member of VTB Bank Management Board;
Valery Lukyanenko – Member of VTB Bank Management Board;
Erkin Norov – Member of VTB Bank Management Board;
Maksim Kondratenko – Head of the Risk Department, Senior Vice President of VTB Bank;
Riccardo Orcel – Head of the Client Coverage Department, Senior Vice-President of VTB Bank;
Igor Piun – Head of the Strategy and Corporate Development Department, Senior Vice President of VTB Bank;
Mikhail Zadornov – President and Chairman of VTB24 Management Board;
Alexei Krokhin – Chairman of the Board of VTB Bank (Austria);
Mikhail Kuzovlev – President of the Bank of Moscow;
Dmitry Rudenko – President and Chairman of Leto Bank Management Board;
Alexei Yakovitskiy – CEO of Holding VTB Capital;
Ekaterina Petelina – Deputy President and Chairman of the VTB24 Management Board, Director of the Retail Business Department of VTB24;
Alexander Yastrib – First Deputy President and Chairman of the Bank of Moscow Management Board;
Konstantin Vaisman – Chairman of the Management Board of VTB Bank (Ukraine).

GMC meetings and the Presidium are held regularly on the basis of quarterly work plans. In 2013, the GMC and Presidium of VTB held 24 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, internal control and audit, compliance and internal control for the prevention of money laundering and the financing of terrorism, branding and marketing communications, personnel, property management, IT, security and corporate governance). 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 Group's companies.

The Commissions are responsible for identifying best practices and finding ways to implement them, which are then considered by VTB's General Management Committee.

In December 2013, a Coordination Commission on corporate governance was created within VTB Group's Management Committee. The Commission was set up following changes to Russian legislation on banks and banking activity (Federal Law No. 146). The changes include broadening the responsibility of a parent organisation within a banking group and activating the oversight of the Bank of Russia on corporate governance issues. The Commission's work ensures that the principle of common functional coordination of corporate governance is adhered to and that the effectiveness of interaction across VTB Group on this issue continually improves. The Commission's aims are to ensure that corporate governance is developed effectively, that best practices and unified standards are developed and that corporate governance specialists from across VTB Group's companies coordinate and interact.

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 the Group's companies. Furthermore, the new system is a platform to effectively integrate 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 it cannot make decisions that would in any way 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 protecting the independence of each of the legal entities within the Group.

6. Corporate Social Responsibility

VTB Group is one of the largest financial institutions in Russia and in many other regional markets. Due to the scale of its operations, the Group has a significant economic and social impact on the regions of its presence. VTB is fully aware that achieving a high level of operating and financial performance and fulfilling its strategic targets is impossible without aligning the Bank's objectives with the expectations of all its stakeholders. Therefore, the Group maintains strong relationship with all stakeholders and strives to consider their interests in all aspects of the Bank's operations, thereby ensuring the sustainable development of the business.

Personnel

VTB Group has been consistently developing all functional areas of human resources. In 2013, the Group paid particular attention to increasing motivation, boosting the team's professional potential, improving work efficiency and developing corporate culture based on the Group's core values.

To achieve its business objectives for 2013, VTB Group implemented a number of projects aimed at transforming and modifying personnel management systems, with a constant focus on common principles and unified approaches to business processes.

In the reporting period, the Bank continued to work on building and developing teams of professional, best in class managers and specialists. The Group partially renewed the management teams of a number of its companies. In addition, a number of events were organised to attract talented employees who share VTB Group's values.

As of 31 December 2013, VTB employed 103,808 people, compared to 80,860 employees at the end of 2012.

Appraisal

VTB has implemented a modern and effective system of personnel assessment, which combines all assessment techniques currently available in the market. This system selects both external and internal candidates, determines employees' training requirements, and creates development schemes, to identify the most promising employees to then form a key personnel pool. The system also assesses employees' performance.

In 2013, personnel assessment tools were used during the process of reforming VTB's regional network, as well as in the merger of TransCreditBank, with employees being transferred to the Group's companies. The tools also help VTB to solve everyday operational tasks.

The competency model plays a significant role in the appraisal system of VTB's employees, defining the criteria for personnel selection. These evaluation procedures are used in the Group's banks in Russia, the CIS, Europe and Asia. The model reflects VTB Group's values and enables employees to better understand corporate standards of business ethics, and to receive feedback on their performance.

Developing and implementing the competency model in VTB Group's new companies, such as at the Group's new retail bank, Leto Bank, was a particularly important task in 2013. .

Incentive and Remuneration System

One of the focuses of VTB Group’s human resources team has traditionally been creating an effective, transparent and balanced incentive system for its staff.
In 2013, the Group implemented a new policy of setting and monitoring key performance indicators for managers of the Group’s companies, as well evaluating how well they are met. Throughout the year, the Bank used the new policy to assess its employees’ performance, which was taken into account when reviewing employees’ remuneration.

One of the key initiatives of 2013 was the further development of VTB’s long-term incentive programme (share options), which was launched in the previous year. VTB Capital has implemented the VTB shares incentive programme in Russia and abroad and includes several hundred employees from top managers to specialists. Receiving options is not an additional reward, but is integrated into employees’ total remuneration. The right to receive share options depends on an employee’s performance, assuming his/her continued employment with one of the VTB Group companies for the duration of the programme.

During the reporting period, the Group dedicated a lot of effort to updating and improving the incentive systems across all countries of the Group’s presence, in accordance with global best practice and taking into account changes in local legislation and regulatory requirements.

Training and Development

The Group’s success largely depends upon its employees, which is why VTB pays particular attention to staff training and development. In 2013, the main focus in this area was to improve the efficiency of all business divisions.

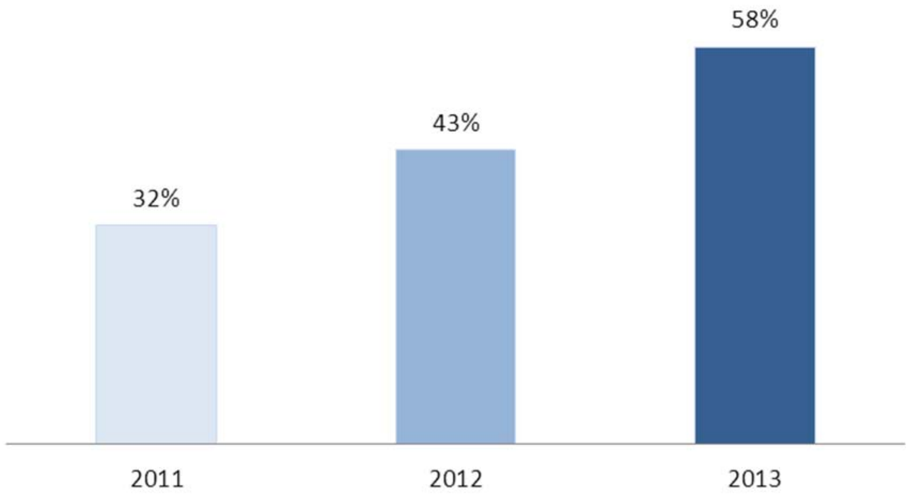
To achieve this objective, special emphasis was placed on "public educational programmes," which are training activities aimed at developing all the core competencies of managers and employees. The programmes were offered on a full-time or distance learning basis, using both external consultants and internal trainers. A new multimedia adaptation course was developed specifically for VTB Group’s new employees, an online version of which is also available for iOS-based tablet devices.

During the reporting period, the Group launched the “New energy of leadership” programme in order to form a unified management culture in VTB Group and to develop employees’ leadership skills and key managerial competences. It was designed to form a new management culture at VTB and to facilitate its implementation at the cross-functional and cross-cultural levels of the global matrix company.

In 2013, the percentage of functional training in VTB Bank was 58% of the total number of training programmes. The Bank formed a pool of internal trainers, which comprised leading experts in the various areas of business, including transactional banking and mortgage and credit operations. The heads of the retail departments also participated as trainers.

VTB pays particular attention to educating employees on customer service standards as part of its training. During the period, over 40% of the employees of the business units and operational support divisions received the relevant training.

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



Corporate Culture

In 2013, VTB continued to develop initiatives to improve its corporate culture and internal communications. In particular, staff meetings were held with VTB's top managers. Four issues of the Team Energy corporate newspaper were published, covering the most significant events happening within the Group and communicating VTB's key strategic priorities.

Large-scale engagement surveys were carried out internally at VTB Group. In 2013, such studies were organised in all the Group's key divisions, covering more than 50,000 people.

In order to preserve and develop its corporate traditions, VTB organised a range of events, including family and sports events, volunteering campaigns and donor days, and motivational programmes for its best employees. VTB Group's 8th Spartakiad was held in September 2013 in Moscow. The event was truly international with 30 teams from 14 countries representing VTB Group's companies in sports competitions.

Responsible resource management

One of VTB Group's main priorities is a responsible approach to the consumption of natural resources. VTB Group is not only improving its resource and energy consumption management system, but also contributes to raising environmental awareness in the business community. VTB also provides financial support to projects promoting environmental protection.

Resource and energy saving

Environmental efficiency is among the key priorities of VTB Group. VTB is constantly monitoring its resource and energy consumption and improving the efficiency of its property management system.

Any negative impact VTB Group has on the environment is mainly connected with operating its properties, using consumables and travelling on business trips by car or airplane. The Group seeks to minimise this impact by using resources responsibly and recycling. With this objective in mind, the

Group’s companies have implemented campaigns aimed at reducing consumption of fuel, paper, water, electricity and heat in the offices of the Bank and its subsidiaries.

In 2013, VTB Bank introduced an electronic document solution in 2013, which has helped to substantially reduce paper consumption in its headquarters. Installing cardboard and paper compression machine in VTB Bank’s building at Vorontsovskaya Street, 43, bldg.1 will enable the Bank to reduce costs for transporting paper to the recycling plant and increase the amount of paper sent for recycling.

Despite the significant growth of the Group's business, energy consumption figures in 2013 remained flat compared to the previous year. This largely attributable to VTB managing its real estate portfolio more efficiently by continuing to consolidate the Group's large facilities which use high amounts of energy and are expensive to run. In addition, during the reporting period, the Bank continued to close down its underperforming real estate assets by either closing the offices, or by optimising the internal layout to ensure that employees of VTB Bank and the Group’s companies are situated in the most efficient and compact places in the buildings.

In 2014, the Group plans to continue implementing measures to reduce its energy and water consumption. During its search for new solutions and with its desire to implement the most advanced and energy smart technologies, VTB is motivated to minimise the financial costs and free up its employees for servicing the Bank’s clients, while simultaneously reducing waste generation and electricity and heat consumption.

Supporting ecological projects

In 2013, VTB Group supported several important environmental protection projects. VTB Bank participated in financing the “Preservation of the large cat population in the Russian regions” programme, which is being implemented by the World Wildlife Fund (WWF). The main aim of the project is to improve the environmental sustainability of the natural ecosystems of the Far East, Altai, Sayani and the North Caucasus in order to preserve and expand the habitat of Amur tigers, Far Eastern, Persian and snow leopards.

Social programmes

VTB Group seeks to not only achieve its business goals, but also to promote the harmonious development of society by implementing social charity programmes. The programmes include supporting health, sports, education, science, culture and art initiatives, as well as aid to vulnerable groups within society and to improve people’s financial literacy in the countries where the Group operates.

Sports

VTB Group’s key priorities of its social activity include supporting high-level sporting achievements, investing in sports infrastructure facilities and promoting a healthy lifestyle. In 2013, the Group gave 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 Group has been a sponsor of the International Association of Athletics Federations (IAAF) since 2007. In 2013, VTB Bank acted as an official partner of the XIV World Championship in Athletics, which took place in Russia for the first time. The Bank supported the official competition, and also helped to organise entertainment for spectators.

During the reporting period, the Bank continued to sponsor the KAMAZ-Master rally team. In 2013, the team celebrated its 25th anniversary. The team's achievements include three World Cups and 11 wins in the super marathon, the Dakar Rally.

In 2013, the Bank of Moscow continued supporting the Kremlin Cup, which is the only large international tennis tournament in Russia. The Bank of Moscow does not only provide the prize fund for the tournament, but also strives to make the tournament accessible for spectators. For example, the bank offers free tickets to children from orphanages and organises transport to the tournament.

In Moscow, VTB Group finances the "VTB Arena Park" project, which is aimed at a fully redeveloping the Dynamo stadium and the surrounding area. As part of the project, there are plans to expand the stadium's capacity to 26,319 seats, create green spaces and build residential complexes. The project aims to build new sports infrastructure, which would harmoniously blend into the city space and be convenient for local residents.

In the reporting period, Moscow's first public bicycle rental system, Velobike, was launched with the support of the Bank of Moscow. The project is a 24-hour automated bicycle rental system, which aims to reduce traffic in the capital, improve the environment and promote a healthy lifestyle. Last year, over 72,000 bike rides were made on Velobike bicycles by Muscovites and visitors to the capital.

Arts and Culture

One of the main areas of the Bank's social policy is to support cultural institutions. 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.

VTB Group continuously supports Russia's leading art museums, including the state Tretyakov Gallery, the State Hermitage Museum, and The Pushkin State Museum of Fine Arts. These museums have organised a number of significant exhibitions and cultural events with the Group's support.

VTB Bank signing a cooperation agreement with the State Hermitage Museum was a highlight of the reporting period, which coincided with the museum's anniversary; in 2014, the museum will celebrate its 250th anniversary. As part of the agreement, the Bank will help the museum to organise anniversary exhibitions, contribute more works of art to the museum's collection, and will also support other projects.

VTB Bank has traditionally supported theatres. The Bank is a long-standing partner of the Bolshoi Theatre, the Mariinsky Theatre and Pyotr Fomenko Workshop Theatre. Therefore, the Bank sponsored the opening night of the new ballet "Onegin" at the Bolshoi Theatre and opened the new stage at the Mariinsky theatre. With the Bank's support, online broadcasts of Pyotr Fomenko Workshop Theatre continued, aiming to increase the accessibility of the theatre's plays.

The Bank of Moscow has been supporting the largest international military music festival, Spasskaya Tower, since 2011. Units of the State Honour Guards and the leading Russian and foreign military music bands participated in the festival. In 2013, the festival's coverage, including TV broadcasts, exceeded 100 million people worldwide.

VTB Group is also a long-standing partner of the Russian film and TV industry. In the reporting period, the Group gave financial support to a number of cultural events, including the national Golden Eagle Awards and the 35th Moscow International Film Festival. The Bank also supported Russia's first 3D film project, "Stalingrad."

Social Investments

VTB Group offers consistent, targeted support to organisations, which implement projects in the social and humanitarian spheres.

For the last ten years, the Bank has been developing the charity programme, 'World Without Tears', which is aimed at providing support to children's healthcare institutions. With VTB's help, the children's healthcare institutions are able to purchase medical equipment and pharmaceuticals. The programme's uniqueness is that medical institutions can purchase everything they need directly from suppliers, without intermediaries. In 2013, the programme covered 15 regions of Russia, while its annual budget reached RUB 30 million.

VTB traditionally supports the development of higher education in Russia. The Group's companies provide scholarships to students of the country's best universities, sponsor the development of new educational programmes and also organise lecture series. Therefore, students of the Moscow State University for Foreign Affairs (MGIMO) and St. Petersburg State University were able to attend a lecture of the world's leading economists and Nobel Prize winners in the reporting period, thanks to VTB's support.

In 2013, VTB developed an exemplary educational programme, which provides a two-year course of master classes. The programme's main aim is to improve students' financial literacy and develop their financial management skills. Master classes are held at Russia's leading universities in Moscow and the regions. Over 600 students, PhD candidates and MBA students attended these master-classes.

During the reporting period, VTB Group continued to assist people in need of social protection. VTB made donations to the first hospice for children with cancer, to the charities the 'Gift of Life' and 'There is no such thing as other people's children', and to non-governmental organisations working with disabled people and veterans. In addition, in 2013, the Group assisted regions affected by flooding in the Far Eastern Federal District of Russia. With VTB's financial support, work started on restoring the VIII special (correctional) boarding school type No. 5, schools and kindergartens in Belgo village, as well as the 'Teremok' kindergarten in Kasatkino village.

7. Management Responsibility Statement[14]

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 Conduct Authority (FCA).

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 Kostin

[14] 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. Other Group information

9.1 Details of JSC VTB Bank

General information	
Full name	VTB Bank (joint stock company)
General Banking Licence	№ 1000
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) compliance@msk.vtb.ru (for insiders)
Website	http://www.vtb.ru/

Details	
OKPO code	00032520
TIN	7702070139
Correspondent account with Operations Department of the Central Bank of the Russian Federation, Main Branch for the Central Federal District, Moscow	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 Contact information

VTB Bank regional branch network

Branch of JSC VTB Bank in Voronezh
Address: 58, Revolyutsii Avenue, Voronezh 394006
Phone: +7 4732 53 1926

Branch of JSC VTB Bank in Arkhangelsk
Address: 2/68, Pomorskaya St., Arkhangelsk 163000
Phone: +7 8182 20 0888

Branch of JSC VTB Bank in Veliky Novgorod
Address: 24/1, Mira St., Veliky Novgorod 173025
Phone: +7 8162 65 0206

Branch of JSC VTB Bank in Vologda
Address: 39, Pobedy Avenue, Vologda 160001
Phone: +7 8172 72 8118, + 7 8202 53 4001

Branch of JSC VTB Bank in Kaliningrad
Address: 5, Bol'nichnaya St., Kaliningrad 236006
Phone: +7 4012 46 4671

Branch of JSC VTB Bank in Murmansk
Address: 5/23, Vorovskogo St., Murmansk 183038
Phone: +7 8152 45 2437

Branch of JSC VTB Bank in St. Petersburg, Krasnogvardeysky District
Address: 53, Lit. A, Malookhtinskiy Avenue, Krasnogvardeysky District, St Petersburg 195112
Phone: + 7 812 320 0760

Branch of JSC VTB Bank in St. Petersburg, Kirovsky District
Address: Office 3N, 47, Lit. A, Stachek Avenue, Kirovsky District, St Petersburg 198097
Phone: +7 812 324 2026

Branch of JSC VTB Bank in St. Petersburg, Meridian
Address: 212, Moskovsky Avenue, St Petersburg 196066
Phone: +7 812 327 2702

Branch of JSC VTB Bank in St. Petersburg, Clearing House 4
Address: 7, Lit. A, Dumskaya St., St. Petersburg 191011
Phone: +7 812 710 4901

Branch of JSC VTB Bank in St. Petersburg, Clearing House 5
Address: 30, Lit. A, Bolshaya Morskaya St., St. Petersburg 190000
Phone: +7 812 494 9454

Branch of JSC VTB Bank in St. Petersburg, Udelny
Address: 11, Lit. A, Svetlanovsky Avenue, St. Petersburg 194223
Phone: +7 812 552 9474

Branch of JSC VTB Bank in St. Petersburg, Clearing House
Address: 78/12, Lit. A, Maliy Avenue, Vasilyevsky Island, St. Petersburg, 199406
Phone: +7 812 718 5837

Branch of JSC VTB Bank in St. Petersburg, Leningrad region
Address: 19, Lenina Avenue, Tosno, Leningrad region, 187000
Phone: +7 813 719 0973

Branch of JSC VTB Bank in Petrozavodsk
Address: 4, Kyibysheva St., Petrozavodsk, Republic of Karelia, 185035
Phone: +7 8142 76 2044

Branch of JSC VTB Bank in Pskov
Address: 1A, Internatsionalnii Avenue, Pskov 180007
Phone: + 7 8112 72 2576

Branch of JSC VTB Bank in Rostov-on-Don
Address: 62 bldg 284, Voroshilovsky Avenue, Rostov-on-Don 344010
Phone: +7 8632 97 2728, +7 8632 97 2729

Branch of JSC VTB Bank in Stavropol
Address: 7, Marshala Zhukova St., Stavropol 355000
Phone: +7 8652 26 1754

Branch of JSC VTB Bank in Kirov
Address: 113A, Mopra St., Kirov 610005
Phone: +7 8332 65 0966

Branch of JSC VTB Bank in Nizhny Novgorod
Address: 4, Reshetnikovskaya St., GSP 78, Nizhny Novgorod 603950
Phone: +7 831 428 0434, +7 831 428 1801

Branch of JSC VTB Bank in Ekaterinburg
Address: 5, Marshala Zhukova St., Ekaterinburg 620014
Phone: +7 343 379 6696

Branch of JSC VTB Bank in Krasnoyarsk
Address: 3B, Krasnaya Sq., Krasnoyarsk 660021
Phone: +7 3912 56 0802

Branch of JSC VTB Bank in Khabarovsk
Address: 7, Moskovskaya St., Khabarovsk 680000
Phone: +7 4212 41 3601

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.ru
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 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 Sq., 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: Federation Tower West, 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 (toll free in Russia)
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 bldg 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 5, Kosmodamianskaya Emb., Moscow 115054
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 4570
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
Fax: +7 495 785 1224
Website: www.multicarta.ru
Email: info@multicarta.vtb.ru

OJSC VTB DC
Address: room 47, office XIV, 8, Brestskaya St., Moscow 125047
Phone: +7 495 795 0042
Fax: +7 495 795 0044

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 15 153 5226
Fax: + 43 15 153 5316
Website: www.vtb-bank.at
Email: general@vtb-bank.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: http://france.vtb.com

VTB Bank (Deutschland) AG
Address: Rüsterstraße 7-9, 60325, Frankfurt-am-Main, 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 2192
Website: www.rcbcy.com
Email: rcb@rcbcy.com

JSC VTB Bank (Belgrade)
Address: 2 Balkanska St., Belgrade 11000, Serbia
Phone: +381 11 395 2200
Fax: +381 11 395 2240
Website: www.vtbbanka.rs
E-mail: info@vtbbanka.rs

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 1056 5860
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.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 0307, +244 222 39 2227
Fax: +244 222 39 5889
Email: info@vtb.ao

Vietnam-Russia Joint Venture Bank
Address: 1st & 2nd Floor, Yet Kieu Str., Hoan Kiem Dist., Hanoi, Vietnam
Phone: + 844 3942 6668
Fax: +844 3942 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 -1103, Plaza 66, 1266, Nanjing Xilu, Shanghai municipality 200040, the People's Republic of China
Phone: + 8621 6136 6236, +8621 6136 6263
Fax: + 8621 6136 6265
Email: shanghaibranch@vtb.com

JSC VTB Bank Branch in New Delhi (India)
Address: Taj Mahal Hotel, 1 Mansingh Road, New Dehli 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

9. Shareholders' Information

Share capital

As at 31 December 2013, the authorised share capital of VTB Bank amounted to RUB 129,605,413,373.38 and was divided into 12,960,541,337,338 shares. All shares 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 2013, 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.

VTB Bank's shares are traded on the Moscow Exchange and on the London Stock Exchange (LSE) in the form of Global Depositary Receipts (GDRs). On 28 February 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 2013, GDRs accounted for 13.1% of the Bank's share capital.

Shareholder structure

The Bank's majority shareholder is the Russian Federation, represented by the Federal Agency for State Property Management. As of 31 December 2013, its share in the Bank was 60.93%, down from 75.5%, following the additional share issue. The Russian Federation represented by the Federal Agency for State Property Management, does not having a special right to manage VTB Bank (by means of "golden share").

<table>
<tr><th rowspan="2">Shareholders</th><th colspan="3">Number of shares and % of the total</th></tr>
<tr><th>as of 26 April 2012</th><th>as of 13 May 2013</th><th>as of 31 December 2013</th></tr>
<tr><td>Russian Federation, represented by the Federal Agency for State Property Management</td><td>7,897,477,400,292 shares
75.50%</td><td>7,897,477,400,292
75.50%</td><td>7,897,477,400,292
60.93%</td></tr>
<tr><td>Free float of GDRs (Bank of New York international Nominees)*</td><td>1,707,831,019,875
16.33%</td><td>1,632,984,113,875
15.61 %</td><td>1,697,687,102,092*
13.10%*</td></tr>
<tr><td>Other institutional investors</td><td>616,472,834,500
5.89 %</td><td>651,572,491,288
6.23%</td><td rowspan="2">3,365,376,834,954
25.97%</td></tr>
<tr><td>Individual investors</td><td>238,760,082,671
2.28%</td><td>278,507,331,883
2.66%</td></tr>
<tr><td>Total</td><td colspan="2">10,460,541,337,338
100 %</td><td>12,960,541,337,338
100%</td></tr>
</table>

*In accordance with changes in legislation, from 2013 the Bank of New York International Nominees, the depositary bank for the VTB GDR Programme, is required to disclose the ultimate owners of the shares. In this context, information on the number of shares and percentage of GDR holders as at 31.12.2013 is presented for reference, in sum of all VTB Bank GDR holders.

VTB Bank issued 2,500,000,000,000 ordinary shares during its additional share issue. The additional shares were placed in May 2013 and the total amount raised was RUB 102.5 billion. The shares were purchased by the Bank's existing shareholders, as well as the largest sovereign wealth funds of Norway, Azerbaijan, Qatar and other countries. As of 31 December 2013, the Bank's largest shareholders, excluding the Russian Federation represented by the Federal Agency for State Property Management, are as follows:

Shareholders	% of the total 31 December 2013
Norges Bank (Central Bank of Norway)	4.27777%
The State Oil Fund of Azerbaijan	2.94674%
Credit Suisse AG	2.94713%
Onexim Holdings Limited	2.43036%
Olybrius Limited	2.35875%

As of 22 May 2013, VTB shares were owned by 105,418 shareholders, including 103,904 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 for the GDR programme (The Bank of New York International Nominees). The depositary bank's contact details can be found below.

Information about the 2013 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. The amount of accrued dividends per VTB share is calculated to the nearest kopeck. The rounding of figures is based on mathematical rounding rules.

As a result of amendments made to the Federal Law of 26.12.1995 № 208-FZ "On Joint Stock Companies," the procedure and form of dividend payment have been changed, effective from 01.01.2014.

The amendments to this law state that the date when the list of persons entitled to a share of the bank's net profit is compiled should be determined at the General Shareholders' Meeting, but can be no sooner than 10 days before the date when the decision to pay dividends is due to be made, and no later than 20 days following such a decision

Prior to that amendment, dividend payments were made within 60 days following the decision of the Annual General Meeting. Now, the timeframe depends on the type of registered shareholder.

Dividend payments to nominal shareholders and trustees listed on the shareholder register must be made within 10 working days, while dividend payments to other registered shareholders must be made within 25 working days of the date when the list of persons entitled to dividends is compiled.

Shareholders whose shares are in the shareholder register are paid dividends by postal order or bank transfer to the shareholders' accounts at their request (an appropriate application form is required for this). Shareholders whose rights are registered via nominal shareholders shall receive dividends in monetary form in accordance with the procedure stipulated in Russian laws on securities. The current legislation, which was amended on 1 January 2014, does not provide for cash dividend payments.

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

JSC VTB Bank's Annual General Meeting of Shareholders, held on 28 June 2013, approved the decision to pay dividends for 2012 in the amount of RUB 0.00143 per ordinary share with a par value of RUB 0.01. The dividend payout increased by 62.5% year on year (the increase for 2011 was 52%).

Dividend payments to shareholders were made within the 60-day period in accordance with legislation. The total funds allocated for dividend payment amounted to RUB 14,959 million. The dividend payout ratio as a percentage of net profit under RAS reached a record 82.66%. In addition, the share of VTB Group's IFRS profits, allocated for dividend payment, significantly increased to 16.5%.

The amount of dividend payments for 2013 will be approved at the Annual General Meeting of Shareholders in June 2014. The record of dividend payments for the years 2007-2011 is set out in the table below.

	2007	2008	2009	2010	2011	2012
Net profit in accordance with RAS (in RUB million)	17,978	26,894	23 752	43,343	24,406	18,096
Dividend amount per ordinary share (RUB)	0.00134	0.000447	0.00058	0.00058	0.00088	0.001430
Total amount of dividend payments (in RUB million)	9,010	3,006	6,067	6,067	9,205	14,959
Dividend payout ratio (% of net profit in accordance with RAS)	50.12	11.18	25.54	14	37.72	82.66

Dividend taxation

As a tax agent, VTB Bank calculates and deducts tax from the dividend payments it makes at the year-end. Since 1 January 2014, when income is distributed in the form of dividends on shares issued by a Russian organisation, a tax agent can be considered not only an issuer of these shares, but also, in cases stipulated by law, a trustee, a depository and so on.

Given the above, and taking into account that the income tax is calculated and withheld by a tax agent, mutual funds, foreign institutional and individual investors can apply for a tax exemption or a reduced tax rate on dividends received by submitting to the Bank's registrar, CJSC VTB Registrar, or to a depositary, where his or her shares are registered, documents that demonstrate that they have the right to preferential tax treatment. In the case of share transfer to beneficial ownership, documents should be submitted to a trust manager. A complete list of the required documents can be found in the Investor Relations section of www.vtb.ru.

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%. In accordance with tax legislation, a 30% tax rate is applied to dividends paid to GDR holders; information on these GDR holders has not been submitted to the tax agent in accordance with Russian legislation. The rate is applied to the taxable dividend amount, which can, in some cases, be less than the total dividends payable, as tax has already been withheld from income in the form of dividends that VTB 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, taking into account Russian legislation.

Disclosure

VTB Bank adheres to the principle of providing shareholders, potential investors and professional market participants with reliable information about the Bank's operations, which may be useful for making investment and management decisions.

VTB Bank discloses its information in the form of annual report, quarterly reports, lists of affiliates, material facts and announcements on events, which are required disclosure in Russia and abroad, listing prospectus, annual financial statements and other information, which is mandatory for a joint stock company to disclose.

VTB pays particular attention to ensuring that any relevant information is available simultaneously to all shareholders and analysts in accordance with principles of openness and transparency. The 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, the Regulation on Information Disclosure by Issuers of Securities (approved by Decree No 11-46/pz-n of the Federal Financial Markets Service (FFMS) on 4 October 2011) and the Bank's Charter, is conducted through authorised news agencies, Interfax disclosure portal www.e-disclosure.ru/portal/company.aspx?id=1210, and the Bank's corporate website at www.vtb.ru/ir/disclosure/, VTB Bank has the Regulation on Information Policy in place to ensure transparency, and this is available on VTB's website at: www.vtb.ru/group/documents/.

VTB publishes its audited consolidated financial statements under IFRS together with the auditor's report at the end of the fiscal year on www.vtb.ru/ir/disclosure/fannual/, and via the Interfax disclosure portal, www.e-disclosure.ru/portal/company.aspx?id=1210. In addition, the Bank discloses its condensed, unaudited consolidated financial statements at the end of the first, second and third quarters. VTB places announcements of its financial results on the London Stock Exchange's website via the RNS information distribution system, followed by the publication of press releases on the corporate website and their dissemination to the media. The Bank's quarterly financial results are also posted on the Moscow Exchange website.

An electronic version of the Annual Report is uploaded onto the Bank's corporate website, www.vtb.ru/ir/disclosure/fannual/, and the Interfax disclosure portal at www.e-disclosure.ru/portal/company.aspx?id=1210.Hard copies of the Annual Report are available at Shareholders' Support Centres, or can be requested by sending an email to InvestorRelations@vtb.ru. VTB Bank also discloses the list of affiliated persons quarterly, or as it changes, on its corporate website at www.vtb.ru/ir/disclosure/affiliated/, as well as via the Interfax disclosure portal: www.e-disclosure.ru/portal/company.aspx?id=1210.

Contact information

JSC VTB Bank

Legal address
29, Bolshaya Morskaya St., St. Petersburg
190000, Russia
Primary State Registration Number (PSRN) – 1027739609391

Postal address
37, Plyushchikha St., Moscow 119121, Russia

General Enquiries of VTB Bank
Phone: +7 495 739 7799, 8 800 200 7799
E-mail: info@vtb.ru

Auditor
CJSC Ernst & Young Vneshaudit
77, bldg 1, Sadovnicheskaya Emb.,
Moscow 115035, Russia
Phone: +7 495 755 9700

Depositary Bank for VTB GDR Programme
The Bank of New York International Nominees

Legal address:
One Wall Street, New York, NY 10286, USA

Postal address:
BNY Mellon, Depositary Receipts Division
101 Barclay Street – 22nd Floor
New York, NY 10286, USA

Registrar
CJSC VTB Registrar

Legal address:
23, Pravdy St., Moscow 125040, Russia

Postal address:
P.O. Box 54, Moscow 127137, Russia
Phone/Fax: +7 495 787 4483

Chief of Staff of the Supervisory Council - Corporate Secretary
Evgeniy Ignatiev
Phone: + 7 495 775 7088
E-mail: ignatyeveg@vtb.ru

Investor Relations Department (institutional investors and analysts)
Phone: +7 495 775 7139
E-mail: InvestorRelations@vtb.ru

Shareholder Relations Department (individual shareholders)
Phone: +7 495 258 4947
E-mail: Shareholders@vtb.ru

Shareholders' Consultative Council
Website: www.vtb.ru/ir/sovet;
www.facebook.com/ksavtb;
www.twitter.com/ksavtb
Phone: +7 985 774 3155
E-mail: KSA@vtb.ru

10. Consolidated financial statements in accordance with IFRS

VTB Bank

Consolidated Financial Statements

and Auditors' Report

For the years ended 31 December 2013 and 2012

CONTENTS

Совершенствуя бизнес,
улучшаем мир

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

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

Independent 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 2013 and 2012, 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 the fairness of 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 audit 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 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

CJSC Ernst & Young Vneshaudit

31 March 2014

VTB Bank

Consolidated Statement of Financial Position as at 31 December

(in billions of Russian Roubles)

	Note	2013	2012 (restated)
Assets			
Cash and short-term funds	9	354.3	569.0
Mandatory cash balances with central banks		58.7	63.8
Financial assets at fair value through profit or loss	10	411.1	528.8
Financial assets pledged under repurchase agreements	11	466.6	302.9
Due from other banks	12	443.4	358.6
Loans and advances to customers	13	5,969.0	4,761.5
Assets of disposal group held for sale	20	36.7	15.3
Investment financial assets			
- available-for-sale	14	135.4	97.4
- held-to-maturity		0.7	0.9
Investments in associates and joint ventures	15	87.6	32.8
Land, premises and equipment	16	170.3	142.5
Investment property	17	160.7	148.0
Goodwill and other intangible assets	18	162.5	152.8
Deferred income tax asset	40	45.5	42.9
Other assets	19	266.0	198.5
Total assets		**8,768.5**	**7,415.7**
Liabilities			
Due to other banks	21	666.6	759.9
Customer deposits	22	4,341.4	3,813.4
Liabilities of disposal group held for sale	20	20.7	6.1
Other borrowed funds	23	1,485.9	806.2
Debt securities issued	24	738.2	753.9
Deferred income tax liability	40	15.0	12.3
Other liabilities	26	262.6	212.0
Total liabilities before subordinated debt		**7,530.4**	**6,363.8**
Subordinated debt	25	291.0	285.8
Total liabilities		**7,821.4**	**6,649.6**
Equity			
Share capital	27	138.1	113.1
Share premium		433.8	358.5
Perpetual loan participation notes	28	73.6	68.3
Treasury shares and perpetual loan participation notes		(3.6)	(13.7)
Other reserves	29	35.6	33.9
Retained earnings		262.0	193.7
Equity attributable to shareholders of the parent		**939.5**	**753.8**
Non-controlling interests		**7.6**	**12.3**
Total equity		**947.1**	**766.1**
Total liabilities and equity		**8,768.5**	**7,415.7**

Approved for issue and signed on 31 March 2014.

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	*2013*	*2012*
Interest income	30	686.3	555.7
Interest expense	30	(363.3)	(309.7)
Net interest income		**323.0**	**246.0**
Provision charge for impairment of debt financial assets	39	(96.9)	(59.4)
Net interest income after provision for impairment		**226.1**	**186.6**
Net fee and commission income	31	55.4	48.3
Gains less losses arising from financial instruments at fair value through profit or loss	32	13.2	10.1
Gains less losses from available-for-sale financial assets	14	7.3	4.9
(Losses net of gains) / gains less losses arising from foreign currencies	33	(8.7)	6.8
Gains on initial recognition of financial instruments, restructuring and other gains on loans and advances to customers		9.1	17.2
Share in profit of associates and joint ventures		2.2	1.2
Gain from disposal of subsidiaries and associates	52	2.8	1.1
Net insurance premiums earned	34	29.4	17.8
Net insurance claims incurred and movement in liabilities to policyholders	35	(16.4)	(9.8)
Revenue from non-banking activities	36	34.2	39.4
Cost of sales and other expenses from non-banking activities	36	(36.1)	(29.7)
Losses net of gains arising from extinguishment of liability		(3.7)	(1.8)
Provision charge for impairment of other assets, credit related commitments and legal claims	39	(2.3)	(2.7)
Excess of fair value of acquired net asset over cost	52	8.0	–
Impairment of goodwill	18	–	(1.5)
Other operating income	37	9.6	8.7
Net non-interest income		**104.0**	**110.0**
Operating income		**330.1**	**296.6**
Staff costs and administrative expenses	38	(210.9)	(181.2)
Profit before tax		**119.2**	**115.4**
Income tax expense	40	(24.1)	(24.8)
Net profit after tax		**95.1**	**90.6**
Profit after tax from subsidiaries acquired exclusively with a view to resale		5.4	–
Net profit		**100.5**	**90.6**
Net profit attributable to:			
Shareholders of the parent		**101.5**	**85.8**
Non-controlling interests		**(1.0)**	**4.8**
Basic and diluted earnings per share (expressed in Russian Roubles per share)	42	**0.00805**	**0.00817**
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian Roubles per share)	42	**0.00760**	**0.00817**

(in billions of Russian Roubles)

	2013	*2012*
Net profit	**100.5**	**90.6**
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Net result on financial assets available-for-sale, net of tax	(1.0)	(3.4)
Share of other comprehensive income of associates and joint ventures	–	(0.2)
Effect of translation, net of tax	3.9	(2.1)
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	2.9	(5.7)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.2)	–
Land and premises revaluation, net of tax	–	9.9
Effect of changes in tax rates recognized in land and premises revaluation reserve	–	0.2
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods	(0.2)	10.1
Other comprehensive income, net of tax	**2.7**	**4.4**
Total comprehensive income	**103.2**	**95.0**
Total comprehensive income attributable to:		
Shareholders of the parent	**103.7**	**90.0**
Non-controlling interests	**(0.5)**	**5.0**

(in billions of Russian Roubles)

	Note	***2013***	***2012***
Cash flows from operating activities			
Interest received		678.0	561.2
Interest paid		(329.3)	(292.5)
Income received / (loss incurred) on operations with financial assets at fair value through profit or loss		14.0	(30.4)
Income received from extinguishment of liability		–	2.2
Income received on dealing in foreign currency		3.7	16.6
Fees and commissions received		71.5	59.0
Fees and commissions paid		(15.0)	(12.5)
Other operating income received		6.8	4.5
Staff costs, administrative expenses paid		(184.2)	(151.5)
Income received from non-banking activities		37.9	16.3
Expenses paid in non-banking activities		(41.7)	(20.4)
Insurance premium received		32.0	21.5
Net insurance claims paid		(16.4)	(7.8)
Income tax paid		(18.1)	(21.5)
Cash flows from operating activities before changes in operating assets and liabilities		**239.2**	**144.7**
Net decrease/(increase) in operating assets			
Net decrease in mandatory cash balances with central banks		5.1	8.0
Net increase in restricted cash		(0.1)	(0.7)
Net decrease in correspondent accounts in precious metals		2.5	2.1
Net decrease in financial assets at fair value through profit or loss		11.2	43.8
Net (increase)/decrease in due from other banks		(31.8)	45.0
Net increase in loans and advances to customers		(1,321.5)	(600.0)
Net increase decrease in other assets		(16.8)	(31.6)
Net (decrease) increase in operating liabilities			
Net (decrease)/increase in due to other banks		(117.9)	42.6
Net increase in customer deposits		464.1	167.2
Net (decrease)/increase in debt securities issued other than bonds issued		(19.4)	7.1
Net (decrease)/increase in other liabilities		(5.9)	15.5
Net cash used in operating activities		**(791.3)**	**(156.3)**
Cash flows from / (used in) investing activities			
Dividends and other distributions received		1.3	2.4
Proceeds from sales or maturities of financial assets available-for-sale		131.2	141.1
Purchase of financial assets available-for-sale		(184.6)	(69.5)
Purchase of subsidiaries, net of cash	20,52	(80.6)	(2.7)
Disposal of subsidiaries, net of cash	20,52	41.5	1.2
Purchase of and contributions to associates and joint ventures		(1.8)	(15.8)
Proceeds from sale of share in associates		2.8	–
Purchase of investment securities held-to-maturity		–	(1.2)
Proceeds from redemption of investment securities held-to-maturity		0.3	32.1
Purchase of land, premises and equipment		(31.7)	(26.3)
Proceeds from sale of land, premises and equipment		4.6	10.5
Purchase or construction of investment property		(14.6)	(8.7)
Proceeds from sale of investment property		7.5	3.2
Purchase of intangible assets		(5.1)	(4.1)
Proceeds from sale of intangible assets		0.1	0.7
Net cash (used in) / from investing activities		**(129.1)**	**62.9**

(in billions of Russian Roubles)

	Note	***2013***	***2012***
Cash flows from financing activities			
Dividends paid	43	(16.8)	(10.8)
Proceeds from issuance of bonds at local bonds		96.3	121.6
Repayment of local bonds		(76.6)	(14.0)
Buy-back of local bonds		(54.6)	(20.0)
Proceeds from sale of previously bought-back local bonds		28.4	13.9
Proceeds from issuance of Eurobonds		48.2	138.6
Repayment of Eurobonds		(71.8)	(77.7)
Buy-back of Eurobonds		(8.3)	(82.0)
Proceeds from sale of previously bought-back Eurobonds		17.0	108.0
Proceeds from syndicated loans		66.9	7.2
Repayment of syndicated loans		(0.1)	(12.2)
Buy-back of syndicated loans		–	5.9
Proceeds from other borrowings and funds from local central banks		3,361.5	1,387.7
Repayment of other borrowings and funds from local central banks		(2,798.3)	(1,371.7)
Proceeds from subordinated debt		4.1	46.4
Repayment of subordinated debt		(7.2)	(3.3)
Buy-back of subordinated debt		(0.8)	(4.6)
Proceeds from sale of previously bought-back subordinated debt		0.8	0.8
Proceeds from share issue, less transaction costs	27	100.3	–
Cash received from sale of treasury shares		36.8	0.5
Cash paid for treasury shares		(34.4)	(13.7)
Share issue to non-controlling interests		0.5	–
Purchase of non-controlling interests	52	(1.3)	(24.0)
Proceeds from sale of non-controlling interests in subsidiaries	52	–	0.2
Proceeds from issue of Perpetual loan participation notes less transaction costs		–	71.6
Purchase of perpetual loan participation notes		(5.1)	(10.5)
Proceeds from sale of perpetual loan participation notes		5.0	10.5
Interest paid on Perpetual loan participation notes	43	(7.0)	(1.3)
Net cash from financing activities		**683.5**	**267.1**
Effect of exchange rate changes on cash and cash equivalents		25.5	(9.9)
Effect of hyperinflation		(0.9)	(0.4)
Net (decrease)/increase in cash and cash equivalents		**(212.3)**	**163.4**
At the beginning of period	9	**560.9**	**397.5**
At the end of period	9	**348.6**	**560.9**

(in billions of Russian Roubles)

	Attributable to shareholders of the parent								
	Share capital	***Share premium***	***Perpetual loan participation notes (Note 28)***	***Treasury shares and perpetual loan participation loan notes***	***Other reserves (Note 29)***	***Retained earnings***	***Total***	***Non-controlling interests (Note 53)***	***Total equity***
Balance at 1 January 2012	**113.1**	**358.5**	**–**	**(0.6)**	**30.3**	**102.2**	**603.5**	**21.6**	**625.1**
Net result from treasury shares transactions	–	–	–	(13.1)	–	**0.3**	**(12.8)**	–	**(12.8)**
Profit for the period	–	–	–	–	–	85.8	**85.8**	4.8	**90.6.**
Other comprehensive income	–	–	–	–	4.1	0.1	**4.2**	0.2	**4.4**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**4.1**	**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 41)	–	–	–	–	–	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	–	–	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 paid on perpetual loan participation notes (Note 43)	–	–	–	–	–	(1.3)	**(1.3)**	–	**(1.3)**
Tax effect recognised on perpetual loan participation notes	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Dividends declared (Note 43)	–	–	–	–	–	(9.1)	**(9.1)**	(1.7)	**(10.8)**
Balance at 31 December 2012	**113.1**	**358.5**	**68.3**	**(13.7)**	**33.9**	**193.7**	**753.8**	**12.3**	**766.1**
Share issue (Note 27)	25.0	75.3	–	–	–	–	**100.3**	–	**100.3**
Net result from treasury shares transactions	–	–	–	10.2	–	(7.5)	**2.7**	–	**2.7**
Net result from treasury perpetual loan participation notes transactions	–	–	–	(0.1)	–	–	**(0.1)**	–	**(0.1)**
Profit for the period	–	–	–	–	–	101.5	**101.5**	(1.0)	**100.5**
Other comprehensive income	–	–	–	–	2.3	(0.1)	**2.2**	0.5	**2.7**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2.3**	**101.4**	**103.7**	**(0.5)**	**103.2**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(0.7)	0.7	**–**	–	**–**
Share-based payments (Note 41)	–	–	–	–	–	0.8	**0.8**	–	**0.8**
Increase in share capital of subsidiaries	–	–	–	–	–	–	**–**	0.4	**0.4**
Acquisition of subsidiaries	–	–	–	–	–	–	**–**	(1.2)	**(1.2)**
Disposal of subsidiaries	–	–	–	–	–	0.5	**0.5**	(1.6)	**(1.1)**
Acquisition of non-controlling interests	–	–	–	–	0.1	(2.9)	**(2.8)**	0.1	**(2.7)**
Amounts paid on perpetual loan participation notes (Note 43)	–	–	–	–	–	(7.0)	**(7.0)**	–	**(7.0)**
Foreign exchange translation of perpetual loan participation notes	–	–	5.3	–	–	(5.3)	**–**	–	**–**
Tax effect recognized on perpetual loan participation notes				–	–	2.5	**2.5**	–	**2.5**
Dividends declared (Note 43)	–	–	–	–	–	(14.9)	**(14.9)**	(1.9)	**(16.8)**
Balance at 31 December 2013	**138.1**	**433.8**	**73.6**	**(3.6)**	**35.6**	**262.0**	**939.5**	**7.6**	**947.1**

1. Principal Activities

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

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

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

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation “Deposit Insurance Agency” (DIA). The Group subsidiary banks in Russia: “Bank VTB 24”, CJSC, “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.

The Group operates in the corporate and investment banking, retail, real estate and other sectors. Corporate and investment banking include deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients’ export/import transactions, foreign exchange, securities trading and trading in derivative financial instruments. The Group’s operations are conducted in both Russian and international markets. The Group conducts its banking business in Russia through VTB as a parent and several subsidiary banks with its network of 96 full service branches, including 23 branches of VTB, 49 branches of “Bank VTB 24”, CJSC, 25 branches of “Bank of Moscow”, OJSC located in major Russian regions. In November 2013, “TransCreditBank”, OJSC ceased its operations as a subsidiary of VTB following the legal merger of “Bank VTB 24”, CJSC and “TransCreditBank”, OJSC.

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 60.9% of VTB’s issued and outstanding shares at 31 December 2013 (31 December 2012: 75.5%).

The number of employees of the Group at 31 December 2013 was 103,808 (31 December 2012: 80,860).

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. Its economy is particularly sensitive to oil and gas prices.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2013 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. There continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group’s future financial position, results of operations and business prospects.

2. Operating Environment of the Group (continued)

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

Other jurisdictions. In addition to Russia the Group conducts operations in CIS (Ukraine, Belarus, Kazakhstan, Azerbaijan and Armenia) and Georgia, European countries (Austria, Germany, France, Great Britain, Cyprus and Serbia) 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 2013 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 7. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

4. Adoption of New or Revised Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for certain new standards and interpretations, which became effective for the Group from 1 January 2013, as described below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements
IFRS 11 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. IFRS 11 had no impact on the consolidated financial statements of the Group.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 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 disclosures in a number of areas, including significant judgments 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 provides these disclosures in Notes 15, 51, 53, 54.

4. Adoption of New or Revised Standards and Interpretations (continued)

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. The Group provides these disclosures in Note 48.

IAS 28 Investments in Associates and Joint Ventures
IAS 28 was revised in May 2011 to incorporate the equity method accounting for joint ventures in addition to associates. The revised IAS 28 had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Employee Benefits
The IASB has published amendments to IAS 19 *Employee Benefits*, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the “corridor approach”). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Group's financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance.

Amendments to IAS 1 Clarification of the requirement for comparative information
The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the ‘third balance sheet’) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Group’s’ financial position or performance.

***Amendment to IAS 32 Financial Instruments, Presentation*:** This amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

5. New Accounting Pronouncements

Since the Group published its last annual financial statements, certain new standards and interpretations have been issued that are mandatory for the Group’s annual accounting periods beginning on or after 1 January 2014 or later and which the Group has not early adopted:

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities – (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment and its impact on the Group.

5. New Accounting Pronouncements (continued)

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning on or after 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgments made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning on or after 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or Intangible assets with indefinite useful lives but there has been no impairment.

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 and in November 2013 (i) to include the new general hedge accounting model, (ii) to allow adoption of the treatment of fair value changes due to own credit on liabilities designated at fair value through profit or loss, and (ii) to remove the 1 January 2015 effective date. 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 amortised 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 amortised 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 recognise unrealised and realised 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 at fair value through profit or loss in other comprehensive income.

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

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

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting (issued on 27 June 2013 and effective for annual periods beginning 1 January 2014).The amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The Group is currently assessing the impact of the amendments on the disclosures in its financial statements.

(in billions of Russian Roubles)

5. New Accounting Pronouncements (continued)

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

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

6. Correction of Prior Period Balances and Reclassifications

Goodwill related to Bank of Moscow acquisition

In the course of preparing the financial statements for the year ended 31 December 2013, the Group has identified that the carrying amount of goodwill related to Bank of Moscow acquisition was understated and the carrying amount of investment in associates ("Metropolitan Insurance Group", OJSC) was overstated for the amount of RUR 15.5 billion.

Amounts in the financial statements for 2011 and 2012 were restated. The effect of the restatement on those financial statements is presented below as at 31 December 2012 and as at 31 December 2011:

2012

	As previously reported	*Correction of prior period balances*	*Restated*
Investments in associates and joint ventures	48.3	(15.5)	32.8
Goodwill and other intangible assets	137.3	15.5	152.8

2011

	As previously reported	*Correction of prior period balances*	*Restated*
Investments in associates and joint ventures	32.5	(15.5)	17.0
Goodwill and other intangible assets	141.2	15.5	156.7

There was no effect of this restatement on consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows or consolidated statement of changes in shareholders' equity.

Debt securities issued reclassification

As at 31 December 2013, the Group determined that certain of its promissory notes issued, previously included in debt securities issued, represent in-substance deposit relationships. These promissory notes are acquired through the Central Treasury by the Group's customers, large corporations, as a substitute to customer deposits and are expected by the Group to be held to maturity by these customers. Accordingly, the Group concluded these promissory notes should be reclassified as customer deposits. The reclassification and its impact on comparative period information as at 31 December 2012 in the consolidated statement of financial position and corresponding notes are as follows:

	As previously reported	*Reclassification*	*As reclassified*
Customer deposits	3,672.8	140.6	3,813.4
Debt securities issued	894.5	(140.6)	753.9
Other legal entities / Term deposits (Note 22)	1,013.6	140.6	1,154.2
Promissory notes (Note 24)	301.9	(140.6)	161.3

(in billions of Russian Roubles)

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

Debt securities issued reclassification (continued)

The effect of reclassification of the comparative information in the interest income and expense note (Note 30) for the year ended 31 December 2012 is as follows:

	As previously reported	*Reclassification*	*As reclassified*
Interest expense			
Customer deposits	(166.0)	(7.8)	(173.8)
Debt securities issued	(56.0)	7.8	(48.2)

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

	As previously reported	*Reclassification*	*As reclassified*
Net increase in customer deposits	41.9	125.3	167.2
Net increase in debt securities issued other than bonds issued	132.4	(125.3)	7.1

The effect of reclassification on the related party transactions disclosures (Note 50) to the consolidated financial statements at 31 December 2012 was as follows:

	As previously reported	*Reclassification*	*As reclassified*
Government-related entities			
Customer deposits	1,093.0	140.6	1,233.6

The effect of reclassification of interest expense on the related party transactions disclosures (Note 50) for the year ended 31 December 2012 was as follows:

	As previously reported	*Reclassification*	*As reclassified*
Interest expense			
Customer deposits	(62.8)	(3.6)	(66.4)

Insurance business and non-banking activities reclassification

Following the improved disclosure of revenues and expenses arising from insurance and non-banking activities, the presentation of the comparative figures has been adjusted to be consistent with the new presentation. The effect of changes on the consolidated income statement for the year ended 31 December 2012 is as follows:

	As previously reported	*Reclassification*	*As reclassified*
Income arising from non-banking activities	57.9	(57.9)	–
Expenses arising from non-banking activities	(29.2)	29.2	–
Net insurance premiums earned	–	17.8	17.8
Net insurance premiums incurred and movement in liabilities to policyholders	–	(9.8)	(9.8)
Revenue from non-banking activities	–	39.4	39.4
Cost of sales and other expenses from non-banking activities	–	(29.7)	(29.7)
Other operating income	8.1	0.6	8.7
Staff costs and administrative expenses	(191.6)	10.4	(181.2)

7. Summary of Principal Accounting Policies

Subsidiaries

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

Acquisition of subsidiaries

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

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

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

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

Increases in ownership interests in subsidiaries

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

Investments in associates and joint arrangements

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

7. Summary of Principal Accounting Policies (continued)

Investments in associates and joint arrangements (continued)

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

A joint venture exists where the Group has a joint arrangement with one or more parties to have rights to the net assets of the arrangement. The Group recognizes interests in a joint venture using the equity method and applies the same accounting policies as those for investments in associates.

Venture Capital Investments

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

Structured entities

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

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

Disposals of subsidiaries, associates or joint ventures

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

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

Financial assets

Valuation of financial instruments

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a gain or loss on inception of the financial instrument, being the difference between the transaction price and the fair value. When unobservable market data have a significant impact on the valuation of financial instruments, the entire initial difference in fair value from the transaction price as indicated by the valuation model is not recognised immediately in the income statement. Instead, it is recognised over the life of the transaction on an appropriate basis, when the inputs become observable, the transaction matures or is closed out, or when the Group enters into an offsetting transaction.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Group's valuation methodologies, which are described in Notes 49.

7. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique with all material inputs observable, the Group immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the consolidated income statement. Any other differences are not recognized as "day 1" gain or loss but rather are amortized on a straight line basis over the term of the relevant financial asset or recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Classification of financial assets

Financial assets in the scope of IAS 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.

Reclassification of financial assets

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

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

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

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

Financial assets at fair value through profit or loss:

(a) Financial assets held for trading

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

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

Non-derivative trading financial assets are carried at fair value. Interest earned on non-derivative debt trading financial assets calculated using the coupon (contractual) interest rate is presented in the income statement as interest income. All elements of the changes in the fair value are recorded in the income statement as gains less losses from financial assets at fair value through profit or loss in the period, in which they arise.

(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.

7. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market 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.

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.

7. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

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. In the case where a modification of a restructured loan's cash flows is not considered substantial, the loan is not derecognized but the new effective interest rate is determined based on the remaining cash flows under the loan agreement till maturity.
- If the loan is impaired after being restructured, the Group uses the original effective interest rate in respect of the new cash flows after renegotiation to estimate the recoverable amount of the loan. The difference between the recalculated present value of the new cash flows taking into account collateral and the carrying amount before restructuring is included in the provision charges for debt financial assets for the period.

Securitization of financial assets

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

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.

7. Summary of Principal Accounting Policies (continued)

Financial liabilities (continued)

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Cash and cash equivalents

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

Mandatory reserve deposits with central banks

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

Due from other banks

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

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.

7. Summary of Principal Accounting Policies (continued)

Derivative financial instruments

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

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

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

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

Hedge accounting

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

7. Summary of Principal Accounting Policies (continued)

Regular way transactions

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

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

Promissory notes purchased

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

Finance and operating leases

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

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

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

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

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

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

7. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

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

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

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

Impairment of available-for-sale financial assets

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

Insurance

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

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

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

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

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

7. Summary of Principal Accounting Policies (continued)

Insurance (continued)

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

Non-current assets and disposal group held for sale

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

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

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

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

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

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

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

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

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

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

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

Investment property

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

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

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

7. Summary of Principal Accounting Policies (continued)

Investment property (continued)

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

Land, premises and equipment

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

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

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

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

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

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

If impaired, land, premises and equipment are written down to the higher of their value in use and fair value less costs to sell.

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.

7. Summary of Principal Accounting Policies (continued)

Goodwill

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

(a) the aggregate of:

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

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

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

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

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

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

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

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

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

Intangible assets other than goodwill

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

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

7. Summary of Principal Accounting Policies (continued)

Intangible assets other than goodwill (continued)

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.

Other borrowed funds

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

Operations with precious metals

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

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

Income tax

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

7. Summary of Principal Accounting Policies (continued)

Income tax (continued)

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative expenses.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

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

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

Provisions for liabilities and charges

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

Credit related commitments

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

Performance guarantees

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

Perpetual Loan Participation Notes

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

7. Summary of Principal Accounting Policies (continued)

Perpetual Loan Participation Notes (continued)

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

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

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

Share premium

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

Dividends

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

Interest income and expense

Interest income and expense for all financial instruments are recognised an accrual basis in 'Interest income' and 'Interest expense' in the income statement using the effective interest method (for items carried at amortized cost) or the coupon (contractual) interest rate (for items carried at fair value). The effective interest method is a way of calculating the amortized cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

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

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

Fee and commission income

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

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

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

7. Summary of Principal Accounting Policies (continued)

Staff costs and related contributions

The Group's contributions to the State and Group's social insurance and obligatory medical insurance funds in respect of its employees are expensed as incurred and included in staff costs within staff costs and administrative expenses. The Group's contributions to the State and Group pension schemes are included in defined contribution pension expense within staff costs and administrative expenses. Unused vacations accrued amounts are also included in staff costs within staff costs and administrative expenses. The Group recognizes all actuarial gains and losses related to the defined benefit plan directly in other comprehensive income.

Share-based payment

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

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

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

(a) the nature of the awards granted, and

(b) its own rights and obligations.

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

(a) the awards granted are its own equity instruments, or

(b) the entity has no obligation to settle the share-based payment transaction.

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

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

Inflation accounting

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

Foreign currency translation

Each Group member determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency equivalent, translated at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the income statement as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

7. Summary of Principal Accounting Policies (continued)

Foreign currency translation (continued)

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 2013, the principal closing rate of exchange used for translating balances in USD to Russian Roubles was USD 1 to RUR 32.7292 (at 31 December 2012: USD 1 to RUR 30.3727), and the principal closing rate of exchange used for translating balances in Euro was EUR 1 to RUR 44.9699 (at 31 December 2012: EUR 1 to RUR 40.2286).

Fiduciary assets

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

Segment reporting

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

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

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

8. Significant Accounting Estimates and Judgements

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

8. Significant Accounting Estimates and Judgments (continued)

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

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

For the purposes of calculation of allowances and provisions for impairment of loans and commitments to provide loans at 31 December 2013 and 2012, the Group applied the internally approved formalized provisioning methodology for loans and commitments to provide loans with signs of individual impairment and collectively assessed loans on portfolio basis with no signs of individual impairment and similar credit risk characteristics.

During the year ended 31 December 2013, the Group modified certain aspects of the loan loss provision estimation process, primarily in respect of project development loans, assessment of seasonal factors for non-restructured consumer loans and the recovery assessment on non-performing consumer loans which resulted in the cumulative positive effect of RUR 16.3 billion on the provision for loan losses in the statement of income.

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 2013 was RUR 120.4 billion (31 December 2012: RUR 120.4 billion) (Note 18).

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, judgment is exercised to determine whether the Group has the power to participate in the financial and operating policy decisions of the investee including the ability to block certain changes which are unfavorable to the Group but without control or joint control in those entities. The Group's investments in those entities where the Group has significant influence are detailed in Note 15.

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

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

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

(in billions of Russian Roubles)

8. Significant Accounting Estimates and Judgments (continued)

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

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 49. Assessment of significance of particular fair value measurement input requires management judgment and is disclosed in Note 49.

9. Cash and Short-Term Funds

	31 December 2013	*31 December 2012*
Cash on hand	116.9	102.0
Cash balances (other than mandatory) with central banks	120.4	227.4
Correspondent accounts with other banks		
- Russia	44.3	34.3
- OECD	70.0	201.2
- Other countries	2.7	4.1
Total cash and short-term funds	**354.3**	**569.0**
Less: correspondent accounts in precious metals	(3.8)	(6.3)
Less: restricted cash	(1.9)	(1.8)
Total cash and cash equivalents	**348.6**	**560.9**

10. Financial Assets at Fair Value through Profit or Loss

	31 December 2013	*31 December 2012*
Financial assets held for trading	377.1	485.4
Financial assets designated as at fair value through profit or loss	34.0	43.4
Total financial assets at fair value through profit or loss	**411.1**	**528.8**

Financial assets held for trading

	31 December 2013	*31 December 2012*
Debt securities		
- Bonds and eurobonds of Russian companies and banks	159.1	249.0
- Bonds and eurobonds of foreign companies and banks	47.5	9.8
- Bonds and eurobonds of foreign governments	14.4	17.7
- Russian municipal bonds and eurobonds	5.0	5.3
- Russian Federal loan bonds (OFZ)	4.4	21.3
- Eurobonds of the Russian Federation	1.6	0.8
- Promissory notes of Russian companies and banks	1.1	1.7
Total debt securities	*233.1*	*305.6*
Derivative financial assets	*80.2*	*93.1*
Trading credit products	*49.0*	*31.6*
Equity securities	*14.8*	*55.1*
Total financial assets held for trading	**377.1**	**485.4**

At 31 December 2013, bonds and eurobonds of Russian companies and banks are represented mostly by debt securities issued by oil, metal, energy companies and banks; equity securities are represented mostly by securities issued by Russian oil and gas, precious stones mining companies and a Russian stock-exchange.

(in billions of Russian Roubles)

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

Reclassifications

In December 2013, the Group reclassified certain financial assets that met the definition of loans and receivables out of financial assets at fair value through profit or loss category to loans and receivables. The Group considered holding these investment for the foreseeable future or till maturity, due to lower market liquidity and reduced price transparency as well as positive outlook for the issuers' credit risk. Information about the reclassified financial assets is presented in the table below:

	2013	***2012***
Fair value as at the date of reclassification	30.3	–
Carrying amount as at 31 December	30.3	–
Fair value as at 31 December	30.3	29.5
Fair value gain/(loss) recognized up to the date of reclassification	0.8	(0.1)
Interest income recognized in profit or loss for the year	2.3	2.4

The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 8.13 % to 8.14%. The present value of the estimated cash flows the Group expects to recover equals to the fair value of the reclassified financial assets at the date of reclassification.

Financial assets designated as at fair value through profit or loss

	31 December 2013	***31 December 2012***
Equity securities	*16.9*	*6.7*
Reverse sale and repurchase agreements to maturity	*11.4*	*–*
Debt securities		
- Bonds and eurobonds of foreign companies and banks	5.5	27.2
- Bonds and eurobonds of Russian companies and banks	0.2	7.1
- Bonds and eurobonds of foreign governments	–	2.4
Total debt securities	*5.7*	*36.7*
Total financial assets designated as at fair value through profit or loss	**34.0**	**43.4**

At 31 December 2013 equity securities are represented mostly by securities issued by foreign mass-media and retail companies.

(in billions of Russian Roubles)

11. Financial Assets Pledged under Repurchase Agreements

	31 December 2013	*31 December 2012*
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Debt securities		
- Bonds and eurobonds of Russian companies and banks	133.7	45.9
- Bonds and eurobonds of foreign companies and banks	0.8	0.8
- Bonds and eurobonds of foreign governments	0.8	0.7
- Russian Federal loan bonds (OFZ)	0.8	0.2
- Eurobonds of the Russian Federation	0.2	–
Equity securities	8.7	1.0
Total financial assets held for trading	*145.0*	*48.6*
Financial assets designated as at fair value through profit or loss	–	0.1
Total financial assets at fair value through profit or loss	***145.0***	**48.7**
Financial assets available-for-sale		
- Russian Federal loan bonds (OFZ)	12.8	5.6
- Bonds and eurobonds of Russian companies and banks	11.2	–
- Bonds and eurobonds of the Russian Federation	4.1	–
- Bonds and eurobonds of foreign governments	–	0.2
- Bonds and eurobonds of foreign companies and banks	–	0.1
Total financial assets available-for-sale	***28.1***	***5.9***
Investment securities held-to-maturity	***0.1***	**–**
Financial assets classified as loans and advances to customers	**290.6**	**245.5**
Financial assets classified as due from other banks	**2.8**	**2.8**
Total financial assets pledged under repurchase agreements	**466.6**	**302.9**

As at 31 December 2013, bonds and eurobonds of Russian companies and banks included in financial assets pledged under repurchase agreements are mostly represented by debt securities issued by Russian oil and gas companies and banks.

As at 31 December 2013, 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 259.2 billion (31 December 2012: RUR 244.8 billion) which were purchased by “Bank of Moscow”, OJSC in September 2011 from proceeds of loan from DIA (Note 23).

12. Due from Other Banks

	31 December 2013	*31 December 2012*
OECD	303.9	251.5
Russia	99.8	99.1
Other countries	42.5	10.2
Total gross due from other banks	**446.2**	**360.8**
Less: Allowance for impairment (Note 39)	(2.8)	(2.2)
Total due from other banks	**443.4**	**358.6**

As at 31 December 2013, reverse sale and repurchase agreements with other banks amounted to RUR 42.2 billion (31 December 2012: RUR 65.6 billion). These reverse sale and repurchase agreements with other banks were collateralized by securities with fair value of RUR 47.0 billion (31 December 2012: RUR 66.7 billion).

As at 31 December 2013, amount included in due from other banks of RUR 3.2 billion is pledged against issued local mortgage-backed bonds (31 December 2012: RUR 2.2 billion) (Note 44).

(in billions of Russian Roubles)

13. Loans and Advances to Customers

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

	31 December 2013	*31 December 2012*
Loans to legal entities		
Current activity financing	3,196.8	2,575.1
Project finance and other	1,125.5	1,068.7
Finance leases	277.6	205.6
Reverse sale and repurchase agreements	209.4	115.2
Total gross loans to legal entities	**4,809.3**	**3,964.6**
Loans to individuals		
Consumer loans and other	844.8	624.3
Mortgages	539.9	390.7
Car loans	133.2	102.0
Reverse sale and repurchase agreements	2.9	3.2
Total gross loans to individuals	**1,520.8**	**1,120.2**
Less: allowance for impairment (Note 39)	(361.1)	(323.3)
Total loans and advances to customers	**5,969.0**	**4,761.5**

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

Finance lease receivables

	31 December 2013	*31 December 2012*
Gross investment in leases	268.0	252.1
Less: unearned finance lease income	(76.0)	(75.9)
Net investment in leases before allowance	**192.0**	**176.2**
Less: allowance for impairment	(10.3)	(11.6)
Net investment in leases	**181.7**	**164.6**

Future minimum lease payments receivable

	31 December 2013	*31 December 2012*
Within 1 year	57.6	48.6
From 1 to 5 years	180.0	150.7
More than 5 years	30.4	52.8
Minimum lease payments receivable	**268.0**	**252.1**

Net investments in leases

	31 December 2013	*31 December 2012*
Within 1 year	50.2	43.4
From 1 to 5 years	125.2	105.0
More than 5 years	16.6	27.8
Net investment in leases	**192.0**	**176.2**

(in billions of Russian Roubles)

13. Loans and Advances to Customers (continued)

Net investments in leases (continued)

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

	31 December 2013		*31 December 2012*	
	Amount	*%*	*Amount*	*%*
Individuals	1,520.8	24	1,120.2	22
Construction	725.6	11	596.7	12
Manufacturing	649.0	10	479.9	10
Trade and commerce	556.6	9	492.3	10
Finance	536.7	9	524.5	10
Metals	519.4	8	454.4	9
Energy	320.7	5	257.3	5
Chemical	305.3	5	137.4	3
Oil and gas	297.0	5	208.1	4
Transport	269.5	4	362.6	7
Government bodies	150.5	2	153.3	3
Coal mining	130.3	2	42.6	1
Food and agriculture	109.1	2	103.4	2
Telecommunications and media	107.2	2	69.2	1
Aircraft	12.2	–	15.8	–
Other	120.2	2	67.1	1
Total gross loans and advances to customers	**6,330.1**	**100**	**5,084.8**	**100**

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

As at 31 December 2013, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises RUR 1,189.2 billion or 18.0% of the gross loan portfolio and pledged financial assets under repurchase agreements (31 December 2012: RUR 1,030.7 billion or 19.3%).

As at 31 December 2013, the gross amount of non-performing loans which the Group defines as impaired loans with repayments overdue by over 90 days was RUR 312.7 billion, or 4.7% of the aggregate of the gross loan portfolio and loans pledged under repurchase agreements (31 December 2012: RUR 287.7 billion, or 5.4%).

As at 31 December 2013, 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 6.3 billion are included in loans to government bodies for the purpose of economic sector risk concentrations disclosure (31 December 2012: RUR 34.7 billion).

As at 31 December 2013, the Group received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of RUR 277.0 billion (31 December 2012: RUR 145.3 billion).

As at 31 December 2013, the total amount of pledged loans to corporate customers is RUR 241.2 billion (31 December 2012: RUR 283.8 billion). The loans are pledged against the funds accounted within other borrowed funds (Note 23) and due to other banks (Note 21). Included in the above amount of pledged loans are mortgage loans of RUR: nil billion (31 December 2012: RUR 5.0 billion) and car loans of RUR 17.3 billion (31 December 2012: RUR 13.2 billion) (Note 44).

As at 31 December 2013, the carrying value of mortgage loans pledged against debt securities issued amounted to RUR 38.9 billion (31 December 2012: RUR 23.9 billion).

(in billions of Russian Roubles)

14. Investment Financial Assets Available-for-Sale

	31 December 2013	*31 December 2012*
Debt securities		
- Bonds and eurobonds of Russian companies and banks	36.2	19.6
- Bonds and eurobonds of foreign governments	32.3	12.0
- Russian Federal loan bonds (OFZ)	26.3	19.8
- Bonds and eurobonds of foreign companies and banks	9.3	3.1
- Eurobonds of the Russian Federation	5.3	–
- Promissory notes of Russian companies and banks	1.3	1.7
Total debt securities	*110.7*	*56.2*
Equity securities	*24.7*	*41.2*
Total investment financial assets available-for-sale	**135.4**	**97.4**

As at 31 December 2013, bonds and eurobonds of Russian companies and banks are represented mostly by bonds of oil, telecommunication, metal companies and banks; equity securities are represented mostly by shares of Russian metal, manufacturing and building construction companies.

During 2013, the Group recognized an impairment loss of RUR 1.6 billion before tax, and realised portion of positive revaluation of financial assets available-for-sale transferred to income statement due to the sale of financial assets available-for-sale of RUR 8.9 billion before tax (2012: RUR 1.9 billion and RUR 6.8 billion respectively).

During 2013, the Group recognized impairment in the amount of RUR 7.8 billion on one of its available-for-sale equity investments. Concurrently, the Group entered into a forward purchase and sale agreement with a counterparty affiliated with the equity investee which compensated the Group for the past decline in value of the equity investment and is expected to offset any future changes in value of the equity investment. At 31 December 2013 and 31 December 2012, the fair value of the equity investment amounted to RUR 6.3 billion and RUR 12.2 billion, respectively with negative revaluation of RUR 1.9 billion before tax in accumulated as at 31 December 2012 in unrealised gain on financial assets available-for-sale and cash flow hedge reserve. At 31 December 2013, the value of the forward contract amounted to RUR 7.8 billion and was included in other assets in the consolidated statement of financial position. The Group used internal models and third party valuation reports in estimating the values of both the equity investment and the related forward contract. The performance by the counterparty under the forward contract is secured by the pledge of equity investment itself as well as a corporate guarantee and various performance covenants, including minimum net asset requirements.

Reclassifications

In December 2013 the Group reclassified certain financial assets purchased during 2013 that met the definition of loans and receivables out of financial assets available-for-sale to loans and receivables. The Group considered holding these investments in foreseeable future or till maturity, due to low market liquidity and price transparency as well as positive outlook for issuer's credit risk. Information about the reclassified financial assets is presented in the table below:

	2013
Fair value as at the reclassification date	22.0
Carrying amount as at 31 December	21.9
Fair value as at 31 December	22.0
Fair value gain/(loss) that would have been recognized on the reclassified assets for the year if the reclassification had not been made	0.1
Fair value gain/(loss) recognized up to the date of reclassification	0.1
Interest income recognized in profit or loss for the period	0.8
Provision charge recognized after reclassification	(0.1)

The effective interest rate on the reclassified financial assets as determined on the reclassification date ranged from 7.80 % to 8.64%. The present value of the estimated cash flows the Group expects to recover equals to the fair value of the reclassified financial assets at the date of reclassification.

(in billions of Russian Roubles)

15. Investments in Associates and Joint Ventures

	31 December 2013	31 December 2012 (restated)
Investments in associates and joint ventures designated as at fair value through profit or loss	55.2	1.3
Investments in associates and joint ventures accounted under equity method	32.4	31.5
Total investments in associates and joint ventures	**87.6**	**32.8**

In 2013 the Group acquired for USD 24 million (RUR 0.7 billion) a 49.0% share in Irrico Ltd which later decreased to 34.15% due to additional contribution made by a non-related party to the share capital of the associate. In 2013 the Group sold 9.34% in “Russ Out of Home”, BV for RUR 0.6 billion.

In September 2013, “Metropolitan Insurance Group”, OJSC acquired 50.0% as its treasury shares from a non-related party, which enabled the Group to receive control over “Metropolitan Insurance Group”, OJSC previously accounted for using equity method (Note 52).

The Group’s interests in its principal associates and joint ventures were as follows:

			31 December 2013		31 December 2012 (restated)	
	Principal place of business / Country of registration	Activity	Carrying amount	Ownership percentage	Carrying amount	Ownership percentage
Investments in associates and joint ventures accounted under equity method						
“Lenta Limited”	Russia / Virgin Islands	Retail	10.1	11.73%	9.4	11.85%
“KS Holding”, CJSC	Russia	Insurance	6.5	49.00%	6.1	49.00%
“Eurofinance Mosnarbank”, OJSC	Russia	Banking	3.3	25.00%	3.4	25.00%
“Russ Out of Home”, BV	Russia / Netherlands	Mass media	3.2	26.43%	4.2	35.77%
“Burger King Russia (Cyprus)”, Ltd	Russia / Cyprus	Fast food	2.5	48.80%	1.5	48.80%
“Vietnam-Russia Joint Venture Bank”	Vietnam	Banking	1.8	50.00%	1.8	50.00%
“Zapadnaya Gold Mining” Ltd	Russia / Virgin Islands	Gold mining	1.7	23.08%	1.7	23.08%
“Haberma Enterprises”, Ltd	Russia / Cyprus	Real estate	1.3	39.10%	1.8	39.10%
Irrico Ltd	Russia / Virgin Islands	Finance	0.9	34.15%	n/a	n/a
"Estonian Credit Bank", JSC	Estonia	Banking	0.7	59.73%	0.6	59.73%
"United Electronic Market Place", OJSC	Russia	IT	0.3	48.18%	0.1	48.18%
“Gelosa Holdings”, Ltd	Russia/Cyprus	Real estate	0.1	21.16%	0.8	21.16%
“The Academy of Football Dynamo of Lev Yashin”, Ltd	Russia	Other	–	10.00%	n/a	n/a
“VTB Capital I2BF JVC (Cayman)”, Ltd	Russia and Kazakhstan / Cayman Islands	Finance	–	50.00%	0.1	50.00%
“Metropolitan Insurance Group”, OJSC	Russia	Insurance	n/a	n/a	–	50.00%
Total investments in associates and joint ventures accounted under equity method			**32.4**		**31.5**	

(in billions of Russian Roubles)

15. Investments in Associates and Joint Ventures (continued)

In October 2013 the Group sold to a third party its 50% share in T2 (Netherlands) B.V., the successor of Tele2 Russia as a new holding legal entity of Tele 2 Group. The remaining investment in T2 (Netherlands) B.V. Group is accounted for as investment in joint-venture at fair value through profit or loss. As at 31 December 2013 the Group had no contingent liabilities or capital commitments related to T2 (Netherlands) B.V.

			31 December 2013		*31 December 2012 (restated)*	
	Principal place of business / Country of registration	*Activity*	*Carrying amount*	*Ownership percentage*	*Carrying amount*	*Ownership percentage*
Investments in associates and joint ventures designated as at fair value through profit or loss						
T2 (Netherlands) B.V.	Russia /Netherlands	Telecom	53.1	50.00%	n/a	n/a
"Thalita Trading", Ltd	Russia/Cyprus	Finance	1.7	50.00%	1.1	50.00%
"Ysmer", LTD	Russia/Cyprus	Construction	0.4	50.00%	0.2	50.00%
Total investments in associates and joint venture designated as at fair value through profit or loss			**55.2**		**1.3**	

Gains less losses arising from associates and joint-ventures designated as at fair value through profit or loss disclosed in Note 32.

Summarized financial information of material investments in associates and joint ventures is as follows at 31 December 2013:

	"Thalita Trading", Ltd	*"Haberma Enterprises", Ltd*	*"Lenta Limited (BVI)"*	*"Russ Out of Home", BV*
Current assets	5.5	3.4	31.0	6.7
Non-current assets	51.3	–	57.1	6.8
Current liabilities	1.6	–	41.5	4.4
Non-current liabilities	55.8	–	41.9	5.0
Net assets	(0.6)	3.4	4.7	4.1
Revenue	24.8	2.4	144.3	11.2
Net profit from continuing operations	(2.4)	1.5	7.1	(0.5)
Share of the Group in net assets	(0.3)	1.3	0.6	1.1
Goodwill included in carrying amount and other adjustments	n/a	–	9.5	2.1
Carrying value of investment in associate and joint venture	n/a	1.3	10.1	3.2

Summarized financial information of investments in associates and joint ventures is as follows at 31 December 2012:

	"Thalita Trading", Ltd	*"Haberma Enterprises", Ltd*	*"Lenta Limited (BVI)"*	*"Russ Out of Home", BV*
Current assets	6.5	0.3	20.3	5.3
Non-current assets	23.7	5.7	34.7	6.7
Current liabilities	1.9	0.1	30.1	3.1
Non-current liabilities	27.1	1.2	25.9	5.0
Net assets	1.2	4.7	(1.0)	3.9
Revenue	17.8	0.9	109.9	10.8
Net profit from continuing operations	0.7	1.1	5.1	(0.4)
Share of the Group in net assets	0.6	1.8	(0.1)	1.4
Goodwill included in carrying amount and other adjustments	n/a	–	9.5	2.8
Carrying value of investment in associate and joint venture	n/a	1.8	9.4	4.2

(in billions of Russian Roubles)

15. Investments in Associates and Joint Ventures (continued)

Summarized financial information of T2 (Netherlands) B.V., based on its consolidated IFRS financial statements is presented in the table below:

	31 December 2013
Current assets	11.8
including cash and cash equivalents	*9.3*
Non-current assets	42.6
Current liabilities	17.3
including current financial liabilities	*7.0*
Non-current liabilities	33.1
including non-current financial liabilities	*31.5*
Net assets	4.0
Revenue	65.3
Cost of sales	(33.8)
Selling, general and administrative expenses	(12.6)
including depreciation charge	*(5.3)*
Interest income	0.2
Interest expense	(2.6)
Income tax expense	(5.7)
Net profit from continuing operations	9.4

The unrecognized share of losses of associates for 2013 and cumulatively at 31 December 2013 was RUR 1.2 billion and RUR 1.9 billion, respectively (2012 and cumulatively at 31 December 2012: RUR 0.5 billion and RUR 0.7 billion, respectively).

As at 31 December 2013, investment in associate in the amount of RUR 1.7 billion was pledged against the funds obtained by the other associate of the Group (31 December 2012: RUR 0.8 billion).

16. Land, Premises and Equipment

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

(in billions of Russian Roubles)

16. Land, Premises and Equipment (continued)

	Land and premises	*Equipment*	*Construction in progress*	*Equipment in operating lease*	*Total*
Net book amount at 31 December 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)**
Effect of translation	(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)**
Effect of translation	–	(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**

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

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

As at 31 December 2013 the Group analysed market prices in relation to its land and premises and concluded that the market value of land and premises was not materially different from their carrying value and had not performed revaluation.

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

	31 December 2013	*31 December 2012*
Cost	93.6	77.9
Less: accumulated depreciation and impairment	(9.4)	(6.9)
Net carrying amount	**84.2**	**71.0**

(in billions of Russian Roubles)

17. Investment Property

	2013	*2012*
Investment property at 1 January	**148.0**	**122.5**
Acquisitions of subsidiaries	2.2	6.7
Disposal of subsidiaries	–	(2.3)
Additions	11.8	4.0
Disposals	(4.2)	(3.0)
Reclassified to premises	(0.8)	–
Reclassified from premises	5.3	2.8
Reclassified to property held for sale	(4.4)	(1.0)
Reclassified from property held for sale	–	0.7
Reclassified to assets of disposal groups held for sale (Note 20)	(5.2)	–
Net gain from fair value adjustments	1.7	11.4
Capitalization of expenses	6.3	6.2
Investment property at 31 December	**160.7**	**148.0**

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

	2013	*2012*
Not later than 1 year	3.2	2.5
Later than 1 year and not later than 5 years	9.4	10.5
Later than 5 years	0.3	0.7
Total operating lease payments receivable	**12.9**	**13.7**

In 2013 the Group recognized rental income as part of income arising from non-banking activities of RUR 3.5 billion (2012: RUR 2.1 billion) and direct operating expenses of RUR 0.7 billion (2012: RUR 0.7 billion) in relation to investment property that generated rental income.

As at 31 December 2013 investment property was revalued by RUR 1.7 billion (in 2012 – revalued by RUR 11.4 billion). The valuation was carried out on the basis of market prices for comparable real estate by the Group's internal appraisers and by an independent, professionally qualified appraiser who had recent experience in valuing similar properties in the Russian Federation.

In 2013, the Group's investment property increased in the amount of 2.2 RUR billion due to acquisition of Metropolitan Insurance Group (SSG). 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 2013 the Group received directly a property title for land plots, commercial and residential properties valued at RUR 4.2 billion (2012: RUR 2.2 billion) in exchange for settlement of the outstanding loans granted by the Group. The property of RUR 0.5 billion (2012: RUR 1.2 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 2013 the Group purchased in the ordinary course of business commercial properties and land plots in the amount of RUR 7.1 billion (2012: RUR 0.6 billion) for development and subsequent resale.

As at 31 December 2013 investment property in the amount of RUR 41.9 billion was under construction in progress or development (31 December 2012: RUR 36.5 billion).

(in billions of Russian Roubles)

18. Goodwill and Other Intangible assets

The movements in goodwill and intangible assets were as follows:

	Core deposit and customer loan intangible	*Computer software*	*Relations with the major lessee*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2012 (restated)	**23.5**	**5.4**	–	**2.1**	**1.4**	**120.4**	**152.8**
Cost less impairment Opening balance at 1 January 2013 (restated)	**30.8**	**8.1**	–	**5.3**	**1.5**	**120.4**	**166.1**
Opening balance at 1 January 2013	**30.8**	**8.1**	–	**5.3**	**1.5**	**120.4**	**166.1**
Additions	–	3.5	–	4.3	0.1	–	7.9
Acquisition through business combinations	–	0.5	10.4	0.2	0.3	–	11.4
Disposals	–	(0.9)	–	(0.8)	–	–	(1.7)
Write-offs through impairment	–	–	–	(0.6)	–	–	(0.6)
Translation difference	–	0.2	–	–	–	–	0.2
Transfer	–	(0.8)	–	0.8	–	–	–
Closing balance at 31 December 2013	**30.8**	**10.6**	**10.4**	**9.2**	**1.9**	**120.4**	**183.3**
Accumulated amortization Opening balance at 1 January 2013	**7.3**	**2.7**	**–**	**3.2**	**0.1**	**–**	**13.3**
Opening balance at 1 January 2013	**7.3**	**2.7**	**–**	**3.2**	**0.1**	**–**	**13.3**
Amortization charge	5.0	1.6	–	1.8	0.3	–	8.7
Disposals	–	(0.8)	–	(0.5)	–	–	(1.3)
Translation difference	–	0.1	–	–	–	–	0.1
Closing balance at 31 December 2013	**12.3**	**3.6**	**–**	**4.5**	**0.4**	**–**	**20.8**
Net book amount at 31 December 2013	**18.5**	**7.7**	**10.4**	**4.0**	**1.5**	**120.4**	**162.5**

(in billions of Russian Roubles)

18. Goodwill and other intangible assets (continued)

	Core deposit and customer loan intangible	*Computer software*	*Other rights*	*Brands and trademarks*	*Goodwill*	*Total*
Net book amount at 31 December 2011 (restated)	**28.5**	**4.4**	**2.1**	**1.5**	**120.2**	**156.7**
Cost less impairment						
Opening balance at 1 January 2012 (restated)	**35.2**	**6.5**	**3.6**	**1.5**	**120.2**	**167.0**
Write-offs of fully amortized items	(4.4)	–	–	–	–	(4.4)
Opening balance at 1 January 2012 after write-offs of fully amortized items (restated)	**30.8**	**6.5**	**3.6**	**1.5**	**120.2**	**162.6**
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 (restated)	**30.8**	**8.1**	**5.3**	**1.5**	**120.4**	**166.1**
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 (restated)	**23.5**	**5.4**	**2.1**	**1.4**	**120.4**	**152.8**

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

	31 December 2013				*31 December 2012 (restated)*		
	Carrying amount of goodwill	*Carrying amount of core deposit and customer loan intangible*	*Relations with the major lessee intangible (Note 52)*	*Total*	*Carrying amount of goodwill*	*Carrying amount of core deposit and customer loan intangible*	*Total*
"Bank of Moscow", OJSC (restated)	101.8	16.0	–	117.8	100.2	20.2	120.4
"VTB Bank", OJSC [1]	8.8	–	–	8.8	5.2	–	5.2
"Upravlyayuschaya kompaniya Dynamo", CJSC (former "VTB Arena", CJSC)	4.3	–	–	4.3	4.3	–	4.3
"Bank VTB 24", CJSC	3.4	2.4	–	5.8	2.1	–	2.1
"Avia Capital Management" Ltd.	–	–	10.4	10.4	n/a	n/a	n/a
"TransCreditBank", JSC	n/a	n/a	–	n/a	7.7	3.1	10.8
Other subsidiaries	2.1	0.1	–	2.2	0.9	0.2	1.1
Net book amount	**120.4**	**18.5**	**10.4**	**149.3**	**120.4**	**23.5**	**143.9**

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

18. Goodwill and other intangible assets (continued)

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

The goodwill related to “Bank of Moscow”, OJSC (including part of reallocated goodwill of former “TransCreditBank”, JSC as disclosed above) was allocated to Corporate-Investment banking (CIB) and Retail business CGUs and is tested separately for impairment for each CGU. As at 31 December 2013 the recoverable amounts related to these CGUs of “Bank of Moscow”, OJSC was determined based on a value in use calculation using pretax cash flow projections of five-year financial budgets approved by the Management. The calculated recoverable amounts at 31 December 2013 for Corporate-Investment banking (CIB) and Retail business CGUs were RUR 881.2 billion and RUR 49.4 billion respectively, which significantly exceeded the carrying amounts of the relevant CGUs and allocated goodwill. The discount rate applied to cash flow projections was 12% p.a.

The CGUs of former “TransCreditBank”, JSC and former “Bank VTB North-West”, OJSC, reallocated to VTB, formed the new CGU, which recoverable amount was RUR 401.6 billion as at 31 December 2013. The discount rate applied to cash flow projections was 7% p.a.

“Bank VTB 24”, CJSC entity level is considered as appropriate CGU (including part of reallocated goodwill of former “TransCreditBank”, JSC as disclosed above). The recoverable amount of “Bank VTB 24”, CJSC at the date of goodwill impairment testing at 31 December 2013 was determined on the base of a value in use calculation using pre-tax cash flow projections of five-period financial budgets approved by the Management, and amounted to RUR 1,044.4 billion. The discount rate applied to cash flow projections was 6.5% p.a.

The goodwill related to “Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC) was allocated to the development project of subsidiary as a separate CGU. The recoverable amount of “Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC) at the date of goodwill impairment testing at 30 September 2013 was determined based on a value in use calculation using pre-tax cash flow projections covering a twelve-year period (as a more reliable for a long-term development project), and amounted to RUR 26.3 billion. The discount rate applied to cash flow projections of the development project was 11.7% p.a. The calculation of value in use for “Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC) CGU was most sensitive to assumptions in discount rates, terminal capitalization rate; weighted average rent rates for shopping and entertainment centres, prices and sales schedules for apartments, occupancy rates and average prices per room in hotels and apart hotels.

For “Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC) development project, the estimated recoverable amount was 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% p.a. or increase of the discount rate by 0.5% p.a. 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 “Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC) development project, described above.

(in billions of Russian Roubles)

19. Other Assets

	31 December 2013	*31 December 2012*
Other financial assets		
Amounts in course of settlement	37.6	13.6
Positive fair value of derivatives (hedges) (Note 45)	8.9	0.6
Reinsurance and insurance receivables	8.3	2.5
Accrued commission income	4.6	5.1
Initial margin and other performance collateral	4.6	4.9
Advances issued to leasing equipment suppliers	4.4	4.5
Trade receivables and prepayments	2.3	1.8
Accrued income on operating leases	1.8	3.3
Other	6.2	8.0
Total other financial assets before allowance for impairment	**78.7**	**44.3**
Less: allowance for impairment of other financial assets (Note 39)	(3.3)	(2.9)
Total other financial assets	**75.4**	**41.4**
Other non-financial assets		
Property intended for sale in the ordinary course of business	60.7	44.1
Other assets related to non-banking activities	54.8	36.3
Precious metals	34.9	35.2
Prepayments	11.6	10.6
Tax prepayments	11.3	12.0
Deferred expenses	5.4	5.2
Inventories	3.8	2.9
Equipment purchased for subsequent leasing	3.3	6.6
Other assets related to insurance activities	3.3	1.7
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs	1.5	0.7
Other	0.3	2.1
Total other non-financial assets before allowance for impairment	**190.9**	**157.4**
Less: allowance for impairment of other non-financial assets (Note 39)	(0.3)	(0.3)
Total other non-financial assets	**190.6**	**157.1**
Total other assets	**266.0**	**198.5**

As at 31 December 2013 amounts in course of settlement includes settlements with Deposit Insurance Agency for the reimbursement of bankrupt banks' deposits in the amount of RUR 29.6 billion.

As at 31 December 2013 and 2012, property intended for sale in the ordinary course of business mainly represented operations of "Hals-Development", OJSC, "Upravlyayuschaya kompaniya Dynamo", CJSC (former "VTB Arena", CJSC) and "M", CJSC.

As at 31 December 2013, property intended for sale in the ordinary course of business included the amount of RUR 1.4 billion (31 December 2012: RUR 1.4 billion) pledged against other borrowings within other borrowed funds (Note 23).

As at 31 December 2013 and 2012, other assets related to non-banking activities were predominantly related to real estate, construction and insurance.

(in billions of Russian Roubles)

19. Other assets (continued)

Other assets related to insurance activities presented above comprise:

	31 December 2013	*31 December 2012*
Reinsurer's share of provision for unearned premiums	1.9	0.8
Reinsurer's share of loss provisions	0.5	0.4
Deferred acquisition costs	0.9	0.5
Total other assets related to insurance activities	**3.3**	**1.7**

20. Disposal Groups Held for Sale

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

		31 December 2013	*31 December 2012*
Assets of disposal groups held for sale			
Segezha Pulp and Paper Mill, OJSC	100% owned subsidiary	17.2	–
BM Bank, Ltd., Ukraine	100% owned subsidiary	7.0	6.7
Mariisky NPZ, CJSC	99.3% owned subsidiary	6.1	–
Energocomplex	49.0% owned investee	–	8.5
Tower B of Skylight Business Centre (Note 17)	non-current asset held for sale	5.2	–
Other		1.2	0.1
Total assets of disposal groups held for sale		**36.7**	**15.3**
Liabilities of disposal groups held for sale			
Segezha Pulp and Paper Mill, OJSC	100% owned subsidiary	12.7	–
BM Bank, Ltd., Ukraine	100% owned subsidiary	6.9	6.1
Mariisky NPZ, CJSC	99.3% owned subsidiary	0.4	–
Other		0.7	–
Total liabilities of disposal groups held for sale		**20.7**	**6.1**

In May 2013, the Group acquired 50% plus one controlling share in "Segezha Pulp and Paper Mill", OJSC as part of additional share issue of the acquiree for total consideration of RUR 6.3 billion including cash consideration of RUR 0.5 billion. In August 2013 the Group increased its share in "Segezha Pulp and Paper Mill", OJSC up to 100% by purchasing 50% minus one share from the other shareholder for RUR 0.5 billion under mandatory offer. As a result of this transaction the non-controlling interest increased by RUR 3.2 billion, and retained earnings decreased by RUR 3.8 billion. This investment is disclosed within segment "Other".

In November 2013, the Group received control over 99.3% controlling share in Mariisky NPZ, CJSC for total non-cash consideration of RUR 5.7 billion. As at 31 December 2013 the acquisition accounting was incomplete and Mariisky NPZ, CJSC was consolidated based on provisional amounts. This investment is disclosed within segment "Other".

The Group's control over these equity investments are intended to be temporary because the investments were made and are held exclusively with a view to resale in the near future and accordingly, the Group accounted for these investments as a subsidiaries held for sale in accordance with IFRS 5. At 31 December 2013 and 31 December 2012 these investments are accounted for at their carrying amounts which were lower than fair value less costs to sell.

In 2013 the Group disposed its investments in Energocomplex to one of government related entities for non-cash consideration and recognised gain on disposal in the amount of RUR 0.8 billion within gain from disposal of subsidiaries and associates.

(in billions of Russian Roubles)

20. Disposal Group Held for Sale (continued)

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

	2013	***2012***
Assets of a disposal group held for sale:		
Cash and cash equivalents	1.3	1.5
Mandatory cash balances with central banks	0.2	0.1
Financial assets at fair value through profit or loss	0.2	0.2
Due from other banks	0.1	–
Loans and advances to customers	5.3	4.3
Investment properties	0.1	0.3
Investment in associates	–	8.6
Deferred income tax asset	0.1	–
Intangible assets and goodwill	0.6	–
Premises and equipment	10.1	0.2
Other assets	13.4	0.1
Non-current assets held for sale:		
Premises and equipment	0.1	–
Investment properties (Note 17)	5.2	–
Total non-current assets and assets of disposal groups held for sale	**36.7**	**15.3**

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

	2013	***2012***
Due to other banks	2.3	–
Customer accounts	11.1	5.7
Deferred income tax liability	1.0	–
Other liabilities	6.3	0.4
Total liabilities directly associated with disposal groups held for sale	**20.7**	**6.1**

21. Due to Other Banks

	31 December 2013	***31 December 2012***
Term loans and deposits	345.5	444.9
Correspondent accounts and overnight deposits of other banks	214.7	271.3
Sale and repurchase agreements with other banks	106.4	43.7
Total due to other banks	**666.6**	**759.9**

At 31 December 2013, term loans and deposits contain the amount of RUR 50.0 billion (31 December 2012: nil) secured with a pledge of financial assets at fair value through profit or loss in the amount of RUR 26.0 billion (31 December 2012: nil).

As at 31 December 2013, term loans and deposits in the amount of RUR 6.5 billion (31 December 2012: RUR 12.6 billion) is collateralized with loans to customers in the amount of RUR 16.6 billion (31 December 2012: RUR 24.3 billion).

As at 31 December 2013, financial assets pledged against sale and repurchase agreements with other banks are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of RUR 34.0 billion (31 December 2012: RUR 24.5 billion), classified as loans and advances to customers with amortized cost of RUR 30.6 billion (31 December 2012: RUR 0.7 billion). As at 31 December 2013, financial assets pledged against sale and repurchase agreements with other banks were also represented by financial assets received under reverse sale and repurchase agreements in the total amount of RUR 61.5 billion (31 December 2012: RUR 23.1 billion).

(in billions of Russian Roubles)

21. Due to Other Banks (continued)

As at 31 December 2013, term loans and deposits also contain term loans and deposits in the amount of RUR 0.3 billion (31 December 2012: RUR 0.7 billion) securitized with a pledge of premises and equipment of RUR 0.7 billion (31 December 2012: RUR 2.8 billion).

22. Customer Deposits

	31 December 2013	*31 December 2012*
Government bodies		
Current / settlement deposits	126.9	139.5
Term deposits	258.9	298.4
Other legal entities		
Current / settlement deposits	751.5	780.8
Term deposits	1,398.7	1,154.2
Individuals		
Current / settlement deposits	337.2	306.9
Term deposits	1,456.2	1,127.2
Sale and repurchase agreements	12.0	6.4
Total customer deposits	**4,341.4**	**3,813.4**

At 31 December 2013 term deposits of other legal entities include RUR 70.2 billion (31 December 2012: RUR 140.6 billion) of promissory notes issued, which represent in-substance deposit relationships.

As at 31 December 2013, the Group's 10 largest groups of interrelated customers had aggregated balances amounting to RUR 1,060.6 billion or 24.4% of total customer deposits (31 December 2012: RUR 1,214.0 billion or 31.8%).

As at 31 December 2013, deposits of RUR 10.5 billion (31 December 2012: RUR 11.2 billion) were held as collateral against irrevocable commitments under import letters of credit and guarantees (Note 45).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2013		*31 December 2012*	
	Amount	*%*	*Amount*	*%*
Individuals	1,793.4	41	1,434.1	38
Oil and gas	643.7	15	512.4	13
Government bodies	385.8	9	437.9	11
Finance	374.8	9	379.9	10
Building construction	241.9	6	158.2	4
Manufacturing	225.6	5	202.1	5
Trade and commerce	134.4	3	117.3	3
Telecommunications and media	119.3	3	70.7	2
Transport	104.6	2	174.3	5
Metals	31.0	1	35.8	1
Chemical	30.0	1	21.2	1
Energy	26.9	1	33.7	1
Food and agriculture	23.0	1	28.2	1
Aircraft	19.0	–	10.6	–
Coal mining	12.2	–	1.2	–
Other	175.8	3	195.8	5
Total customer deposits	**4,341.4**	**100**	**3,813.4**	**100**

As at 31 December 2013 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 1.7 billion (31 December 2012: RUR 3.9 billion) (Note 11) and securities received under reverse sale and repurchase agreements with fair value of RUR 11.0 billion (31 December 2012: RUR 3.3 billion).

(in billions of Russian Roubles)

23. Other Borrowed Funds

	31 December 2013	*31 December 2012*
Funds from local central banks	1,028.5	483.3
Syndicated loans	179.1	100.0
Other borrowings	278.3	222.9
Total other borrowed funds	**1,485.9**	**806.2**

As at 31 December 2013 funds from local central banks included payables to local central banks on sale and repurchase agreements in amount of RUR 399.5 billion (31 December 2012: 272.8) and other funds attracted from local central banks in amount of RUR 629.0 billion (31 December 2012: RUR 160.2 billion).

As at 31 December 2013 other funds attracted from local central banks contain the amount of RUR 547.7billion (31 December 2012: RUR 24.3 billion) secured by pledged loans to customers in the amount of RUR 625.6 billion (31 December 2012: RUR 31.5 billion) (Note 11).

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 2013 the carrying amount of the loan of RUR 159.0 billion was included in other borrowings (31 December 2012: RUR 153.4 billion). The loan was securitized with a pledge of loans to customers with carrying amount of RUR 205.4 billion (31 December 2012: RUR 199.2 billion) (Note 13).

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

In June 2012, the Group received a syndicated loan facility of EUR 225.0 million. During 2012 the Group utilized Tranche1 in the amount of 106.6 million (RUR 4.4 billion) maturing in July 2024 with a floating rate of EURIBOR plus 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 cost capitalization). In December 2013, the syndicated loan facility was utilized in full as the Group received Tranche 2 in the amount of EUR 118.4 million (RUR 5.4 billion). The Group recognised the benefits of the below-market interest rate as the government grant in the amount of RUR 0.6 billion and RUR 0.3 billion on Tranche 1 and Tranche 2 respectively. The 50% of the government grant has been recognised upfront in gains on initial recognition of financial instrument as the benefits are not related to the Group's share in the construction concession project. The remaining 50% of the government grant was deferred and is to be amortized over the expected useful life of the concession.

As at 31 December 2013 financial assets pledged against sale and repurchase agreements with local central banks are financial assets with a total carrying amount of RUR 399.7 billion (31 December 2012: RUR 273.8 billion), which comprised of the financial assets held for trading with fair value of RUR 117.3 billion (31 December 2012: RUR 20.3 billion), financial assets available-for-sale with fair value of RUR 20.1billion (31 December 2012: RUR 5.9 billion), pledged financial assets classified as loans and advances to customers of RUR 259.5 billion (31 December 2012: RUR 244.8 billion), pledged financial assets classified as due from other banks of RUR 2.8 billion (31 December 2012: RUR 2.8 billion) (Note 11), and securities received under reverse sale and repurchase agreements with fair value of RUR 12.4 billion (31 December 2012: nil).

As at 31 December 2013 other borrowed funds also contain other borrowings in the amount of RUR 22.9 billion (31 December 2012: RUR 18.9 billion) securitized with a pledge of loans to customers of RUR 27.2 billion (31 December 2012: RUR 22.9 billion) (Note 13) and other assets of RUR 1.4 billion (31 December 2012: RUR 1.4 billion) (Note 19).

24. Debt Securities Issued

	31 December 2013	*31 December 2012*
Bonds	592.1	592.3
Promissory notes	133.4	161.3
Deposit certificates	12.7	0.3
Total debt securities issued	**738.2**	**753.9**

(in billions of Russian Roubles)

24. Debt Securities Issued (continued)

Promissory notes represent notes primarily issued by VTB in the local market as an alternative to customer/bank deposits. As at 31 December 2013 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to October 2028 (31 December 2012: from demand to March 2018).

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

	Rates, p.a.	*Maturity*	*31 December 2013*	*31 December 2012*
USD Eurobonds (EMTN)	2.04% to 6.88%	2014-2035	249.2	229.7
CHF Eurobonds (EMTN)	2.90% to 5.00%	2015-2018	43.9	43.1
ECP	n/a	2014	21.7	12.8
Other Eurobonds	1.30% to 13.23%	2014-2034	97.6	120.7
Local bonds	0.10% to 12.75%	2014-2046	179.7	186.0
Total bonds			**592.1**	**592.3**

25. Subordinated Debt

	Rates, p.a.	*Maturity*	*31 December 2013*	*31 December 2012*
VTB:				
RUR 200 billion subordinated loans	6.50%	2019	183.6	181.7
USD 1.5 billion subordinated Eurobonds	6.95%	2022	49.5	46.0
USD 400 million subordinated Eurobonds	5.01%	2015	11.5	10.6
“Bank of Moscow”, OJSC:				
USD 400 million subordinated Eurobonds	6.02%	2017	12.7	12.0
RUR 11.1 billion subordinated loans	6.50%	2019	10.4	10.3
USD 300 million subordinated Eurobonds	5.97 %	2015	9.6	8.7
USD 100 million subordinated loans	LIBOR + 2.65 %	2016	3.3	3.0
"Bank VTB 24", CJSC (including former “TransCreditBank”, JSC):				
RUR 6.8 billion subordinated loans (31 December 2012: RUR 9.8 billion)	10.00%-12.10 %	2014-2020	7.5	10.6
RUR 2.9 billion subordinated loans	6.50%	2019	2.9	2.9
Total subordinated debt			**291.0**	**285.8**

(in billions of Russian Roubles)

26. Other Liabilities

	31 December 2013	*31 December 2012*
Other financial liabilities		
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives) (Note 45)	69.1	82.6
Obligation to deliver securities	26.9	29.1
Non-controlling interests in consolidated mutual funds	23.4	3.9
Amounts in course of settlement	11.0	10.0
Negative fair value of derivatives (hedges) (Note 45)	2.5	0.5
Advances received from lessees	1.9	2.1
Reinsurance and insurance payables	1.8	0.7
Trade creditors and prepayments received	1.6	2.1
Deferred income	0.9	1.5
Dividends payable	0.2	0.2
Other	8.2	7.8
Total other financial liabilities	**147.5**	**140.5**
Other non-financial liabilities		
Insurance provisions	30.9	12.0
Other liabilities related to non-banking activities	29.9	14.5
Payable to employees	29.3	23.4
Liabilities to pay taxes	8.0	6.6
Provisions for credit related commitments and legal claims (Note 39)	3.6	2.8
Liabilities on pension plans	1.9	1.6
Trade creditors and prepayments received	1.3	2.2
Deferred income	1.2	0.6
Other	9.0	7.8
Total other non-financial liabilities	**115.1**	**71.5**
Total other liabilities	**262.6**	**212.0**

Insurance provisions presented above comprise:

	31 December 2013	*31 December 2012*
Provision for unearned premiums	17.6	7.1
Provision for losses incurred but not yet reported	7.3	3.6
Outstanding claims provision	5.8	1.3
Provision for life insurance	0.1	–
Total insurance provisions	**15.7**	**12.0**

As at 31 December 2013 and 2012, other liabilities related to non-banking activities are predominantly related to real estate and other non-banking activity.

At 31 December 2013 non-controlling interests in consolidated mutual funds included RUR 20.4 billion (31 December 2012:nil) of non-controlling interest in the consolidated VTB - Long term investments, Closed-end Unit Investment Fund.

(in billions of Russian Roubles)

27. Share capital

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

	31 December 2013		_31 December 2012_	
	Number of shares	**_Nominal amount_**	**_Number of shares_**	**_Nominal amount_**
Ordinary shares	12,960,541,337,338	138.1	10,460,541,337,338	113.1
Total share capital	**12,960,541,337,338**	**138.1**	**10,460,541,337,338**	**113.1**

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

In April 2013, VTB's Supervisory Board authorised an issuance of 2,500,000,000,000 additional shares with a nominal value of RUB 0.01 per share (the "New Shares") at a price of RUB 0.041 per New Share. On 22 May 2013 VTB completed the issuance of the New Shares to new and existing shareholders for the gross proceeds of RUB 102.5 billion. The Bank incurred specific related items and costs for the amount of RUB 2.2 billion, net of tax, which were posted directly to equity as a reduction of share premium. As a result, net proceeds amounted to RUB 100.3 billion.

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

As at 31 December 2013 the total authorised ordinary share capital comprised 14,000,000,000,000 shares (2012: 14,000,000,000,000) with a par value of RUR 0.01 each.

28. Perpetual Loan Participation Notes

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

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

The Group accounts for the USD-denominated Perpetual loan participation notes in the amount of RUR equivalent amount using the foreign exchange rate at the reporting date with foreign exchange translation effects recorded in retained earnings. Issuance costs were also recorded in retained earnings. As at 31 December 2013, the carrying amount of the Perpetual Loan Participation Notes is RUR 73.6 billion (31 December 2012: 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 (Note 43).

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

(in billions of Russian Roubles)

29. Other Reserves

Movements in other reserves were as follows:

	Unrealised gain on financial assets available-for-sale and cash flow hedge	*Land and premises revaluation reserve*	*Currency translation difference*	*Total*
31 December 2011	**7.9**	**11.4**	**11.0**	**30.3**
Total comprehensive income for the period	(3.5)	9.8	(2.2)	**4.1**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.4)	–	**(0.4)**
Acquisition of non-controlling interests and other capital transactions	(0.1)	–	–	**(0.1)**
31 December 2012	**4.3**	**20.8**	**8.8**	**33.9**
Total comprehensive income for the period	(1.3)	–	3.6	**2.3**
Transfer of premises revaluation reserve upon disposal or depreciation	–	(0.7)	–	**(0.7)**
Acquisition of non-controlling interests	–	–	0.1	**0.1**
31 December 2013	**3.0**	**20.1**	**12.5**	**35.6**

30. Interest Income and Expense

	2013	*2012*
Interest income		
Financial assets at fair value through profit or loss	**37.0**	**27.5**
Loans and advances to customers	637.4	513.3
Due from other banks	7.2	9.8
Other financial assets, including securities	4.7	5.1
Financial assets not at fair value through profit or loss	**649.3**	**528.2**
Total interest income	**686.3**	**555.7**
Interest expense		
Customer deposits	(208.3)	(173.8)
Due to other banks and other borrowed funds	(83.2)	(68.4)
Debt securities issued	(49.7)	(48.2)
Subordinated debt	(22.1)	(19.3)
Total interest expense	**(363.3)**	**(309.7)**
Net interest income	**323.0**	**246.0**

During 2013 interest income on impaired loans, recognized by the Group amounted to RUR 30.5 billion (2012: RUR 20.6 billion).

(in billions of Russian Roubles)

31. Net Fee and Commission Income

	2013	*2012*
Commission on settlement transactions	42.7	37.1
Commission on guarantees issued and trade finance	10.2	9.2
Commission on operations with securities and capital markets	8.4	6.4
Commission on cash transactions	4.8	6.1
Other	4.2	2.4
Total fee and commission income	**70.3**	**61.2**
Commission on settlement transactions	(10.0)	(8.2)
Commission on cash transactions	(2.2)	(2.4)
Other	(2.7)	(2.3)
Total fee and commission expense	**(14.9)**	**(12.9)**
Net fee and commission income	**55.4**	**48.3**

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

	2013	*2012*
(Losses net of gains) / gains less losses arising from trading financial instruments	(18.2)	7.9
Gains less losses arising from financial instruments designated as at fair value through profit or loss	16.5	1.4
Gains less losses arising from associates and joint-ventures designated as at fair value through profit or loss (Note 15)	14.9	–
Gains less losses from financial obligation to purchase non-controlling interests	–	0.8
Total gains less losses / (losses net of gains) arising from financial instruments at fair value through profit or loss	**13.2**	**10.1**

Dividend income of RUR 1.6 billion received from T2 (Netherlands) B.V. in the fourth quarter 2013 was reported within gains less losses arising from associates and joint-ventures designated as at fair value through profit or loss.

33. (Losses Net Of Gains) / Gains Less Losses Arising From Foreign Currencies

	2013	*2012*
Gains less losses arising from dealing in foreign currencies	20.4	14.5
Foreign exchange translation losses net of gains	(29.1)	(7.7)
(Losses net of gains) / gains less losses arising from foreign currencies	**(8.7)**	**6.8**

(in billions of Russian Roubles)

34. Net Insurance Premiums Earned

	2013	*2012*
Gross premiums written	32.4	21.7
Change in provision for unearned premiums, gross	(2.6)	(2.6)
Premiums inward	1.5	–
Premiums ceded to reinsurers	(2.7)	(1.5)
Change in reinsurer's share of provision for unearned premiums	0.8	0.2
Net insurance premium earned	**29.4**	**17.8**

The movements in provision for unearned premiums were as follows:

	Provision for unearned premiums, gross	*Reinsurer share of provision for unearned premiums*	*Provision for unearned premiums, net*
31 December 2011	**4.5**	**(0.6)**	**3.9**
Gross premiums written	21.7	(1.5)	20.2
Gross premiums earned	(19.1)	1.3	(17.8)
31 December 2012	**7.1**	**(0.8)**	**6.3**
Gross premiums written	32.4	(1.2)	31.2
Gross premiums earned	(29.8)	0.4	(29.4)
Acquisition through business combination	7.9	(0.3)	7.6
31 December 2013	**17.6**	**(1.9)**	**15.7**

35. Net Insurance Claims Incurred and Movement in Liabilities to Policyholders

	2013	*2012*
Gross claims paid	(13.9)	(5.8)
Change in loss provisions, gross	0.1	(3.5)
Claims paid inward	(0.2)	–
Claims ceded to reinsurers	0.4	0.5
Change in reinsurer share of loss provisions	(0.3)	(0.3)
Acquisition costs paid net of related commission income from reinsurance ceded	(2.9)	(1.0)
Change in deferred acquisition costs	0.4	0.3
Total net insurance claims incurred and movement in liabilities to policyholders	**(16.4)**	**(9.8)**

The movements in loss provisions were as follows:

	Loss provisions, gross	*Reinsurer share of loss provisions*	*Loss provisions, net*
31 December 2011	**1.4**	**(0.7)**	**0.7**
Losses incurred	(2.3)	0.8	(1.5)
Gross claims paid	5.8	(0.5)	5.3
31 December 2012	**4.9**	**(0.4)**	**4.5**
Losses incurred	(14.0)	0.5	(13.5)
Gross claims paid	13.9	(0.2)	13.7
Acquisition through business combination	8.5	(0.4)	8.1
31 December 2013	**13.3**	**(0.5)**	**12.8**

(in billions of Russian Roubles)

36. Net Income / (Loss) From Non-Banking Activities

The results from non-banking activities for 2013 were the following:

	Construction, development and other real estate operations	*Other non-banking business*	*Total*
Revenue from non-banking activities	19.8	14.4	34.2
Cost of sales and other expenses from non-banking activities	(15.6)	(20.5)	(36.1)
Total net income/(loss) from non-banking activities	**4.2**	**(6.1)**	**(1.9)**

The results from non-banking activities for 2012 were the following:

	Construction, development and other real estate operations	*Other non-banking business*	*Total*
Revenue from non-banking activities	26.5	12.9	39.4
Cost of sales and other expenses from non-banking activities	(15.8)	(13.9)	(29.7)
Total net income/(loss) from non-banking activities	**10.7**	**(1.0)**	**9.7**

37. Other Operating Income

	2013	*2012*
Operating lease of equipment	2.1	1.9
Income arising from disposal of property	2.1	1.0
Dividends received	1.2	1.8
Fines and penalties received	0.2	0.3
Reversal of impairment of fixed assets	–	0.9
Other	4.0	2.8
Total other operating income	**9.6**	**8.7**

38. Staff Costs and Administrative Expenses

	2013	*2012*
Staff costs	108.0	87.6
Defined contribution pension expense	10.8	9.5
Depreciation and other expenses related to premises and equipment	19.7	19.3
Leasing and rent expenses	10.4	8.9
Taxes other than on income	9.4	9.7
Advertising expenses	8.2	6.9
Payments to deposit insurance system	6.1	4.7
Professional services	6.0	5.8
Impairment, amortization and other expenses related to intangibles, except for amortization of core deposit and customer loan intangibles	5.2	3.8
Amortization of core deposit and customer loan intangibles	5.0	5.0
Post and telecommunication expenses	4.0	3.3
Charity	3.4	2.3
Security expenses	3.2	2.7
Transport expenses	2.7	3.2
Insurance costs	0.9	0.8
Other	7.9	7.7
Total staff costs and administrative expenses	**210.9**	**181.2**

(in billions of Russian Roubles)

39. 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 2011	1.8	–	**0.8**	**2.6**
Reversal of provision during the period	(0.1)	–	–	**(0.1)**
Write-offs	–	–	(0.2)	**(0.2)**
Effect of translation	–	–	(0.1)	**(0.1)**
31 December 2012	**1.7**	**–**	**0.5**	**2.2**
Provision for impairment / (reversal of provision) during the period	(0.1)	0.1	0.7	**0.7**
Write-offs	(0.2)	–	–	**(0.2)**
Effect of translation	–	–	0.1	**0.1**
31 December 2013	**1.4**	**0.1**	**1.3**	**2.8**

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 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**
Effect of translation	(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**
Provision for impairment during the period	2.8	37.3	–	15.1	**55.2**
Write-offs	(5.1)	(35.5)	–	(4.8)	**(45.4)**
Recoveries of amounts written-off in previous period	–	0.2	–	–	**0.2**
Effect of translation	0.5	6.9	–	1.5	**8.9**
Reclassification to assets of disposal group held for sale	–	(0.5)	–	–	**(0.5)**
Business combinations	–	(1.4)	–	–	**(1.4)**
31 December 2013	**14.6**	**163.5**	**0.1**	**100.0**	**278.2**

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

(in billions of Russian Roubles)

39. Allowances for Impairment and Provisions (continued)

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 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)**
Recoveries of amounts written-off in previous period	(0.3)	–	(0.1)	**(0.4)**
Effect of translation	–	–	(0.2)	**(0.2)**
31 December 2012	**8.4**	**4.3**	**49.4**	**62.1**
Provision for impairment / (reversal of provision) during the period	(1.4)	2.0	40.4	**41.0**
Write-offs	(0.3)	(0.7)	(19.9)	**(20.9)**
Recoveries of amounts written-off in previous period	–	–	0.1	**0.1**
Effect of translation	0.4	–	0.2	**0.6**
31 December 2013	**7.1**	**5.6**	**70.2**	**82.9**

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 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)**
Effect of translation	(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**
Provision for impairment / (reversal of provision) during the period	1.5	–	(0.1)	0.9	**2.3**
Write-offs	(1.5)	(2.0)	–	–	**(3.5)**
Recoveries of amounts written-off in previous period	0.1	–	–	–	**0.1**
Reclassification to allowance due to reclassification of items to this category	0.1	–	–	–	**0.1**
Effect of translation	0.2	–	–	–	**0.2**
Reclassification to assets of disposal group held for sale	–	–	–	–	–
31 December 2013	**3.6**	**–**	**0.8**	**2.8**	**7.2**

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 authorised management body and, in certain cases, with the respective decision of the Court.

(in billions of Russian Roubles)

40. Income Tax

Income tax expense comprises the following:

	_2013_	_2012_
Current tax expense	21.4	24.1
Deferred tax expense due to the origination and reversal of temporary differences	2.7	0.7
Income tax expense for the year	**24.1**	**24.8**

The income tax rate applicable to the majority of the Group's income in 2013 is 20% (2012: 20%). The income tax rate applicable to subsidiaries' income ranges from 10% to 32% in 2013 (2012: 10% to 32%).

	_2013_	_2012_
IFRS profit before tax	**119.2**	**115.4**
Theoretical tax expense at the applicable statutory rate of each Group entity	24.6	23.9
Tax effect of items, which are not deductible or assessable for tax purposes:		
- Change in unrecognized deferred taxes	(1.5)	0.5
- Non-deductible expenses	5.9	4.3
- Income taxed at different rates	(6.7)	(3.1)
- Other	1.8	(0.8)
Income tax expense for the year	**24.1**	**24.8**

The difference between the theoretical and actual income tax expense for 2013 and 2012 was mainly attributable to non-deductible expenses and income taxed at different rates.

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% (2012: 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)

40. Income Tax (continued)

		Origination and reversal of temporary differences						*Origination and reversal of temporary differences*					
Origination and reversal of temporary differences	*2011*	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehensive income*	*Credited/ (charged) to retained earnings*	*Currency translation difference*	*Business combination*	*2012*	*Credited/ (charged) to profit or loss*	*Credited/ (charged) to other comprehensive income*	*Credited/ (charged) to retained earnings*	*Currency translation difference*	*Business combination*	*2013*
Tax effect of deductible temporary differences:													
Fair value of loans acquired through business combinations	**29.0**	(4.4)	–	–	–	–	**24.6**	(2.3)	–	–	–	–	22.3
Allowances for impairment and provisions for other losses	**20.7**	1.2	–	–	(0.1)	–	**21.8**	(10.5)	–	–	0.1	–	11.4
Tax losses carried forward	**17.8**	4.6	–	(0.4)	(0.2)	0.6	**22.4**	4.5	–	3.2	0.2	0.8	31.1
Fair value of derivatives	**0.4**	1.5	–	–	–	–	**1.9**	0.1	(0.2)	–	–	–	1.8
Accruals	**20.4**	(4.1)	–	–	–	–	**16.3**	2.5	–	–	–	–	18.8
Fair value of securities	**6.6**	(3.8)	1.3	–	–	–	**4.1**	(5.7)	0.5	–	–	0.6	(0.5)
Fair value of investment property	**4.9**	0.2	–	–	–	–	**5.1**	(3.6)	–	–	–	0.3	1.8
Loans to customers	**–**	–	–	–	–	–	**–**	2.9	–	–	0.1	–	3.0
Other	**4.8**	3.7	–	–	0.3	–	**8.8**	(3.9)	–	(0.2)	0.1	6.0	10.8
Gross deferred tax assets	**104.6**	**(1.1)**	**1.3**	**(0.4)**	**–**	**0.6**	**105.0**	**(16.0)**	**0.3**	**3.0**	**0.5**	**7.7**	**100.5**
Unrecognized deferred tax assets	**(7.4)**	(0.5)	–	–	–	–	**(7.9)**	1.5	–	–	–	0.2	**(6.2)**
Gross deferred tax asset	**97.2**	**(1.6)**	**1.3**	**(0.4)**	**–**	**0.6**	**97.1**	**(14.5)**	**0.3**	**3.0**	**0.5**	**7.9**	**94.3**
Tax effect of taxable temporary differences:													
Fair value measurement of securities	**(2.1)**	(0.5)	(0.2)	–	–	–	**(2.8)**	0.9	–	–	(0.1)	–	**(2.0)**
Property and equipment	**(7.8)**	(1.1)	(2.3)	–	–	(0.2)	**(11.4)**	0.5	–	(0.1)	–	(1.0)	**(12.0)**
Intangible assets	**(6.0)**	1.1	–	–	–	–	**(4.9)**	0.3	–	–	–	–	**(4.6)**
Net investment in lease	**(0.8)**	(0.4)	–	–	–	–	**(1.2)**	5.0	–	–	–	(7.2)	**(3.4)**
Fair value of investment property	**(9.4)**	(2.1)	–	–	–	(0.3)	**(11.8)**	3.1	–	–	–	–	**(8.7)**
Allowances for impairment and provisions for other losses	**(0.1)**	(2.3)	–	–	0.1	–	**(2.3)**	(0.6)	–	–	(0.1)	–	**(3.0)**
Fair value of derivatives	**(2.1)**	(2.5)	–	–	–	–	**(4.6)**	0.5	–	–	–	–	**(4.1)**
Other borrowed funds	**(29.7)**	2.2	–	–	–	–	**(27.5)**	4.7	–	–	–	–	**(22.8)**
Other	**(6.5)**	6.5	–	–	–	–	**–**	(2.6)	–	–	–	(0.6)	**(3.2)**
Gross deferred tax liability	**(64.5)**	**0.9**	**(2.5)**	**–**	**0.1**	**(0.5)**	**(66.5)**	**11.8**	**–**	**(0.1)**	**(0.2)**	**(8.8)**	**(63.8)**
Deferred tax asset, net	**42.7**	**(0.1)**	**(0.3)**	**–**	**–**	**0.6**	**42.9**	**(0.6)**	**0.3**	**2.9**	**0.3**	**(0.3)**	**45.5**
Deferred tax liability, net	**(10.0)**	**(0.6)**	**(0.9)**	**(0.4)**	**0.1**	**(0.5)**	**(12.3)**	**(2.1)**	**–**	**–**	**–**	**(0.6)**	**(15.0)**

(in billions of Russian Roubles)

40. Income Tax (continued)

As at 31 December 2013 recognised deferred tax asset included RUR 27.5 billion resulted from tax loss carried forward (31 December 2012: RUR 18.5 billion).

As at 31 December 2013 the Group had unrecognised deferred tax asset of RUR 3.6 billion (2012: RUR 3.9 billion) in respect of unused tax loss expiring as presented below:

	2013	**2012**
Unused tax loss carried forward expiring by the end of:		
31 December 2013		17.4
31 December 2014	23.0	15.5
31 December 2015	17.7	14.2
31 December 2016	11.7	15.0
31 December 2017	12.8	10.8
31 December 2018	16.2	1.7
After 31 December 2018	58.6	19.7
Total tax loss carry forwards	**140.0**	**94.3**

In 2013, profit after tax from subsidiaries acquired exclusively with a view to resale was presented net of income tax expense in the amount of RUR 5.4 billion (2012: RUR 0 billion).

As at 31 December 2013, 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 92.7 billion (31 December 2012: RUR 120.5 billion).

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

	2013			***2012***		
	Before tax	***Tax expense/ (recovery)***	***Net of tax***	***Before tax***	***Tax expense/ (recovery)***	***Net of tax***
Net result on financial assets available-for-sale	(2.3)	0.5	(1.8)	(4.5)	1.1	(3.4)
Land and premises revaluation	–	–	–	12.4	(2.5)	9.9
Actuarial losses net of gains arising from difference between pension plan assets and obligations	(0.2)	–	(0.2)	–	–	–
Cash flow hedges	1.0	(0.2)	0.8	–	–	–
Share of other comprehensive income of associates and joint ventures	–	–	–	(0.2)	–	(0.2)
Effect of changes in tax rates recognized in land and premises revaluation reserve	–	–	–	–	0.2	0.2
Effect of translation	3.9	–	3.9	(2.1)	–	(2.1)
Other comprehensive income	**2.4**	**0.3**	**2.7**	**5.6**	**(1.2)**	**4.4**

41. Share-based Payments

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

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

(in billions of Russian Roubles)

41. Share-based Payments (continued)

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

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

As at 31 December 2013 the total value of the award granted under the Shares Plan was RUR 1.6 billion (31 December 2012: RUR 1.3 billion) represented by 24.7 billion shares of VTB (31 December 2012: 18.5 billion).

As at 31 December 2013 the total value of the award granted under the GDRs Plan was RUR 1.3 billion (31 December 2012: RUR 0.9 billion) represented by 9.7 million of GDRs of VTB Each GDR contains 2,000 VTB shares (31 December 2012: 6.4 million).

For the year ended 31 December 2013 the Group recognised in Staff costs the amount of RUR 1.3 billion (31 December 2012: RUR 1.5 billion) as expenses related to the above equity-settled share-based payment transactions.

The movement in units is presented in the table below.

	Shares Plan	***GDRs Plan***
Balance as at 1 January 2012	–	–
Granted in February 2012	19.6	7.1
Granted in April-December 2012	0.3	0.2
Accelerated vesting	(0.4)	–
Vested for Shares Plan / vested and exercised for GDRs Plan	–	(0.8)
Forfeited	(1.0)	(0.1)
Balance as at 31 December 2012	**18.5**	**6.4**
Granted in February 2013	12.1	4.1
Granted April-December 2013	0.7	1.5
Vested for Shares Plan / vested and exercised for GDRs plan	(6.2)	(2.2)
Forfeited	(0.4)	(0.1)
Balance as at 31 December 2013	**24.7**	**9.7**

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

For 2012 quantity of units were determined as fixed monetary value communicated to employees on the grant date divided by a weighted-average market price of shares/GDRs for 30 days prior to 2 April 2012.

As at 31 December 2013 under the GDRs Plan 3.2 million GDRs were vested (31 December 2012: 1.0 million). As at 31 December 2013 the quantity of vested unexercised options comprised 0.2 million (31 December 2012: 0.2 million).

(in billions of Russian Roubles)

42. Basic and Diluted Earnings per Share

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

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

	2013	***2012***
Weighted average number of ordinary shares in issue	11,911,112,707,137	10,374,040,605,572
Net profit attributable to shareholders of the parent	101.5	85.8
Amounts due on perpetual loan participation notes, net of tax	(5.6)	(1.0)
Total net profit attributable to shareholders of the parent	95.9	84.8
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.00805**	**0.00817**
Profit after tax from subsidiaries acquired exclusively with a view to resale	5.4	–
Basic and diluted earnings per share (expressed in Russian Roubles per share)	**0.00045**	**–**
Total net profit attributable to shareholders of the parent net of profit after tax from subsidiaries acquired exclusively with a view to resale	90.5	84.8
Basic and diluted earnings per share before profit after tax from subsidiaries acquired exclusively with a view to resale (expressed in Russian Roubles per share)	**0.00760**	**0.00817**

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

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

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

In June 2013, Annual General Meeting of VTB shareholders declared dividends of RUR 15.0 billion for 2012 (RUR 0.00143 per share) which were paid in July-August 2013 including RUR 0.1 billion to several Group's subsidiaries. In June 2012, Annual General Meeting of JSC VTB Bank 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 2013 and December 2013, VTB paid USD 106.9 million (RUR 3.4 billion) and USD 106.9 million (RUR 3.6 billion) respectively due under Perpetual Loan Participation Notes. There were no other amounts due under Perpetual Loan Participation Notes as at 31 December 2013.

In December 2012, VTB paid in USD 40.9 million (RUR 1.3 billion) due under Perpetual Loan Participation Notes.

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

(in billions of Russian Roubles)

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

In May 2013, the Annual General Shareholders' Meeting of “Banco VTB Africa S.A.” shareholders approved dividends of RUR 0.4 billion (AKZ 1.12 billion) for 2012 (RUR 9,108.8 or AKZ 320.4 per share) including dividends payable to non-controlling shareholders in the amount of RUR 0.2 billion.

In June 2013, the Annual General Shareholders' Meeting of “Bank of Moscow”, OJSC shareholders approved dividends of RUR 6.9 billion for 2012 (RUR 25.71 per share) including dividends payable to non-controlling shareholders in the amount of RUR 0.3 billion.

In December 2013, “RCB Bank Ltd” paid final dividends in the amount of USD 100 million for 2012 (RUR 3.3 billion), including USD 40 million (RUR 1.3 billion) attributable to non-controlling shareholders.

In June 2012, “RCB Bank Ltd” 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 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 April 2012, the Annual General Shareholders' Meeting of “VTB Bank (Belarus)”, CJSC paid 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), including dividends paid to non-controlling shareholders in the amount of RUR 0.1 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.

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

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

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

The table below shows the amount of operations under sale and repurchases agreements which the Group entered into in the normal course of business as at 31 December 2013 and 31 December 2012. (Note 11)

	31 December 2013			*31 December 2012*		
	Carrying amount of the assets	***Carrying amount of the associated liabilities***	***Net position***	***Carrying amount of the assets***	***Carrying amount of the associated liabilities***	***Net position***
Financial assets at fair value through profit or loss	145.0	177.4	(32.4)	48.7	41.9	6.8
Financial assets available-for-sale	28.1	26.5	1.6	5.9	5.3	0.6
Financial assets held to maturity	0.1	0.1	–	–	–	–
Financial assets classified as loans and advances to customers	290.6	283.0	7.6	245.5	248.4	(2.9)
Financial assets classified as due from other banks	2.8	0.5	2.3	2.8	2.4	0.4
Total	**466.6**	**487.5**	**(20.9)**	***302.9***	**298.0**	**4.9**

(in billions of Russian Roubles)

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

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

The table below shows the amount of securitization operations as at 31 December 2013 and 2012 which the Group enters into in the normal course of business.

		31 December 2013			*31 December 2012*		
	Note	***Carrying amount of the assets***	***Carrying amount of the associated liabilities***	***Net position***	***Carrying amount of the assets***	***Carrying amount of the associated liabilities***	***Net position***
Correspondent accounts [(A)]	12	3.2	3.2	–	2.2	2.2	–
Mortgage loans [(A)]	13	38.9	36.3	2.6	23.9	22.1	1.8
Car loans [(B)]	13	17.3	12.3	5.0	13.2	8.3	4.9
Total		**59.4**	**51.8**	**7.6**	**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 2013 carrying amount of pledged assets under this Program was RUR 42.1 billion (31 December 2012: RUR 26.1 billion), including RUR 38.9 billion of mortgage loans and RUR 3.2 billion on correspondent account with CBR (31 December 2012: RUR 23.9 billion and RUR 2.2 billion, respectively), amortized cost of issued mortgage-backed securities amounted to RUR 39.5 billion (31 December 2012: 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. In October 2013, “Bank VTB 24”, CJSC additionally received the amount of USD 100 million. As at 31 December 2013 the carrying amount of the loan of RUR 12.3 billion was included in other borrowings (31 December 2012: RUR 8.3 billion). This loan was securitized with a pledge of loans to customers with the carrying amount of RUR 17.3 billion (31 December 2012: RUR 13.2 billion).

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

The Group has certain transferred financial assets which have been derecognized in their entirety, but for which there is continuing involvement at the reporting date due to the representation on the board of directors and/or due to effectively holding collateral under transferred assets to secure remaining payments from third parties related to the transfer. The collateral fair value under transferred assets comprised RUR 18.1 billion as at 31 December 2013 (31 December 2012: RUR 81.9 billion). Proceeds from the transfer were received in several instalments with RUR 1.5 billion and RUR 80.6 billion received in 2013 and 2012 respectively and the amount of RUR 0.03 billion to be received in future periods. The gain recognized at the date of transfer comprised RUR 0.5 billion.

Assets pledged as collateral

The Group pledges assets that are on its statement of financial position in various day-to-day transactions that are conducted under the usual terms and conditions applying to such agreements. The Group pledged securities as collateral in repurchase agreements for RUR 466.6 billion (2012: RUR 302.9 billion). Refer to the section “(a) Transfers that did not qualify for derecognition of the financial asset in its entirety” above.

Assets held as collateral

The Group holds certain assets as collateral which it is permitted to sell or repledge in the absence of default by the owner of the collateral, under the usual terms and conditions applying to such agreements. The Group received securities as collateral in reverse repurchase agreements with a fair value of RUR 324.0 billion (2012: RUR 212.1 billion). Of these, securities with a fair value of RUR 29.6 billion (2012: RUR 29.1 billion) were transferred to satisfy commitments under short sale transactions and securities with a fair value of RUR 84.9 billion (2012: RUR 26.4 billion) were sold under agreements to repurchase under the usual terms and conditions applying to such agreements.

45. Contingencies, Commitments and Derivative Financial Instruments

In addition, the Group held RUB 10.5 billion of deposits (2012: RUB 11.2 billion) under Due to customers as collateral for irrevocable commitments under import letters of credit (Note 22). The Group is obliged to return the collateral at maturity of the import letters of credit.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. As at the reporting date the Group had several unresolved legal claims. Management assessed probable outflow of resources and respective provision in the amount of RUR 2.8 billion has been made in these consolidated financial statements (31 December 2012: RUR 1.9 billion).

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

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

The Russian transfer pricing legislation allows the Russian tax 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 unless the Group is able to demonstrate the use of market prices with respect to the "controlled" transactions supported by appropriate available transfer pricing documentation and proper reporting to the Russian tax authorities.

In 2013 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices. Management believes that the Group complies with the Russian transfer pricing legislation requirements in respect to "controlled" transactions, including a duly prepared notification submitted to the tax authorities and transfer pricing documentation confirming application of market prices by the Group with respect to its "controlled" transactions.

The Group also operates in various jurisdictions and includes companies incorporated outside of Russia that are taxed at different rates and under different legislation. Tax liabilities of the Group are determined on the basis that 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 being subject to Russian taxation in a manner broadly similar to the taxation of a Russian legal entity.

As at 31 December 2013 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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.

(in billions of Russian Roubles)

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

Outstanding credit related commitments are as follows:

	31 December 2013	***31 December 2012***
Guarantees issued	975.2	621.8
Letters of credit	46.0	38.8
Undrawn credit lines	28.0	47.1
Commitments to extend credit	2.6	1.0
Less: provision for impairment on credit related commitments (Note 39)	(0.8)	(0.9)
Total credit related commitments	**1,051.0**	**707.8**

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 2013 is RUR 109.0 billion (31 December 2012: RUR 128.1 billion). Commitments under import letters of credit and guarantees are collateralized by customer deposits of RUR 10.5 billion (31 December 2012: RUR 11.2 billion) (Note 22).

As at 31 December 2013, included in guarantees issued are guarantees issued for a related Russian entity of RUR 52.9 billion or 5% of the guarantees issued. (31 December 2012: RUR 50.9 billion or 8% of the guarantees issued).

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

	31 December 2013	***31 December 2012***
Remaining contractual maturity:		
Within 1 year	8.9	6.5
From 1 to 5 years	18.3	13.2
More than 5 years	47.5	6.1
Total operating lease commitments	**74.7**	**25.8**

Purchase commitments. As at 31 December 2013 the Group had RUR 27.8 billion of outstanding commitments for the purchase of precious metals (31 December 2012: RUR 35.6 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 2013.

As at 31 December 2013 the Group has future minimum capital expenditures related to investment property under construction in progress or development in the amount of RUR 18.7 billion (31 December 2012: RUR 20.1 billion) of which RUR 10.2 billion to be expended in less than 1 year (31 December 2012: RUR 12.0 billion) and RUR 8.5 billion to be expended later than 1 year and not later than 5 years (31 December 2012: RUR 8.1 billion).

As at 31 December 2013 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 42.2 billion (31 December 2012: RUR 44.9 billion) of which RUR 16.4 billion to be expended in less than 1 year (31 December 2012: RUR 16.0 billion) and RUR 25.8 billion to be expended later than 1 year and not later than 5 years (31 December 2012: RUR 28.9 billion).

(in billions of Russian Roubles)

45. 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 2013 and 31 December 2012:

	31 December 2013		*31 December 2012*	
	Positive fair value	*Negative fair value*	*Positive fair value*	*Negative fair value*
Derivative financial assets and liabilities at fair value through profit or loss held for trading				
Foreign exchange and precious metals contracts				
Forwards	4.6	(4.3)	6.5	(8.4)
Futures	0.1	(0.7)	0.9	(5.2)
Swaps	13.4	(10.2)	17	(15.8)
Options	3.1	(4.9)	1.7	(1.7)
Contracts with securities				
Forward sale of equity securities	–	–	0.5	–
Futures sale of equity securities	–	–	–	(0.1)
Swap with securities	0.2	(0.2)	0.2	(0.2)
Options	4.2	(8.1)	6.3	(1.1)
Interest Rate contracts				
Single Currency Interest Rate swaps	10.1	(10.0)	12.3	(13.6)
Cross Currency Interest Rate swaps	34.1	(23.4)	22.5	(10.6)
Swaptions	0.6	(0.8)	0.8	(0.2)
Cap/Floor	–	(0.1)	–	–
Interest Rate futures	–	–	–	(0.1)
Contracts with other basic variables				
Sale of Credit Default swaps	3.2	(1.4)	–	(23.0)
Purchase of Credit Default swaps	0.9	(1.9)	21.7	–
Futures on Indexes	0.1	–	0.1	–
Options on Indexes	1.7	(1.2)	1.2	(0.9)
Commodity swaps	0.4	(0.2)	0.6	(0.5)
Commodity futures	0.5	(0.5)	0.1	(0.1)
Commodity options	0.1	(0.2)	–	–
Embedded derivatives on structured instruments				
Embedded derivatives on foreign exchange instruments	1.9	–	0.7	(0.1)
Embedded derivatives on interest rate instruments	1.0	–	–	–
Embedded derivatives on securities instruments	–	(1.0)	–	(1.0)
Total derivative financial assets and liabilities at fair value through profit or loss held for trading	**80.2**	**(69.1)**	**93.1**	**(82.6)**
Derivative financial assets and liabilities designated as hedging instruments				
Derivatives held as fair value hedges				
Interest Rate swaps	0.1	(2.4)	0.4	(0.5)
Forward sale of equity securities	7.8	–	–	–
Derivatives held as cash flow hedges				
Interest Rate swaps	0.2	(0.1)	0.2	–
Foreign exchange swaps	0.8	–	–	–
Total derivative financial assets and liabilities designated as hedging instruments	**8.9**	**(2.5)**	**0.6**	**(0.5)**
Total derivatives	**89.1**	**(71.6)**	**93.7**	**(83.1)**

(in billions of Russian Roubles)

46. Offsetting of financial instruments

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

Assets	***Gross amount of recognized financial assets***	***Gross amount of recognized financial liabilities set off in the statement of financial position***	***Net amount of financial assets presented in the statement of financial position***	***Related amounts not set off in the statement of financial position***		***Net amount***
				Financial instruments	***Cash collateral received***	
Financial assets pledged under repurchase agreements	466.6	–	466.6	(466.4)	–	0.2
Reverse sale and repurchase agreements with other banks	*42.2*	–	*42.2*	*(42.2)*	–	–
Reverse sale and repurchase agreements with legal entities and individuals	*212.3*		*212.3*	*(212.3)*	–	–
Due from banks other than Central banks	425.8	(6.8)	419.0	–	–	419.0
Derivative financial assets including fair value hedge	89.1	–	89.1	(1.1)	–	88.0
Total	**1,236.0**	**(6.8)**	**1,229.2**	**(722.0)**	–	**507.2**

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

(in billions of Russian Roubles)

46. Offsetting of financial instruments (continued)

The tables below show financial assets offset against financial liabilities and financial liabilities offset against financial assets in the statement of financial position, as well as the effect of enforceable master netting agreements and similar arrangements that does not result in an offset in the statement of financial position as at 31 December 2012:

Assets	*Gross amount of recognized financial assets*	*Gross amount of recognized financial liabilities set off in the statement of financial position*	*Net amount of financial assets presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral received*	
Financial assets pledged under repurchase agreements	302.9	–	302.9	(301.9)	–	1.0
Reverse sale and repurchase agreements with other banks	65.6	–	65.6	(65.6)	–	–
Reverse sale and repurchase agreements with legal entities	115.4	(0.2)	115.2	(115.2)	–	–
Reverse sale and repurchase agreements with individuals	3.2	–	3.2	(3.2)	–	–
Loans to legal entities excluded reverse sale and repurchase agreements	3,854.0	(4.6)	3,849.4	–	–	3,849.4
Derivative financial assets including fair value hedge	93.7	–	93.7	(1.3)	–	92.4
Total	**4,434.8**	**(4.8)**	**4,430.0**	**(487.2)**	–	**3,942.8**

Liabilities	*Gross amount of recognized financial liabilities*	*Gross amount of recognized financial assets set off in the statement of financial position*	*Net amount of financial liabilities presented in the statement of financial position*	*Related amounts not set off in the statement of financial position*		*Net amount*
				Financial instruments	*Cash collateral pledged*	
Term deposits of other legal entities (customer deposits)	1,154.4	(0.2)	1,154.2	–	–	1,154.2
Term loans and deposits (due to other banks)	449.5	(4.6)	444.9	–	–	444.9
Funds from local central banks under sale and repurchase agreements (other borrowed funds)	272.8	–	272.8	(272.8)	–	–
Sale and repurchase agreements with other banks (due to other banks)	43.7	–	43.7	(25.2)	–	18.5
Sale and repurchase agreements with customers (customer deposits)	6.4	–	6.4	(3.9)	–	2.5
Derivative financial liabilities including fair value hedge	83.1	–	83.1	(1.3)	–	81.8
Total	**2,009.9**	**(4.8)**	**2,005.1**	**(303.2)**	**–**	**1,701.9**

47. Analysis by Segment

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

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

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

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

47. Analysis by Segment (continued)

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

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

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

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

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

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

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

(d) Changes in reportable segments

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

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.

As at 31 December 2013 the Group introduced new reportable segments "Retail business" and "Corporate Centre".

(in billions of Russian Roubles)

47. Analysis by Segment (continued)

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

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

(in billions of Russian Roubles)

47. Analysis by Segment (continued)

	Corporate-Investment banking (CIB)					Retail business (RB)								
As at 31 December 2013	***Investment banking***	***Loans and deposits***	***Transaction banking***	***Inter-CIB elimi-nations***	***Total CIB***	***Retail banking***	***Insurance***	***Inter-RB elimi-nations***	***Total RB***	***Treasury***	***Corporate centre***	***Other***	***Total before Inter-segment elimi-nations***	***Inter-segment elimi-nations***	***Total***
Cash and short-term funds	*39.6*	*0.4*	*1.9*	–	41.9	*142.2*	*0.3*	–	142.5	169.6	–	0.3	**354.3**	**–**	**354.3**
Mandatory cash balances with central banks	–	–	–	–	–	*17.4*	–	–	17.4	41.3	–	–	**58.7**	**–**	**58.7**
Due from other banks	*62.7*	*28.2*	–	–	90.9	*3.7*	*3.1*	–	6.8	345.4	–	0.3	**443.4**	**–**	**443.4**
Loans and advances to customers	*454.4*	*3,810.9*	–	–	4,265.3	*1,629.8*	–	–	1,629.8	43.8	–	30.1	**5,969.0**	**–**	**5,969.0**
Other financial instruments	*505.9*	*7.6*	–	–	513.5	*43.7*	*8.0*	–	51.7	416.6	–	32.0	**1,013.8**	**–**	**1,013.8**
Investments in associates and joint ventures	*75.0*	*6.8*	–	–	81.8	–	–	–	–	5.8	–	–	**87.6**	**–**	**87.6**
Other assets items	*71.1*	*224.0*	*48.0*	–	343.1	*120.8*	*19.6*	–	140.4	19.3	–	338.9	**841.7**	**–**	**841.7**
Net amount of intersegment settlements	*164.3*	–	*652.1*	*(816.4)*	–	*527.9*	*17.0*	–	544.9	1,874.3	–	–	**2,419.2**	**(2,419.2)**	**–**
Segment assets	***1,373.0***	***4,077.9***	***702.0***	***(816.4)***	***5,336.5***	***2,485.5***	***48.0***	**–**	**2,533.5**	**2,916.1**	**–**	**401.6**	**11,187.7**	**(2 419.2)**	**8,768.5**
Due to other banks	*97.4*	*10.4*	–	–	107.8	*26.9*	–	–	26.9	531.5	–	0.4	**666.6**	**–**	**666.6**
Customer deposits	*943.3*	*482.3*	*649.8*	–	2,075.4	*2,099.9*	–	–	2,099.9	161.4	–	4.7	**4,341.4**	**–**	**4,341.4**
Other borrowed funds	*61.3*	*88.3*	–	–	149.6	*52.1*	*1.2*	–	53.3	1,277.6	–	5.4	**1,485.9**	**–**	**1,485.9**
Debt securities issued	*39.6*	*64.6*	–	–	104.2	*54.2*	–	–	54.2	577.9	–	1.9	**738.2**	**–**	**738.2**
Subordinated debt	–	–	–	–	–	*10.4*	–	–	10.4	280.6	–	–	**291.0**	**–**	**291.0**
Other liabilities items	*113.8*	*23.5*	*6.2*	–	143.5	*21.2*	*38.9*	–	60.1	8.5	–	86.2	**298.3**	**–**	**298.3**
Net amount of intersegment settlements	–	*2,950.5*	–	*(816.4)*	*2,134.1*	–	–	–	–	–	–	285.1	**2,419.2**	**(2,419.2)**	**–**
Segment liabilities	***1,255.4***	***3 619.6***	***656.0***	***(816.4)***	***4,714.6***	***2,264.7***	***40.1***	**–**	**2,304.8**	**2,837.5**	**–**	**383.7**	**10,240.6**	**(2,419.2)**	**7,821.4**

(in billions of Russian Roubles)

47. 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:

For the year ended 31 December 2012	*Corporate-Investment banking (CIB)*					*Retail business (RB)*							*Total before Inter-segment elimi-nations*	*Inter-segment elimi-nations*	*Total*
	Investment banking	*Loans and deposits*	*Transaction banking*	*Inter-CIB elimi-nations*	*Total CIB*	*Retail banking*	*Insurance*	*Inter-RB elimi-nations*	*Total RB*	*Treasury*	*Corporate centre*	*Other*			
Revenues from:															
External customers	*64.5*	*298.9*	*19.4*	*–*	382.8	*213.5*	*18.1*	–	231.6	73.0	–	45.4	**732.8**	–	**732.8**
Other segments	*47.0*	*48.5*	*27.6*	*(0.6)*	122.5	*46.2*	*1.7*	(0.8)	47.1	288.0	–	11.1	**468.7**	(468.7)	**–**
Total revenues	***111.5***	***347.4***	***47.0***	***(0.6)***	**505.3**	***259.7***	***19.8***	**(0.8)**	**278.7**	**361.0**	**–**	**56.5**	**1 201.5**	**(468.7)**	**732.8**
Segment income and expense															
Interest income	*89.7*	*337.3*	*27.6*	*(0.1)*	454.5	*219.6*	*0.6*	(0.3)	219.9	334.6	–	7.1	**1 016.1**	(460.4)	**555.7**
Interest expense	*(76.5)*	*(270.5)*	*(5.3)*	*0.1*	(352.2)	*(100.5)*	*–*	0.2	(100.3)	(294.4)	–	(23.1)	**(770.0)**	460.3	**(309.7)**
Treasury result allocation	*1.7*	*25.9*	*–*	*–*	27.6	*13.6*	*–*	–	13.6	(41.2)	–	–	**–**	–	**–**
Net interest income	***14.9***	***92.7***	***22.3***	***–***	**129.9**	***132.7***	***0.6***	**(0.1)**	**133.2**	**(1.0)**	**–**	**(16.0)**	**246.1**	**(0.1)**	**246.0**
(Provision charge) / reversal of provision for impairment of debt financial assets	*(0.1)*	*(28.3)*	*–*	*–*	(28.4)	*(27.5)*	*–*	(0.2)	(27.7)	(3.2)	–	–	**(59.3)**	(0.1)	**(59.4)**
Net interest income after provision for impairment	***14.8***	***64.4***	***22.3***	***–***	**101.5**	***105.2***	***0.6***	**(0.3)**	**105.5**	**(4.2)**	**–**	**(16.0)**	**186.8**	**(0.2)**	**186.6**
Net fee and commission income/(expense)	*4.6*	*1.9*	*15.6*	*–*	22.1	*25.8*	*(0.1)*	(0.1)	25.6	0.2	–	0.8	**48.7**	(0.4)	**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*	*0.3*	–	3.5	13.6	–	2.5	**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**
Gain/(loss) from disposal of subsidiaries and associates	*1.4*	*–*	*–*	*–*	1.4	*–*	*–*	–	–	–	–	(0.3)	**1.1**	–	**1.1**
Other operating income/(expense) items	*0.2*	*3.5*	*0.1*	*–*	3.8	*1.5*	*7.6*	0.3	9.4	–	–	14.9	**28.1**	(5.9)	**22.2**
Operating income	***35.8***	***71.4***	***38.7***	***0.1***	**146.0**	***135.7***	***8.4***	**(0.1)**	**144.0**	**9.4**	**–**	**1.8**	**301.2**	**(4.6)**	**296.6**
Staff costs and administrative expenses	*(23.5)*	*(37.3)*	*(21.8)*	*–*	(82.6)	*(73.7)*	*(2.3)*	0.2	(75.8)	(6.6)	(16.8)	(5.3)	**(187.1)**	5.9	**(181.2)**
Segment results: profit before taxation	***12.3***	***34.1***	***16.9***	***0.1***	**63.4**	***62.0***	***6.1***	**0.1**	**68.2**	**2.8**	**(16.8)**	**(3.5)**	**114.1**	**1.3**	**115.4**
Income tax expense	*(2.1)*	*(5.7)*	*(3.5)*	*–*	(11.3)	*(12.9)*	*(1.7)*	–	(14.6)	(0.5)	2.6	(0.8)	**(24.6)**	(0.2)	**(24.8)**
Net profit	***10.2***	***28.4***	***13.4***	***0.1***	**52.1**	***49.1***	***4.4***	**0.1**	**53.6**	**2.3**	**(14.2)**	**(4.3)**	**89.5**	**1.1**	**90.6**
Capital expenditure	*1.1*	*11.7*	*2.7*	*–*	15.5	*11.9*	*0.2*	–	12.1	1.0	–	7.3	**35.9**	(0.1)	**35.8**
Depreciation/amortization charge	0.6	5.3	2.5	–	8.4	5.4	–	–	5.4	0.3	0.6	2.9	**17.6**	–	**17.6**

(in billions of Russian Roubles)

47. Analysis by Segment (continued)

As at 31 December 2012	*Corporate-Investment banking (CIB)* Investment banking	Loans and deposits	Transaction banking	Inter-CIB elimi-nations	Total CIB	*Retail business (RB)* Retail banking	Insurance	Inter-RB elimi-nations	Total RB	Treasury	Corporate centre	Other	Total before Inter-segment elimi-nations	Inter-segment elimi-nations	Total
Cash and short-term funds	*9.7*	*0.5*	–	–	10.2	*102.8*	–	–	102.8	453.6	–	2.4	**569.0**	**–**	**569.0**
Mandatory cash balances with central banks	–	–	–	–	–	*15.4*	–	–	15.4	48.4	–	–	**63.8**	**–**	**63.8**
Due from other banks	*82.5*	*19.6*	–	–	102.1	*5.9*	0.6	–	6.5	249.2	–	0.8	**358.6**	**–**	**358.6**
Loans and advances to customers	*207.2*	*3,276.5*	–	–	3,483.7	*1,200.9*	–	–	1,200.9	76.3	–	0.6	**4,761.5**	**–**	**4,761.5**
Other financial instruments	*422.0*	*10.0*	–	–	432.0	*27.3*	3.5	–	30.8	426.3	–	40.9	**930.0**	**–**	**930.0**
Investments in associates and joint ventures	*20.8*	*0.1*	–	–	20.9	–	–	–	–	11.9	–	–	**32.8**	**–**	**32.8**
Other assets items	*77.3*	*233.9*	*32.4*	–	343.6	*65.8*	4.9	–	70.7	25.1	–	260.6	**700.0**	**–**	**700.0**
Net amount of intersegment settlements	*169.4*	**–**	*748.2*	*(917.6)*	**–**	*559.2*	10.2	–	569.4	1,321.2	–	–	**1,890.6**	**(1,890.6)**	**–**
Segment assets	***988.9***	***3,540.6***	***780.6***	***(917.6)***	**4,392.5**	***1,977.3***	***19.2***	**–**	**1,996.5**	**2,612.0**	**–**	**305.3**	**9,306.3**	**(1,890.6)**	**7,415.7**
Due to other banks	*63.8*	*18.0*	*0.3*	–	82.1	*21.6*	–	–	*21.6*	*655.3*	–	0.9	**759.9**	**–**	**759.9**
Customer deposits	*647.8*	*499.1*	*729.3*	–	1,876.2	*1,672.0*	–	–	*1,672.0*	*260.6*	–	4.6	**3,813.4**	**–**	**3,813.4**
Other borrowed funds	*51.9*	*19.4*	–	–	71.3	*36.3*	–	–	*36.3*	*694.2*	–	4.4	**806.2**	**–**	**806.2**
Debt securities issued	*25.0*	*16.8*	–	–	41.8	*36.9*	–	–	*36.9*	*672.8*	–	2.4	**753.9**	**–**	**753.9**
Subordinated debt	–	–	–	–	–	–	–	–	–	*285.8*	–	–	**285.8**	**–**	**285.8**
Other liabilities items	*130.5*	*18.5*	*4.1*	–	153.1	*14.5*	12.5	–	*27.0*	*14.2*	–	36.1	**230.4**	**–**	**230.4**
Net amount of intersegment settlements	–	*2,574.5*	–	*(917.6)*	1,656.9	–	–	–	–	–	–	233.7	**1,890.6**	***(1,890.6)***	**–**
Segment liabilities	***919.0***	***3,146.3***	***733.7***	***(917.6)***	***3,881.4***	***1,781.3***	***12.5***	**–**	***1,793.8***	***2,582.9***	***–***	***282.1***	***8,540.2***	***(1,890.6)***	***6,649.6***

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 2013 and 2012:

	2013 Russia	*Other*	*Total before inter-segment eliminations*	*Inter-segment eliminations*	*Total*	*2012* Russia	*Other*	*Total before inter-segment eliminations*	*Inter-segment eliminations*	*Total*
Revenues from external customers for the year ended	766.9	98.7	**865.6**	–	**865.6**	624.6	112.5	**737.1**	–	**737.1**
Non-current assets as at end of period	540.1	41.0	**581.1**	–	**581.1**	435.3	40.8	**476.1**	–	**476.1**

48. 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 2012 the Group Risk Committee (“GRC”) was created under the GMC (replacing the former Risk Management Sub-Committee (“RMC”), which was abolished). The principal tasks of the GRC include elaboration of the principles procedures and the basic documents on risk management of VTB Group, methodological support of ”risk appetite” evaluation process in VTB Group and of implementing the economic capital conception, participation in developing aggregated limitations, checkpoints and portfolio limits with regard to the risk management in VTB Group, regular reviewing (monitoring, analysis) the current profile and the level of risks assumed by the Group, elaboration of the necessary measures to be taken in the context of the current and perspective risk management in VTB Group. GRC is chaired by the acting Head of VTB Risk Department (the Senior Vice-President of VTB who is responsible for the Group-wide risk management) and includes chief risk officers of some large subsidiaries (VTB24, Bank of Moscow, VTB Capital), representatives of VTB’s units involved in consolidated risk control (Risk Department, Credit Department associated with Corporate Investment Business Global line) and representative of VTB24 Retail Business Development Division related to Retail Business Global line.

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

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

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

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

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

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

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

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

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

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of principal accounting policies in Note _ 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 2013:

	Held for trading	*Designated as at fair value through profit or loss*	*Derivatives designated as hedging instruments*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Financial liabilities measured at amortized cost*	*Total*
Financial assets								
Cash and short-term funds	–	–	–	–	354.3	–	–	**354.3**
Mandatory cash balances with central banks	–	–	–	–	58.7	–	–	**58.7**
Financial assets at fair value through profit or loss	377.1	34.0	–	–	–	–	–	**411.1**
Financial assets pledged under repurchase agreements	145.0	–	–	0.1	293.4	28.1	–	**466.6**
Due from other banks	–	–	–	–	443.4	–	–	**443.4**
Loans and advances to customers	–	–	–	–	5,969.0	–	–	**5,969.0**
Investment financial assets								
- available-for-sale	–	–	–	–	–	135.4	–	**135.4**
- held-to-maturity	–	–	–	0.7	–	–	–	**0.7**
Other financial assets	0.1	–	8.9	–	66.4	–	–	**75.4**
Total financial assets	**522.2**	**34.0**	**8.9**	**0.8**	**7,185.2**	**163.5**	**–**	**7,914.6**
Financial liabilities	–	–	–	–	–	–		
Due to other banks	–	–	–	–	–	–	666.6	**666.6**
Customer deposits	–	–	–	–	–	–	4,341.4	**4,341.4**
Other borrowed funds	–	–	–	–	–	–	1,485.9	**1,485.9**
Debt securities issued	–	–	–	–	–	–	738.2	**738.2**
Subordinated debt	–	–	–	–	–	–	291.0	**291.0**
Other financial liabilities	96.1	–	2.5	–	–	–	25.5	**124.1**
Total financial liabilities	**96.1**	**–**	**2.5**	**–**	**–**	**–**	**7,548.6**	**7,647.2**

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

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

As at 31 December 2012:

	Held for trading	*Designated as at fair value through profit or loss*	*Derivatives designated as hedging instruments*	*Held-to-maturity*	*Loans and receivables*	*Available-for-sale*	*Financial liabilities measured at amortized cost*	*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	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**
Investment financial assets								
- available-for-sale	–	–	–	–	–	97.4	–	**97.4**
- held-to-maturity	–	–	–	0.9	–	–	–	**0.9**
Other financial assets	0.1	–	0.6	–	40.7	–	–	**41.4**
Total financial assets	**534.1**	**43.5**	**0.6**	**0.9**	**6,041.9**	**103.3**	**–**	**6,724.3**
Financial liabilities								
Due to other banks	–	–	–	–	–	–	759.9	**759.9**
Customer deposits	–	–	–	–	–	–	3,813.4	**3,813.4**
Other borrowed funds	–	–	–	–	–	–	806.2	**806.2**
Debt securities issued	–	–	–	–	–	–	753.9	**753.9**
Subordinated debt	–	–	–	–	–	–	285.8	**285.8**
Other financial liabilities	111.8	–	0.5	–	–	–	24.3	**136.6**
Total financial liabilities	**111.8**	–	**0.5**	**–**	**–**	**–**	**6,443.5**	**6,555.8**

Credit risk

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

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

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

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

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

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

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

48. 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 and parameters of such operations are defined by the co-coordinating bodies of the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Credit risk (continued)

VTB Group is set to reduce the risk factors related to loan concentration per separate large corporate customers / group of related customers and to ensure credit risk diversification. For this purpose the benchmark for the share of VTB Group TOP-20 largest borrowers in Group's corporate loan portfolio is setting. VTB Group Companies are recommended to determine reasonable local levels of similar benchmarks within their local credit policies/ risk strategies, based on the Group's acceptable credit risk concentration target. For the analytical purposes it is also recommended to regularly evaluate risk concentration based on Herfindahl - Hirschman Index (HHI).

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

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

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

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

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

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

	31 December 2013	*31 December 2012*
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**237.4**	**467.0**
Trading credit products at fair value through profit or loss	**49.0**	**31.6**
Debt securities	**529.0**	**455.1**
Financial assets held for trading	***236.0***	***307.7***
debt securities of Russian companies and banks	160.2	250.7
debt securities of foreign companies and banks	50.4	11.9
debt securities of foreign government and municipal authorities	14.4	17.7
debt securities of Russian Federal and municipal authorities	11.0	27.4
Financial assets designated as at fair value through profit or loss	***17.1***	***36.7***
reverse sale and repurchase agreements to maturity	11.4	–
debt securities of foreign companies and banks	5.5	27.2
debt securities of Russian companies and banks	0.2	7.1
debt securities of foreign government and municipal authorities	–	2.4
Financial assets pledged under repurchase agreements – held for trading	***136.3***	***47.6***
debt securities of Russian companies and banks	133.7	45.9
debt securities of Russian Federal and municipal authorities	1.0	0.2
debt securities of foreign government and municipal authorities	0.8	0.7
debt securities of foreign companies and banks	0.8	0.8
Financial assets pledged under repurchase agreements – designated as at fair value through profit or loss	***–***	***0.1***
debt securities of Russian companies and banks	–	0.1
Financial assets pledged under repurchase agreements – available-for-sale	***28.1***	***5.9***
debt securities of Russian Federal and municipal authorities	16.9	5.6
debt securities of Russian companies and banks	11.2	–
debt securities of foreign government and municipal authorities	–	0.2
debt securities of foreign companies and banks	–	0.1
Financial assets pledged under repurchase agreements – held-to-maturity	***0.1***	***–***
debt securities of Russian Federal and municipal authorities	0.1	–

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Credit risk (continued)

	31 December 2013	***31 December 2012***
Financial assets available-for-sale	***110.7***	***56.2***
debt securities of Russian companies and banks	37.5	21.3
debt securities of foreign government and municipal authorities	32.3	12.0
debt securities of Russian Federal and municipal authorities	31.6	19.8
debt securities of foreign companies and banks	9.3	3.1
Investment securities held-to-maturity	***0.7***	***0.9***
debt securities of Russian companies and banks	0.3	0.3
debt securities of foreign government and municipal authorities	0.2	0.2
debt securities of Russian government and municipal authorities	0.1	0.3
debt securities of foreign companies and banks	0.1	0.1
Due from other banks	***443.4***	**358.6**
OECD	303.8	251.5
Russia	98.4	97.4
Other countries	41.2	9.7
Financial assets pledged under repurchase agreements – classified as due from other banks	**2.8**	**2.8**
Russia	2.8	2.8
Loans and advances to customers	***5,969.0***	**4,761.5**
Loans to legal entities	***4,531.1***	***3,703.4***
Current activity financing	3,033.3	2,418.6
Project finance and other	1,025.5	980.5
Finance leases	263.0	189.2
Reverse sale and repurchase agreements	209.3	115.1
Loans to individuals	***1,437.9***	***1,058.1***
Consumer loans and other	774.6	574.9
Mortgages	532.8	382.3
Car loans	127.6	97.7
Reverse sale and repurchase agreements	2.9	3.2
Financial assets pledged under repurchase agreements – classified as loans and advances to customers	**290.6**	**245.5**
Current activity financing	290.6	244.8
Project finance and other	–	0.7
Exposure arising from credit default swaps	**4.1**	**21.7**
sale of credit default swaps	3.2	–
purchase of credit default swaps	0.9	21.7
Other financial assets	**66.4**	**40.7**
Total balance sheet exposure	**7,591.7**	**6,384.5**
Off-balance sheet exposure		
Guarantees issued	974.9	621.8
Import letters of credit	45.5	37.9
Undrawn credit lines	28.0	33.5
Commitments to extend credit	2.6	14.6
Total off-balance sheet exposure	**1,051.0**	**707.8**
Total maximum exposure to credit risk	**8,642.7**	**7,092.3**

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)

48. 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 not impaired at 31 December 2013 is presented in the table below:

	Not impaired	
	Individually assessed	*Collectively assessed*
Due from other banks	**101.7**	**342.3**
Russia	34.8	63.6
OECD	52.6	251.3
Other countries	14.3	27.4
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	**101.7**	**345.1**

Credit quality of due from other banks and financial assets classified as due from other banks pledged under repurchase agreements (gross) neither past due not 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**	**247.1**

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

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

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

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

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Credit quality of debt securities held for trading

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	18.3	4.4	11.0	0.3	13.5	**47.5**
Bonds and eurobonds of foreign governments	8.8	0.1	3.4	0.9	1.2	**14.4**
Bonds and eurobonds of Russian companies and banks	0.3	84.9	62.1	0.3	11.5	**159.1**
Eurobonds of the Russian Federation	–	1.6	–	–	–	**1.6**
Promissory notes of Russian Companies and banks	–	–	–	–	1.1	**1.1**
Russian Federal loan bonds (OFZ)	–	4.3	–	–	0.1	**4.4**
Russian municipal bonds and eurobonds	–	0.2	4.8	–	–	**5.0**
Total neither past due nor impaired debt trading securities	**27.4**	**95.5**	**81.3**	**1.5**	**27.4**	**233.1**

Credit quality of debt securities designated as at fair value through profit or loss

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	–	–	0.2	–	5.3	**5.5**
Bonds and eurobonds of Russian companies and banks	–	–	0.2	–	–	**0.2**
Total neither past due nor impaired debt securities designated as at fair value through profit or loss neither past due nor impaired	**–**	**–**	**0.4**	**–**	**5.3**	**5.7**

Credit quality of debt securities available-for-sale

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	1.3	0.3	6.7	–	1.0	**9.3**
Bonds and eurobonds of foreign governments	27.3	–	2.6	1.1	1.3	**32.3**
Bonds and eurobonds of Russian companies and banks	–	14.8	18.7	–	2.7	**36.2**
Eurobonds of the Russian Federation	–	5.3	–	–	–	**5.3**
Promissory notes of Russian Companies and banks	–		–	–	1.3	**1.3**
Russian Federal loan bonds (OFZ)	–	26.3	–	–	–	**26.3**
Total neither past due nor impaired debt securities available-for-sale	**28.6**	**46.7**	**28.0**	**1.1**	**6.3**	**110.7**

Credit quality of investment held-to-maturity

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired						
Bonds and eurobonds of foreign companies and banks	–	–	0.1	–	–	**0.1**
Bonds and eurobonds of foreign governments	–	–	–	–	0.2	**0.2**
Bonds and eurobonds of Russian companies and banks	–	0.3	–		–	**0.3**
Russian municipal bonds and eurobonds	–		0.1	–	–	**0.1**
Total neither past due nor impaired debt securities held-to-maturity	**–**	**0.3**	**0.2**	**–**	**0.2**	**0.7**

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Credit quality of debt securities pledged under repurchase agreements

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Financial assets held for trading						
Bonds and eurobonds of foreign companies and banks	–	0.2	0.6	–	–	**0.8**
Bonds and eurobonds of foreign governments	0.3	0.1	0.3	0.1	–	**0.8**
Bonds and eurobonds of Russian companies and banks	–	116.2	12.3	–	5.2	**133.7**
Eurobonds of the Russian Federation	–	0.2	–	–	–	**0.2**
Russian Federal loan bonds (OFZ)	–	0.8	–	–	–	**0.8**
Financial assets available-for-sale						
Bonds and eurobonds of foreign governments	–		–	–	–	**–**
Bonds and eurobonds of Russian companies and banks	–	10.2	1.0	–	–	**11.2**
Eurobonds of the Russian Federation	–	4.1	–	–	–	**4.1**
Russian Federal loan bonds (OFZ)	–	12.8	–	–	–	**12.8**
Investment securities held-to-maturity						
Russian municipal bonds	–	–	0.1	–	–	**0.1**
Total neither past due nor impaired debt securities pledged under repurchase agreements	**0.3**	**144.6**	**14.3**	**0.1**	**5.2**	**164.5**

Credit quality of debt securities which are neither past due nor impaired at 31 December 2012 is presented in the table below:

Credit quality of debt securities Held for trading

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	0.5	3.7	1.4	–	4.2	**9.8**
Bonds and eurobonds of foreign governments	0.5	10.5	0.7	–	6.0	**17.7**
Bonds and eurobonds of Russian companies and banks	–	54.4	108.1	–	86.5	**249.0**
Russian municipal bonds and eurobonds	–	4.3	–	–	1.0	**5.3**
Russian federal loan bonds (OFZ)	–	–	19.9	–	1.4	**21.3**
Eurobonds of Russian Federation	–	–	0.8	–	–	**0.8**
Promissory notes of Russian Companies and banks	–	–	–	–	1.7	**1.7**
Total neither past due nor impaired debt trading securities	**1.0**	**72.9**	**130.9**	**–**	**100.8**	**305.6**

Credit quality of debt securities designated as at fair value through profit or loss

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	12.2	1.3	2.1	–	11.6	**27.2**
Bonds and eurobonds of foreign governments	0.2	0.6	–	–	1.6	**2.4**
Bonds and eurobonds of Russian companies and banks	–	6.3	–	–	0.8	**7.1**
Total neither past due nor impaired debt designated as at fair value through profit or loss	**12.4**	**8.2**	**2.1**	**–**	**14.0**	**36.7**

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Credit quality of debt securities available for sale

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	0.2	1.2	1.1	–	0.6	**3.1**
Bonds and eurobonds of foreign governments	9.3	1.8	–	–	0.9	**12.0**
Bonds and eurobonds of Russian companies and banks	–	8.8	8.7	–	2.1	**19.6**
Russian federal loan bonds (OFZ)	–	–	19.8	–	–	**19.8**
Promissory notes of Russian Companies and banks	–	0.1	–	–	1.6	**1.7**
Total neither past due nor impaired debt trading securities	**9.5**	**11.9**	**29.6**	**–**	**5.2**	**56.2**

Credit quality of investment held-to-maturity

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Bonds and eurobonds of foreign companies and banks	–	0.1	–	–	–	**0.1**
Bonds and eurobonds of foreign governments	–	–	–	–	0.2	**0.2**
Russian municipal bonds and eurobonds	–	0.3	–	–	–	**0.3**
Total neither past due nor impaired debt securities held-to-maturity	**–**	**0.4**	**–**	**–**	**0.2**	**0.6**

Credit quality of debt securities pledged under repurchase agreements

	A rated	*B (I) rated*	*B(II) rated*	*C rated*	*Unrated*	*Total*
Neither past due nor impaired (at fair value)						
Financial assets held for trading						
Bonds and eurobonds of foreign companies and banks	–	0.4	0.2	0.2	–	**0.8**
Bonds and eurobonds of foreign governments	0.1	0.2	0.3	–	0.1	**0.7**
Bonds and eurobonds of Russian companies and banks	0.3	13.9	28.0	–	3.7	**45.9**
Russian federal loan bonds (OFZ)	–	–	0.2	–	–	**0.2**
Financial assets designated as at fair value through profit or loss						
Bonds and eurobonds of foreign companies and banks	–	–	–	–	0.1	**0.1**
Financial assets available-for-sale						
Bonds and eurobonds of foreign companies and banks	–	–	–	–	0.1	**0.1**
Bonds and eurobonds of foreign governments	–	–	–	–	0.2	**0.2**
Russian federal loan bonds (OFZ)	–	–	5.6	–	–	**5.6**
Total neither past due nor impaired debt trading securities	**0.4**	**14.5**	**34.3**	**0.2**	**4.2**	**53.6**

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%.

(in billions of Russian Roubles)

48. 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 (continued)

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

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

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**832.9**	**2.7**	**95.2**	**68.2**	**219.9**	**1,218.9**
Finance leases	0.1	0.2	0.7	3.6	14.8	**19.4**
Current activity financing	252.5	0.9	30.1	36.3	128.6	**448.4**
Reverse sale and repurchase agreements	162.8	–	–	–	–	**162.8**
Project finance and other	417.5	1.6	64.4	28.3	76.5	**588.3**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**290.6**	–	–	–	–	**290.6**
Current activity financing	290.6	–	–	–	–	**290.6**
Loans to individuals	**9.9**	**0.2**	**–**	**1.2**	**6.4**	**17.7**
Mortgages	1.0	–	–	0.2	6.1	**7.3**
Consumer loans and other	8.9	0.2	–	1.0	0.3	**10.4**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements individually assessed	**1,133.4**	**2.9**	**95.2**	**69.4**	**226.3**	**1,527.2**

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

	Not impaired			*Impaired*		
	Pass	*Watch*	*Sub-standard*	*Doubtful*	*Loss*	*Total*
Loans to legal entities	**2,956.7**	**432.2**	**186.5**	**2.6**	**12.4**	**3,590.4**
Finance leases	246.3	4.3	7.5	–	0.1	**258.2**
Current activity financing	2,371.3	325.6	36.8	2.6	12.1	**2,748.4**
Reverse sale and repurchase agreements	46.6	–	–	–	–	**46.6**
Project finance and other	292.5	102.3	142.2	–	0.2	**537.2**
Loans to individuals	**1,361.5**	**13.3**	**36.0**	**12.3**	**80.0**	**1,503.1**
Mortgages	519.9	1.8	9.9	0.3	0.7	**532.6**
Car loans	121.3	0.3	4.0	1.6	6.0	**133.2**
Consumer loans and other	717.4	11.2	22.1	10.4	73.3	**834.4**
Reverse sale and repurchase agreements	2.9	–	–	–	–	**2.9**
Total loans and advances to customers collectively assessed	**4,318.2**	**445.5**	**222.5**	**14.9**	**92.4**	**5,093.5**

(in billions of Russian Roubles)

48. 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 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.

	Not impaired			*Impaired*		
	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)

48. 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 2013, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Total*
Loans to legal entities	**3,738.1**	**432.7**	**256.1**	**4,426.9**
Finance leases	244.4	4.3	6.9	**255.6**
Current activity financing	2,587.2	324.7	49.4	**2,961.3**
Reverse sale and repurchase agreements	209.4	–	–	**209.4**
Project finance and other	697.1	103.7	199.8	**1,000.6**
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**290.6**	**–**	**–**	**290.6**
Current activity financing	290.6	–	–	**290.6**
Loans to individuals	**1,362.7**	**5.5**	**1.4**	**1,369.6**
Mortgages	514.1	0.4	1.4	**515.9**
Car loans	121.2	–	–	**121.2**
Reverse sale and repurchase agreements	2.9	–	–	**2.9**
Consumer loans and other	724.5	5.1	–	**729.6**
Total loans and advances to customers and financial assets classified as loans and advances to customers pledged under repurchase agreements	**5,391.4**	**438.2**	**257.5**	**6,087.1**

The table below shows credit quality by class of loans and advances (gross) to customers at 31 December 2012, neither past due nor impaired.

	Pass	*Watch*	*Sub-standard*	*Total*
Loans to legal entities	**3,071.0**	**312.0**	**233.6**	**3,616.6**
Finance leases	167.7	9.7	0.8	**178.2**
Current activity financing	2,064.6	250.3	61.8	**2,376.7**
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	**244.8**	**0.7**	**–**	**245.5**
Current activity financing	244.8			**244.8**
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**

(in billions of Russian Roubles)

48. 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 2013 and 2012 is presented in the table below.

	31 December 2013	*31 December 2012*
Trade and commerce	59.4	65.7
Manufacturing	53.9	34.0
Building construction	51.7	43.8
Oil and gas	43.6	44.7
Food and agriculture	20.0	24.9
Transport	16.7	15.0
Energy	15.4	3.9
Metals	12.6	8.3
Finance	10.2	23.5
Individuals	7.6	7.5
Telecommunications and media	1.6	1.8
Coal mining	0.5	0.7
Chemical	0.4	1.1
Other	2.1	3.0
Total loans and advances to customers individually impaired	**295.7**	**277.9**

As at 31 December 2013 the Group has a pool of collectively assessed impaired loans and advances in the amount of RUR 107.3 billion (31 December 2012: RUR 76.2 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 2013 is presented in the table below.

	From 1 to 30 days	*From 31 to 60 days*	*From 61 to 90 days*	*From 91 to 180 days*	*From 181 days to 1 year*	*More than 1 year*	*Total*
Loans to legal entities	**33.5**	**5.6**	**2.9**	**16.0**	**11.4**	**9.9**	**79.3**
Finance leases	1.8	0.3	0.2	0.6	0.2	0.4	**3.5**
Current activity financing	28.4	5.2	2.6	5.5	11.0	3.2	**55.9**
Project finance and other	3.3	0.1	0.1	9.9	0.2	6.3	**19.9**
Loans to individuals	**39.6**	**2.0**	**0.7**	**1.0**	**0.9**	**7.1**	**51.3**
Mortgages	7.3	1.1	0.6	0.9	0.8	6.0	**16.7**
Car loans	4.2	0.1	–	–	–	0.1	**4.4**
Consumer loans and other	28.1	0.8	0.1	0.1	0.1	1.0	**30.2**
Total loans and advances to customers past due but not impaired	**73.1**	**7.6**	**3.6**	**17.0**	**12.3**	**17.0**	**130.6**

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers (gross) by class at 31 December 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**

Collateral and other credit enhancements

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

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

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

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

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

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

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

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

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

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

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Collateral and other credit enhancements (continued)

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

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

The effect of collateral at 31 December 2013 and 2012 by class is presented below:

	31 December 2013		*31 December 2012*	
	Over-collateralized	*Under-collateralized*	*Over-collateralized*	*Under-collateralized*
Loans to legal entities	**2,443.3**	**2,366.0**	**2,287.9**	**1,676.7**
Financial lease	214.8	62.8	155.2	50.4
Current activity financing	1,276.1	1,920.7	1,310.9	1,264.2
Reverse sale and repurchase agreements	164.2	45.2	115.2	–
Project finance and other	788.2	337.3	706.6	362.1
Financial assets classified as loans and advances to customers pledged under repurchase agreements	**–**	**290.6**	**–**	**245.5**
Current activity financing	–	290.6	–	244.8
Project finance and other	–	–	–	0.7
Loans to individuals	**512.1**	**1,008.7**	**466.0**	**654.2**
Mortgage	374.8	165.1	360.5	30.2
Car loans	110.7	22.5	84.6	17.4
Reverse sale and repurchase agreements	2.9	–	3.2	–
Consumer loans and other	23.7	821.1	17.7	606.6
Total loans and advances to customers	**2,955.4**	**3,665.3**	**2,753.9**	**2,576.4**

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 2013 and 2012 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:

	2013	*2012*
Assets of disposal group available-for-sale	6.9	–
Investment property	4.8	3.4
Other assets	2.8	3.8
Premises and equipment	1.1	–
Financial assets available-for-sale	–	1.0
Total collateral repossessed during the period	**15.6**	**8.2**

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

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Collateral and other credit enhancements (continued)

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

	31 December 2013	*31 December 2012*
Investment property	75.0	73.4
Assets of disposal group available-for-sale	6.9	–
Investments in associates	5.4	5.4
Premises and equipment	4.4	4.4
Other assets	3.4	2.7
Financial assets available-for-sale	1.4	1.6
Total collateral repossessed	**96.5**	**87.5**

Geographical concentration

Geographical concentration information is based on registration of the Group's counterparts. As at 31 December 2013 the geographical concentration of the Group's assets and liabilities is set out below:

	Russia	*OECD*	*Other countries*	*Total*
Assets				
Cash and short-term funds	248.8	83.2	22.3	**354.3**
Mandatory cash balances with central banks	48.7	1.6	8.4	**58.7**
Financial assets at fair value through profit or loss	208.8	115.2	87.1	**411.1**
Financial assets pledged under repurchase agreements	464.0	0.3	2.3	**466.6**
Due from other banks	98.4	303.8	41.2	**443.4**
Loans and advances to customers	4,650.1	245.6	1,073.3	**5,969.0**
Assets of disposal group held for sale	23.4	4.6	8.7	**36.7**
Investment financial assets				
- available-for-sale	80.3	31.6	23.5	**135.4**
- held-to-maturity	0.4	–	0.3	**0.7**
Investments in associates and joint ventures	11.8	57.0	18.8	**87.6**
Land, premises and equipment	152.6	3.5	14.2	**170.3**
Investment property	156.4	–	4.3	**160.7**
Goodwill and other intangible assets	150.1	0.5	11.9	**162.5**
Deferred tax asset	42.0	1.9	1.6	**45.5**
Other assets	218.5	28.2	19.3	**266.0**
Total assets	**6,554.3**	**877.0**	**1,337.2**	**8,768.5**
Liabilities				
Due to other banks	511.0	122.2	33.4	**666.6**
Customer deposits	3,894.9	174.7	271.8	**4,341.4**
Liabilities of disposal group held for sale	8.5	4.9	7.3	**20.7**
Other borrowed funds	1,192.3	271.0	22.6	**1,485.9**
Debt securities issued	319.4	411.8	7.0	**738.2**
Deferred tax liability	14.1	0.3	0.6	**15.0**
Other liabilities	151.3	86.5	24.8	**262.6**
Subordinated debt	204.4	86.6	–	**291.0**
Total liabilities	**6,295.9**	**1,158.0**	**367.5**	**7,821.4**
Net balance sheet position	**258.4**	**(281.0)**	**969.7**	**947.1**
Net off-balance sheet position – Credit Related Commitments	**961.9**	**38.5**	**50.6**	**1,051.0**

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Geographical concentration (continued)

Geographical concentration information is based on geographical registration 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	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**
Investment financial assets				
- available-for-sale	80.5	11.2	5.7	**97.4**
- held-to-maturity	0.6	–	0.3	**0.9**
Investments in associates and joint ventures	11.3	4.8	16.7	**32.8**
Land, premises and equipment	127.9	2.8	11.8	**142.5**
Investment property	144.2	–	3.8	**148.0**
Goodwill and other intangible assets	151.4	0.1	1.3	**152.8**
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	3,395.3	150.4	267.7	**3,813.4**
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	344.4	405.9	3.6	**753.9**
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**

Market risk

Market risk is the risk of the Group financial result decrease according to International Financial Reporting Standards because of assets/liabilities fluctuations due to changes in market variables – risk-factors (such as foreign exchange rates, interest rates, yields of debt securities and credit spreads, equity quotes etc.) and also due to changes in volatilities and correlations between them.

Interest rate risk exposure and sensitivity analysis

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

The RD presents to the ALCO on a monthly basis interest rate risk indicators of the Group and of individual banks of the Group, including net present value of assets and liabilities exposed to interest rate risk, Capital-at-Risk, Net Interest Income, Earnings-at-Risk and sensitivity analysis. Valuation is prepared on the basis of Kamakura Risk Manager software.

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Market risk (continued)

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

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

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)

48. Financial Risk Management (continued)

Interest rate risk exposure and sensitivity analysis (continued)

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 2013 as an effect on net interest income is as follows.

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

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**

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.

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.

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

The Group performs stress-testing of currency risk in order to assess the hypothetical maximum exposure.

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 2013 and 2012, 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 2013*	*31 December 2012*
USD	80.1	(24.9)
UAH	26.8	26.1
GBP	7.4	13.3
EUR	4.7	22.7
AUD	4.4	6.0
BYR	2.8	2.1
AMD	2.2	2.4
NOK	1.8	–
GEL	1.7	1.4
AOA	1.3	1.2
KZT	1.1	(0.5)
SGD	0.8	1.6
RSD	0.3	1.2
CHF	(0.3)	(2.6)
JPY	(0.5)	–
BRL	–	2.8
Other currencies	2.0	1.7
Total	**136.6**	**54.5**

As at 31 December 2013 and 2012, the Group had the following VaR for its foreign currency positions:

	31 December 2013	*31 December 2012*
Open currency position	136.6	54.5
Value at Risk	6.6	1.5

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

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. On a daily basis RD controls market risk limits utilization and reports limits usage to the Business Departments and Internal Control Department. To mitigate market 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 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.

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Price risk (continued)

Parameters for VaR calculation are following:

- historical period – 2 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 200 days and not more than 10 successive days without quotes and the issue date of the instrument is as early as the reporting year.

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

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

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

During 2013 the Bank enhanced its Risk valuation software through the continuance of implementation of Kamakura Risk Manager.

Historical period for VaR calculation shifted from 1 year as of 31 December 2012 to 2 years for both reporting dates in this report.

Total Group’s VaR for 2013 with diversification and 2-year historical period amounts to RUR 5.0 billion (2012: RUR 5.2 billion).

	Financial assets available-for-sale		***Financial assets at fair value through profit or loss***	
	31 December 2013	***31 December 2012***	***31 December 2013***	***31 December 2012***
Debt securities	1.4	0.9	3.9	3.3
Equity securities	–	0.2	1.4	2.8
VaR	**1.4**	**0.8**	**4.5**	**4.4**

For sensitivity analysis of Level 3 instruments refer to Note 49.

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.

48. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The tools used by VTB for measurement, management and mitigation of liquidity risk include:
Contractual maturity analysis (gap analysis) and cash flow forecasts including:

- planned transactions;
- forecasted roll-over of clients' term funds (deposits and promissory notes);
- possible outflow of unstable "on-demand" funds (clients' current accounts);
- Analysis of deposit base concentration;
- Stress-test analysis;
- Setting of internal liquidity indicators/limits, including (1) the minimum amount of highly liquid assets to cover possible outflow of resources on demand/one day and other short-term liabilities (up to 30 days); (2) 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 of notional amounts of foreign exchange transactions (FX Swaps, FX Spot and Forwards, NDFs). Dynamic Gap (total) Cumulative column represents the cumulative gap including FX Swap Cumulative. Opening balance represents highly liquid assets, which mostly consist of cash and Nostro accounts with other banks.

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

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

VTB Group has a number of additional funding facilities 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 transactions (FX Swaps).

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

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

(in billions of Russian Roubles)

48. 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 2013 by their remaining contractual maturity.

	On demand and up to 1 month	*From 1 month to 3 months*	*From 3 month to 6 months*	*From 6 months to 1 year*	*More than 1 year*	*Total*
Non-derivative liabilities						
Due to other banks	425.4	180.1	62.0	14.1	56.9	**738.5**
Customer deposits	1,856.4	557.0	491.5	564.0	1,027.7	**4,496.6**
Other borrowed funds	386.1	326.7	39.6	483.3	407.9	**1,643.6**
Debt securities issued	34.9	30.3	69.3	80.8	736.5	**951.8**
Subordinated debt	–	3.7	5.5	10.1	411.6	**430.9**
Other liabilities	48.5	0.4	–	0.1	3.5	**52.5**
Total cash flows payable under non-derivative liabilities	**2,751.3**	**1,098.2**	**667.9**	**1,152.4**	**2,644.1**	**8,313.9**
Derivative financial instruments – gross settled						
Positive fair value of derivatives						
(Inflow)	(408.6)	(192.8)	(200.8)	(210.7)	(591.3)	**(1,604.2)**
Outflow	402.8	181.4	192.2	206.8	555.6	**1,538.8**
Negative fair value of derivatives						
(Inflow)	(95.3)	(183.8)	(164.4)	(191.7)	(604.7)	**(1,239.9)**
Outflow	96.5	186.7	172.7	194.0	609.5	**1,259.4**
Derivative financial instruments – net settled						
(Inflow)	(5.9)	(15.9)	(9.2)	(16.8)	(25.4)	**(73.2)**
Outflow	8.3	11.7	6.5	12.0	104.0	**142.5**
Credit related commitments	**1,051.8**	**–**	**–**	**–**	**–**	**1,051.8**

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	413.8	404.5	706.4	**3,893.5**
Other borrowed funds	218.2	98.8	136.4	46.0	475.3	**974.7**
Debt securities issued	33.3	97.7	48.6	141.7	655.1	**976.4**
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)

48. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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.

Current and non-current assets and liabilities

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

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

	Less than 1 year	*More than 1 year*	*Overdue, maturity undefined*	*Total*
Assets				
Cash and short-term funds	354.3	–	–	**354.3**
Mandatory cash balances with central banks	52.8	5.9	–	**58.7**
Financial assets at fair value through profit or loss	342.9	51.3	16.9	**411.1**
Financial assets pledged under repurchase agreements	146.1	320.5	–	**466.6**
Due from other banks	414.1	29.2	0.1	**443.4**
Loans and advances to customers	1,362.7	4,506.3	100.0	**5969.0**
Assets of disposal group held for sale	36.7	–	–	**36.7**
Investment financial assets				
- available-for-sale	23.5	87.2	24.7	**135.4**
- held-to-maturity	0.1	0.6	–	**0.7**
Investments in associates and joint ventures	–	–	87.6	**87.6**
Land, premises and equipment	–	–	170.3	**170.3**
Investment property	–	–	160.7	**160.7**
Goodwill and other intangible assets	–	–	162.5	**162.5**
Deferred tax asset	–	–	45.5	**45.5**
Other assets	156.6	33.3	76.1	**266.0**
Total assets	**2,889.8**	**5,034.3**	**844.4**	**8,768.5**
Liabilities				
Due to other banks	618.3	48.3	–	**666.6**
Customer deposits	3,411.3	930.1	–	**4,341.4**
Liabilities of disposal group held for sale	20.7	–	–	**20.7**
Other borrowed funds	1,223.6	262.3	–	**1,485.9**
Debt securities issued	164.1	574.1	–	**738.2**
Deferred tax liability	–	–	15.0	**15.0**
Other liabilities	166.3	67.3	29.0	**262.6**
Subordinated debt	0.7	290.3	–	**291.0**
Total liabilities	**5,605.0**	**2,172.4**	**44.0**	**7,821.4**

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)

48. Financial Risk Management (continued)

Current and non-current assets and liabilities (continued)

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	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**
Investment financial assets				
- available-for-sale	13.5	42.7	41.2	**97.4**
- held-to-maturity	0.2	0.7	–	**0.9**
Investments in associates and joint ventures	–	–	32.8	**32.8**
Land, premises and equipment	–	–	142.5	**142.5**
Investment property	–	–	148.0	**148.0**
Goodwill and other intangible assets	–	–	152.8	**152.8**
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	3,050.3	763.1	–	**3,813.4**
Liabilities of disposal group held for sale	6.1	–	–	**6.1**
Other borrowed funds	490.6	315.6	–	**806.2**
Debt securities issued	279.9	474.0	–	**753.9**
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**

Insurance risk

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

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

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

(in billions of Russian Roubles)

48. Financial Risk Management (continued)

Insurance risk

As at 31 December 2013 the Group is exposed to insurance risk using actuarial methods, but using different assumptions:

(1) The principal assumption is increasing in loss ratio that directly influences on loss provision. The following analysis is performed for reasonably possible movements in key assumption with all other assumptions held constant, showing the impact on loss provision. Confident level is considered between 75% and 95%.

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

(2) The principal assumption underlying the liability estimates is that the Group's future claims development will follow a similar pattern to past claims development experience, including analysis of deviation between actual and forecast amounts. The following analysis is performed for reasonably possible movements in key assumption with all other assumptions held constant, showing the impact on loss provision.

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

49. Fair value measurement

Fair value of financial instruments measured at fair value

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

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

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

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

(in billions of Russian Roubles)

49. Fair value measurement (continued)

Assets and liabilities measured at fair value

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

	Quoted prices in active markets _Level 1_	_Significant observable inputs_ _Level 2_	_Significant unobservable inputs_ _Level 3_	_Total_
Financial assets measured at fair value				
Non-derivative financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities	170.9	58.1	4.1	**233.1**
Trading credit products	–	49.0	–	**49.0**
Equity securities	9.4	5.4	–	**14.8**
Financial assets designated as at fair value through profit or loss				
Equity securities	–	1.4	15.5	**16.9**
Reverse sale and repurchase agreements to maturity	11.4	–	–	**11.4**
Debt securities	0.4	–	5.3	**5.7**
Financial assets available- for- sale				
Debt securities	56.0	54.1	0.6	**110.7**
Equity securities	0.1	0.7	23.9	**24.7**
Derivative financial assets at fair value through profit or loss				
Trading derivative financial instruments				
Interest rate contracts	–	44.8	–	**44.8**
Foreign exchange and precious metals contracts	–	16.1	5.1	**21.2**
Other basic assets contracts	–	6.9	–	**6.9**
Contracts with securities	–	4.4	–	**4.4**
Embedded derivatives on structured instruments	–	2.9	–	**2.9**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	0.1	7.8	**7.9**
Derivatives held as cash flow hedges	–	1.0	–	**1.0**
Financial assets pledged under repurchase agreements	101.7	71.1	0.3	**173.1**
Investments in associates and joint ventures at fair value through profit or loss	–	–	55.2	**55.2**
Financial assets measured at fair value within assets of disposal group held for sale	–	0.2	–	**0.2**
Non- financial assets measured at fair value				
Land and premises	–	–	106.2	**106.2**
Investment property	–	–	160.7	**160.7**
Investment property within assets of disposal group held for sale	–	–	5.3	**5.3**
Financial liabilities measured at fair value				
Financial liabilities				
Trading derivative financial instruments				
Interest rate contracts	–	(34.3)	–	**(34.3)**
Foreign exchange and precious metals contracts	–	(20.1)	–	**(20.1)**
Contracts with securities	–	(2.0)	(6.3)	**(8.3)**
Other basic assets contracts	–	(5.4)	–	**(5.4)**
Embedded derivatives on structured instruments	–	(1.0)	–	**(1.0)**
Hedging derivative financial instruments				
Derivatives held as fair value hedges	–	(2.4)	–	**(2.4)**
Derivatives held as cash flow hedges	–	(0.1)	–	**(0.1)**
Obligation to deliver securities	(25.5)	(1.4)	–	**(26.9)**

(in billions of Russian Roubles)

49. Fair value measurement (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 2012:

	Quoted prices in active markets Level 1	*Significant observable inputs Level 2*	*Significant unobservable inputs 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				
Financial assets held for trading	45.0	3.6	–	**48.6**
Financial assets available-for-sale	5.9	–	–	**5.9**
Financial assets designated as at fair value through profit or loss	–	0.1	–	**0.1**
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)**
Obligation to deliver securities	(9.9)	(19.2)	–	**(29.1)**

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

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

(in billions of Russian Roubles)

49. Fair value measurement (continued)

Movement in Level 3 financial assets and liabilities measured at fair value

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

	Financial assets at fair value through profit or loss		*Financial assets pledged under repurchase agreements*				
	Financial assets held for trading	*Financial assets designated as at fair value through profit or loss*	*Financial assets held for trading*	*Financial assets available-for-sale*	*Investments in associates and joint ventures at fair value through profit or loss*	*Financial derivative assets and liabilities (net)*	*Financial derivative assets and liabilities (net) designated as hedginng instrument*
Fair value at 1 January 2013	***1.9***	***9.5***	–	***40.0***	***1.3***	***7.0***	–
Gains less losses arising from financial instruments at fair value through profit or loss	(0.1)	11.3	–	(9.5)	13.2	(4.8)	–
Gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income	–	–	–	5.7	–	–	–
Initial recognition – purchase	2.3	–	–	3.1	40.7	(0.7)	7.8
Derecognition – sale	(1.8)	–	–	(7.7)	–	–	–
Derecognition – settlement	–	–	–	–	–	(0.1)	–
Acquisition of subsidiaries	–	–	–	0.1	–	–	–
Transfers into Level 3	3.9	–	0.3	0.6	–	–	–
Transfers out of Level 3	(2.1)	–	–	(7.8)	–	(2.6)	–
Fair value at 31 December 2013	**4.1**	**20.8**	**0.3**	**24.5**	**55.2**	**(1.2)**	**7.8**
Unrealized gains less losses recognized in net result on financial assets available-for-sale in other comprehensive income	**–**	**–**	**–**	**2.8**	**–**	**–**	–
Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss	**(0.1)**	**11.3**	**–**	**(9.5)**	**13.2**	**(5.5)**	–
Gains less losses from available-for-sale financial assets	–	–	–	–	–	–	**7.8**

(in billions of Russian Roubles)

49. Fair value measurement (continued)

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

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

	Land and premises	*Investment property*	*Investment property within Assets of disposal group held for sale*
Fair value at 1 January 2013	***93.4***	**148.0**	**0.3**
Gains or losses recognized in profit or loss	(3.1)	1.7	–
Gains less losses recognized in other comprehensive income	0.2	–	–
Initial recognition – purchase	8.1	11.8	–
Initial recognition – capitalization of expenses	–	6.3	–
Derecognition – sale	(1.3)	(4.2)	–
Acquisition of subsidiaries	9.1	2.2	–
Disposal of subsidiaries	(3.5)	–	–
Transfers into Level 3 due to reclassification	3.3	5.3	5.0
Transfers out of Level 3 due to reclassification	–	(10.4)	–
Fair value at 31 December 2013	**106.2**	**160.7**	**5.3**
Unrealized gains less losses recognized in other comprehensive income	0.2	–	–
Unrealized gains less losses recognized in profit or loss	(3.1)	1.0	–

A reconciliation of movements in Level 3 of the fair value hierarchy by class of financial 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 recognized in net result on financial assets available-for-sale in other comprehensive income			**(3.8)**			
Unrealized gains less losses recognized in gains less losses arising from financial instruments at fair value through profit or loss	**0.2**	**(0.5)**	**–**	**0.4**	**2.0**	**–**

(in billions of Russian Roubles)

49. Fair value measurement (continued)

Transfers between levels

During the period ended 31 December 2013	*Reason for transfer (valuation at the reporting date)*	*Financial assets held for trading*	*Financial assets designated as at fair value through profit or loss*	*Financial Assets Pledged under Repurchase Agreements – financial assets held for trading*	*Financial Assets Pledged under Repurchase Agreements financial assets available-for-sale*	*Financial assets available-for-sale*	*Total*
From Level 1:							
- to Level 2	valuation models with market observable inputs	92.9	1.4	14.4	11.1	55.9	**175.7**
- to Level 3	valuation models with non- market-observable inputs	0.4	–	0.3	–	–	**0.7**
From Level 2:							
- to Level 1	active market quotes	9.6	–	–	–	1.7	**11.3**
- to Level 3	valuation models with non- market-observable inputs	3.5	–	–	–	0.6	**4.1**
From Level 3:							
- to Level 1	active market quotes	–	–	–	–	7.6	**7.6**
- to Level 2	valuation models with market observable inputs	2.1	–	–	–	0.2	**2.3**
Total		**108.5**	**1.4**	**14.7**	**11.1**	**66.0**	**201.7**

During the period ended 31 December 2012	*Reason for transfer (valuation at the reporting date)*	*Financial assets held for trading*	*Financial assets available-for-sale*	*Total*
From Level 1:				
- to Level 2	valuation models with market observable inputs	2.1	2.0	**4.1**
From Level 2:				
- to Level 1	active market quotes	1.6	10.2	**11.8**
- to Level 3	valuation models with non- market-observable inputs		80.4	**80.4**
From Level 3:				
- to Level 1	active market quotes	–	0.9	**0.9**
- to Level 2	valuation models with market observable inputs	–	1.2	**1.2**
Total		3.7	94.7	**98.4**

(in billions of Russian Roubles)

49. Fair value measurement (continued)

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

Impact on fair value of Level 3 financial instruments of changes to key assumptions as at 31 December 2013

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

31 December 2013	*Carrying amount*	*Valuation techniques*	*Unobservable input description*	*Input*
Financial Assets Available-for-Sale				
Finance companies, banks and leasing companies	1.1	Discounted cash flow	Weighted average cost of capital	12.3%-16.3% / (14.3%)
			exit multiple	0.6%-1% / (0.8%)
	2.4	Net asset value	n/a	n/a
Trade and commerce	2.0	Net asset value	n/a	n/a
Telecommunications	4.1	Comparative method	EV/EBITDA (defense/security systems)	6.22-10.22 / (8.22)
			EV/EBITDA (microelectronics)	7.99-11.99 / (9.99)
Railway vehicle construction	1.2	Discounted cash flow	Weighted average cost of capital	8%-12% / (9.97%)
			Utilization Rate	97%-100% / (98.50%)
			Change in Price of Railcars	-6%-6% / (0%)
			Change in Rental Rate	-5%-5% / (0%)
Non-ferrous metals	6.3	Discounted cash flow	Weighted average cost of capital	12.4%-15.5% / (12.8%)
			Terminal growth	3%-3% / (3%)
			Cost of Debt	8.5%-8.5% / (8.5%)
Real estate	0.5	Cost approach	Real estate prices	-10%-10% / (0%)
Air transport	1.8	Market comparable companies	EV/pax, comparable airports	100-132.9 / (123.22)
Building construction	3.2	Cost	n/a	n/a
Other mechanical engineering	0.5	Discounted cash flow	Weighted average cost of capital	10%-20% / (15.2%)
			Terminal growth	2%-7% / (5%)
			Cost of Debt	6%-10% / (8.3%)
Other economic sectors	1.4	Net asset value	n/a	n/a
Financial assets designated as at fair value through profit or loss				
Equity securities				
Finance companies and banks	1.7	Net asset value	n/a	n/a
Mass Media	13.6	Net asset value	n/a	n/a
Other economic sectors	0.2	Net asset value	n/a	n/a
Debt securities				
Finance companies and banks	5.3	Probable yield	Volatility	10%-30% / (20%)
Financial assets at fair value through profit or loss				
Equity securities				
Other mechanical engineering	17.1	Market prices	n/a	n/a
Other economic sectors	4.4	Net asset value	n/a	n/a
Derivatives				
Equity options	(6.3)	Option model	Volatility	10%-30% / (20%)
Foreign exchange	5.1	Discounted Cash flow	BYR interest rate curve	20%-30%/ (25%)
Derivative financial assets and liabilities designated as hedging instruments				
Equity forward	7.8	Forward model	CDS spread	4.5%-6.5% / (5.5%)
			Fair value of underlying equity investment	RUR 4.7 billion – RUR 6.2 billion (RUR 6.2 billion)
Investments in associates and joint ventures at fair value through profit or loss				
Building construction and development	2.1	Discounted dividend flow	Weighted average cost of capital	14.4%-22.8% / (17.1%)
			Base equity risk premium	7%-8% / (7.5%)
Telecommunications	53.1	Discounted cash flow	Weighted average cost of capital	13.1%-15.1% / (14.08%)
			Terminal growth	1%-5% / (3%)
			Minutes of use additional growth	-1.5%-1.5% / (0%)
			CAGR in 2G subscribers	-4.65%-0.65%
			Long-term CAPEX/Sales ratio after 2020	5.77%-11.77%
Non-financial assets				
Land and premises	103.5	Comparative method	Trade discount	5.0%-24.2% / (7.0%)
	2.7	Discounted cash flow	Capitalisation ratio	11.5%-15.1% / (12.5%)
Investment property	160.7	Combination of comparative, discounted cash flow and cost	Trade discount	7.0%-30.0% / (13.8%)
			Capitalisation ratio	9.4%-18.0% / (16.7%)
			Rate of return on investments	7.8%-20.0% / (17.7%)
Investment property within Assets of disposal group held for sale	5.3	Discounted cash flow	Capitalisation ratio	16.0%-18.0% / (17.0%)

(in billions of Russian Roubles)

49. Fair value measurement (continued)

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

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

	Carrying amount	***Effect of reasonably possible alternative assumptions***
Investment securities – available-for-sale	24.5	20.2-26.8
Financial assets designated as at fair value through profit or loss	20.8	19.6-20.1
Financial instruments at fair value through profit or loss excluding derivatives	4.4	4.4-4.4
Financial instruments at fair value through profit or loss - derivatives	(1.2)	(1.2)-(1.2)
Derivative financial assets and liabilities designated as hedging instruments	7.8	7.5-9.5
Investments in associates and joint ventures at fair value through profit or loss	55.2	46.3-64.8
Non-financial assets: Land and premises	106.2	94.7-114.4
Non-financial assets: Investment property	160.7	145.8-171.2

Impact on fair value of Level 3 financial instruments of changes to key assumptions as at 31 December 2012 (disclosed in accordance with requirements of IFRS 7)

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.

As at 31 December 2012 financial assets available-for-sale for the amount of RUR 40.0 billion were valued based on valuation models by using the peer based valuations, discounted cash flow or combinations of these two methods and others.

The assumptions related to projections of discounted cash flows in the models up to 2018 were in the following range:

	2012
WACC	9%-20%
Terminal Growth rate	2%-7%
Liquidity margin applied to the valuation	–
Terminal ROE	21.5%-22.3%
Aluminium price forecast	-10% - +10%
EBITDA margin Assumptions	-1.5% - +1.5%
Exit multiple	0.4-0.8
COE	13.3%-17.3%

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.

Methods and assumptions for Level 2 financial instruments

The fair value of financial assets at fair value through profit or loss, available for sale and derivative financial instruments valued according to Level 2 models was estimated based on DCF (projected cash flows) method using the assumption of future coupon payment, recent transactions prices and the quotes of non-active markets if based on the Group's analysis such quotes represent the best estimate of the fair value of the financial instrument as at the reporting date. The fair value of structured financial assets was estimated based on stochastic modelling (Level 2 model). Probability models were calibrated using market indicators (currency forward, ITRAX Index). Value at Risk was calculated based on full historical recalculation and Monte-Carlo simulation.

(in billions of Russian Roubles)

49. Fair value measurement (continued)

Non-financial assets and liabilities measured at fair value

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

Land and premises. Land and premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the change in the fair values. When the fair value of a revalued asset differs materially from its carrying amount further revaluation is performed. The basis used for valuation was industry comparatives method. The following key non-observable assumptions (Level 3) were applied in determining the fair value of land and premises: trade discount and different discount rates in order to correct differences in location, range of areas and class for comparable objects.

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

Assets and liabilities for which fair value are disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	Quoted prices in active markets Level 1	*Significant observable inputs Level 2*	*Significant unobservable inputs Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and short-term funds	116.9	237.4	–	**354.3**
Mandatory cash balances with central banks	–	58.7	–	**58.7**
Financial assets pledged under repurchase agreements	–	304.8	–	**304.8**
Due from other banks	–	450.8	–	**450.8**
Russia	–	*98.9*	–	***98.9***
OECD	–	*309.7*	–	***309.7***
Other countries	–	*42.2*	–	***42.2***
Loans and advances to customers	–	–	6,081.1	**6,081.1**
Loans to legal entities	–	–	*4,582.5*	***4,582.5***
Loans to individuals	–	–	*1,498.6*	***1,498.6***
Investment securities held-to-maturity	0.1	0.6	–	**0.7**
Other financial assets	–	–	66.4	**66.4**
Financial liabilities for which fair values are disclosed				
Due to other banks	–	679.9	–	**679.9**
Customer deposits	–	4,299.2	–	**4,299.2**
Deposits of legal entities	–	*2,528.8*	–	***2,528.8***
Deposits of individuals	–	*1,770.4*	–	***1,770.4***
Other borrowed funds	–	1,496.5	–	**1,496.5**
Debt securities issued	561.6	182	–	**743.6**
Subordinated debt	88.2	200.2	–	**288.4**
Other financial liabilities	–	–	25.5	**25.5**

Valuation processes for level 3 fair value measurements

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

(in billions of Russian Roubles)

49. Fair value measurement (continued)

Non-financial assets and liabilities measured at fair value (continued)

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

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

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

Assets and liabilities for which fair value are disclosed

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

	31 December 2013		*31 December 2012*	
	Carrying amount	***Fair value***	***Carrying amount***	***Fair value***
Financial assets				
Cash and short-term funds	354.3	354.3	569.0	569.0
Mandatory cash balances with central banks	58.7	58.7	63.8	63.8
Financial assets pledged under repurchase agreements	293.5	304.8	248.3	265.0
Due from other banks	443.4	450.8	358.6	360.8
Russia	*98.4*	*98.9*	*97.4*	*99.5*
OECD	*303.8*	*309.7*	*251.5*	*250.8*
Other countries	*41.2*	*42.2*	*9.7*	*10.5*
Loans and advances to customers	5,969.0	6,081.1	4,761.5	4,863.4
Loans to legal entities	*4,531.1*	*4,582.5*	*3,703.4*	*3,788.4*
Loans to individuals	*1,437.9*	*1,498.6*	*1,058.1*	*1,075.0*
Investment securities held-to-maturity	0.7	0.7	0.9	0.9
Financial assets within Assets of disposal group held for sale	6.9	6.9	14.5	14.5
Other financial assets	66.4	66.4	40.7	40.7
Financial liabilities				
Due to other banks	666.6	679.9	759.9	789.5
Customer deposits	4,341.4	4,299.2	3,813.4	3,758.3
Deposits of legal entities	*2,548.0*	*2,528.8*	*2,379.3*	*2,357.3*
Deposits of individuals	*1,793.4*	*1,770.4*	*1,434.1*	*1,401.0*
Other borrowed funds	1,485.9	1,496.5	806.2	815.1
Debt securities issued	738.2	743.6	753.9	777.9
Subordinated debt	291.0	288.4	285.8	276.4
Financial liabilities within Liabilities of disposal group held for sale	13.4	13.4	5.7	5.7
Other financial liabilities	25.5	25.5	24.3	24.3

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value. For financial assets and financial liabilities that are liquid or having a short term maturity it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to customer current/settlement deposits without a specific maturity.

Fixed and variable rate financial instruments. For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(in billions of Russian Roubles)

50. 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 2013		*31 December 2012*	
	Government-related entities	*Associates and joint ventures and other*	*Government-related entities*	*Associates and joint ventures and other*
Assets				
Cash and short-term funds	135.3	0.3	149.9	1.8
Mandatory reserve deposits with central banks	31.3	0.0	39.4	–
Financial assets at fair value through profit or loss	128.5	1.9	324.2	1.7
Financial assets pledged under repurchase agreements	439.2	0.1	284.5	–
Due from other banks	39.7	0.2	40.7	12.3
Loans and advances to customers	1,147.0	127.4	823.2	100.5
Allowance for loan impairment	(18.5)	(6.7)	(23.1)	(3.7)
Financial assets available-for-sale	48.4	0.1	36.2	–
Investment securities held-to-maturity	0.4	–	0.6	–
Other assets	40.5	3.7	1.3	–
Liabilities				
Due to other banks	253.8	5.4	240.4	20.2
Customer deposits	1,178.4	48.8	1,233.6	41.8
Other borrowed funds	1,190.9	–	602.3	–
Subordinated debt	201.5	0.2	205.5	–
Other liabilities	3.3	0.5	33.2	–
Credit Related Commitments				
Guarantees issued	400.5	6.6	233.0	1.3
Undrawn credit lines	1.3	–	18.8	7.0
Import letters of credit	13.6	–	7.6	–
Commitments to extend credit	0.1	–	–	–

Income statements

	2013	*2012*
Interest income		
Loans and advances to customers	108.6	78.2
Securities	23.3	29.7
Due from other banks	1.9	1.5
Interest expense		
Customer deposits	(71.8)	(66.4)
Due to other banks and other borrowed funds	(62.0)	(49.5)
Subordinated debt	(16.9)	(16.8)
Provision charge for impairment of debt financial assets	1.7	(3.4)

For the year ended 31 December 2013, the excess of fair value of acquired net asset over cost of 100% share in Avia Capital Management Ltd. purchased from one of related party amounted to RUR 6.5 billion (refer to Note 52).

For the year ended 31 December 2013, the total remuneration of the key management personnel of the Group including pension contributions amounted to RUR 8.8 billion (31 December 2012: RUR 7.2 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 2013 amounted to RUR 0.7 billion (31 December 2012: RUR 1.0 billion). Compensation to key management personnel primarily consists of short term employee benefits.

(in billions of Russian Roubles)

51. Consolidated Subsidiaries

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

			Percentage of ownership	
Name	_Activity_	_Country of registration_	_31 December 2013_	_31 December 2012_
Subsidiaries:				
“VTB Bank (Austria)” AG	Banking	Austria	100.00%	100.00%
“RCB Bank Ltd “	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	96.59%	96.31%
“VTB Bank (Belarus)”, CJSC	Banking	Belarus	100.00%	71.42%
“Bank VTB 24”, CJSC	Banking	Russia	99.90%	100.00%
“TransCreditBank”, JSC	Banking	Russia	n/a	99.66%
“Bank of Moscow”, OJSC	Banking	Russia	96.39%	95.52%
“Leto 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%
“VTB Bank – Belgrade, OJSC	Banking	Serbia	100.00%	100.00%
“Russian National Commercial Bank”, OJSC	Banking	Russia	100.00%	98.78%
“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%	50.10%
“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%
“VTB-Leasing”, OJSC	Leasing	Russia	100.00%	100.00%
“Embassy Development Limited”	Finance	Jersey	100.00%	100.00%
“VTB Europe Strategic Investments Limited”	Investment	Great Britain	100.00%	100.00%
“Business-Finance”, Ltd	Finance	Russia	100.00%	100.00%
“VTB Dolgovoi centre”, LLC	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%
“Metropolitan Insurance Group”, OJSC	Insurance	Russia	100.00%	n/a
“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%
“VTB Pension administrator”, Ltd	Finance	Russia	100.00%	100.00%
“Pension Reserve”, Ltd	Finance	Russia	100.00%	100.00%
“VTB-Development”, CJSC	Development	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%	100.00%
“Hals-Technopark”, CJSC	Real Estate	Russia	100.00%	100.00%
“StroyPromObyekt”, JSC	Real Estate	Russia	100.00%	100.00%
“Upravlyayuschaya kompaniya Dynamo”, CJSC (former “VTB Arena”, CJSC)	Real Estate	Russia	75.00%	75.00%
“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%
“Nevsky Property”, Ltd	Real Estate	Cyprus	100.00%	100.00%
Closed mutual fund “Globus”	Real Estate	Russia	100.00%	n/a
Closed mutual fund “Hotels and Resorts”	Real Estate	Russia	96.00%	n/a
“Almaz-Press”, CJSC	Publishing	Russia	100.00%	100.00%
“FC Dynamo-Moscow”, OJSC	Sports	Russia	74.00%	74.00%
“Consolidated companies”, OJSC	Winery	Russia	100.00%	100.00%
“Orenburgskaya burovaya companiya”, Ltd	Oil and gas	Russia	65.00%	65.00%
“Mariisky NPZ”, Ltd.	Oil and gas	Russia	99.33%	n/a
VTB - Long term investments, Closed-end Unit Investment Fund	Finance	Russia	33.73%	99.65%

(in billions of Russian Roubles)

52. Business Combinations and Disposal of Subsidiaries

During 2013, the Group obtained control of the following companies as a result of debt settlement:

In April 2013, the Group received the authority of the sole executive body of “Print House “Pushkinskay ploshad”, OJSC, thus receiving control without increasing its 3.85% share. In September 2013 the Group lost the authority and deconsolidated the subsidiary.

In May 2013, the Group acquired 100% of the shares of the closed mutual fund “Globus” for RUR 1.3 billion, thus obtaining control over “Golovino Plaza”, LLC, “NPO Informatika”, LLC, “Trust-Reserve”, CJSC, “IPO Poligran”, CJSC.

In May 2013, the Group obtained 96.0% controlling share in the closed mutual fund “Hotels and Resorts” by purchasing additional share for RUR 0.5 billion, which resulted in control over “Hotel Sokolniky”, CJSC and “Management company “Hotel Management”, CJSC.

In September 2013, the “Metropolitan Insurance Group”, OJSC, a former associate of the Group, acquired 50.0% as treasury shares from a non-related party, which enabled the Group to obtain control over “Metropolitan Insurance Group”, OJSC previously accounted for using equity method (Note 15).The gross contractual amounts receivable from insurance activity of "Metropolitan Insurance Group”, OJSC at the acquisition date amounted to RUR 7.6 billion. The estimated contractual cash flows which were not expected to be collected amounted to RUR 2.0 billion.

In October 2013, the Group increased its stake in “VTB Bank (Belarus)”, CJSC to 97.37% from 71.42% by purchasing 72,974 ordinary shares for USD 19.1 million (RUR 617.2 million) under the purchase agreement with the State Property Committee of Belarus. In December 2013, the Group increased its stake in “VTB Bank (Belarus)”, CJSC to 100.00% from 97.37% by purchasing 7 406 ordinary shares for USD 1.9 million (RUR 63.8 million).

In November 2013, “TransCreditBank”, OJSC ceased its operations as a subsidiary of VTB following the legal merger of “Bank VTB 24”, CJSC and “TransCreditBank”, OJSC which resulted in the decrease of VTB's ownership in “Bank VTB 24”, CJSC from 100.00% to 99.90%.

On 6 December 2013, the Group acquired 100% of the outstanding shares of Avia Capital Management Ltd. (“Avia Capital”), from one of the government related entities. Avia Capital is a Bermuda-domiciled entity and specializes in aircraft leasing under operating lease agreements to a major airline, which is a government related entity. The Group acquired Avia Capital to increase its presence in the commercial passenger aircraft leasing market.

Group management performed the allocation of the purchase price, including the identification and measurement of an intangible asset in the amount of RUR 10.4 billion, based on a report from an experienced independent valuation firm. Group management determined that the excess of fair value of acquired net assets over the cost of acquisition should be recognized as a gain in the accompanying consolidated income statement.

The identified finite-life intangible asset represents a customer relationship with the major lessee. The intangible asset valuation is judgmental and is based on several key assumptions of (i) selling and general administrative (S&GA) expenses as a percent of revenue of 1.0% on average, (ii) aircraft remarketing period after end of lease term – nil months, (iii) aircraft value at the end of lease term – approximately USD 25 million (RUR 0.8 billion) per aircraft, on average, and (iv) weighted average cost of capital approach discount rate of 6.8%. The sensitivity of value of the intangible asset to the changes in these key assumptions is as follows:

	Change in value of intangible asset, RUR billion	*Change, %*
Double increase in S&GA expenses as percent of revenue	(0.4)	-4.1%
Triple increase of S&GA expenses as percent of revenue (%)	(0.9)	-8.3%
Increase by six months in aircraft remarketing period after end of lease	(0.3)	-3.0%
Increase by 12 months in aircraft remarketing period after end of lease	(0.7)	-6.4%
5% reduction in aircraft value at end of lease term	(0.8)	-8.0%
Increase discount rate to 8.2%	(7.0)	-69.5%
Increase discount rate to 8.8%	(10.0)	-96.6%

Group management believes that the excess of fair value of acquired net assets over cost, including any pre-existing relationships, is due to the unique position of the Group in the Russian market, its relationships with the various parties involved, as well as the limited time frame for the seller, a related party (other state-owned entities), to consummate the sale transaction before the end of 2013 in accordance with its strategy.

(in billions of Russian Roubles)

52. Business Combinations and Disposal of Subsidiaries (continued)

The acquisition date fair values of identifiable assets and liabilities acquired by the Group during 2013 were as follows:

	Closed mutual fund "Globus"	***Closed mutual fund "Hotels and Resorts"***	***"Metropolitan Insurance Group", OJSC***	***Avia Capital Management Ltd***
Assets				
Cash and short-term funds	–	0.1	0.7	–
Financial assets at fair value through profit or loss	–	–	2.8	–
Due from other banks	–	–	8.1	–
Financial assets available-for-sale	–	–	2.5	–
Premises and equipment	7.8	3.2	2.4	9.0
Investment property	–	–	2.2	–
Intangible assets and goodwill	–	–	1.0	10.4
Other assets	1.2	0.7	7.1	–
Total assets	**9.0**	**4.0**	**26.8**	**19.4**
Liabilities				
Due to other banks and other borrowed funds	–	–	3.4	–
Customer deposits	0.7	–	–	–
Deferred tax liability	0.7	0.3	0.1	–
Other liabilities	0.2	0.2	23.3	6.9
Total liabilities	**1.6**	**0.5**	**26.8**	**6.9**
Fair value of identifiable net assets of subsidiary	**7.4**	**3.5**	–	**12.5**
Excess of fair value of acquired net asset over cost:				
Consideration paid	1.3	0.5	–	1.3
Settlement of former relations				4.7
Derecognition of previously granted loans/ held trade receivables to the acquiree	4.9	2.0	–	–
Fair value of the acquirer's previously held interest in the acquiree	–	0.5	–	–
Non-controlling interests (proportionate share of the acquiree's identifiable net assets)	0.1	0.3	–	–
Less: fair value of identifiable net assets of subsidiary	(7.4)	(3.5)	–	(12.5)
Excess of fair value of acquired net assets over cost	**(1.1)**	**(0.2)**	–	**(6.5)**

In accordance with IFRS 3, the cost of acquisition of Avia Capital included the value of certain pre-existing relationships in the amount of RUR 4.7 billion. These relationships represented loans from the Group to Avia Capital outstanding at the date of acquisition. These loans' fair value approximated their carrying value, and accordingly, their derecognition in consolidation of the acquired business had no effect on the accompanying consolidated income statement.

If the acquisition of closed mutual funds "Globus" and "Hotels and Resorts" had taken place at the beginning of the year, the net profit and operating income of the Group would not have been materially different. Since the date of acquisition Avia Capital Management Ltd. non-interest income included in the consolidated income statement amounted to RUR 0.1 billion.

During 2013 the Group disposed of "BM Project - Lakokraska" with a gain of RUR 0.9 billion and several other subsidiaries and associates with a total gain of RUR 1.1 billion.

(in billions of Russian Roubles)

53. Non-controlling interests

The following table provides information about subsidiaries that has material to the Group non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at December 2013:

Name	*Activity*	*Country of registration*	*Proportion of non-controlling interest*	*Accumulated non-controlling interest in the subsidiary*	*Profit/(loss) attributable to non-controlling interest*	*Dividends paid to non-controlling interest during the year*
"Bank of Moscow", OJSC	Banking	Russia	3.61%	8.3	1.5	0.3
"RCB Bank Ltd " (former "Russian Commercial Bank (Cyprus) Limited")	Banking	Cyprus	40.00%	5.3	1.2	1.3
"Upravlyayuschaya kompaniya Dynamo", CJSC	Real Estate	Russia	25.00%	4.5	(0.2)	–
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	1.3	(0.4)	–
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	49.00%	0.9	0.1	–
"Hals-Development", OJSC	Real Estate	Russia	48.76%	5.5	1.7	–

There are no significant restrictions on the Group's ability to access or use assets and settle liabilities of subsidiaries listed above.

The Group has defined as material a non-controlling interest in subsidiaries in which it has between 50% and 75% of the voting rights. Some subsidiaries, which net assets form the significant part of the Group's net assets, may also be included in the list even if the Group has more than 75% of voting rights. The summarised financial information of these subsidiaries was as follows at 31 December 2013:

	Current assets	*Non-current assets*	*Current liabilities*	*Non-current liabilities*	*Profit/ (loss)*	*Total compre-hensive income*	*Cash flows from operating activities*	*Cash flows from investing activities*	*Cash flows from financial activities*
"Bank of Moscow", OJSC	626.5	960.8	1,033.7	322.1	37.5	37.8	36.3	11.6	(29.1)
"RCB Bank Ltd " (former "Russian Commercial Bank (Cyprus) Limited")	221.3	147.4	334.4	21.0	3.5	4.5	(14.7)	(0.1)	(3.5)
"Upravlyayuschaya kompaniya Dynamo", CJSC	0.5	34.8	0.9	16.5	(0.7)	(0.7)	2.7	(2.7)	–
CiTer Invest B.V.	2.5	10.7	1.2	9.4	(0.7)	(0.7)	0.5	(3.8)	3.2
"VTB Bank (Azerbaijan)", OJSC	0.9	7.8	2.4	4.4	0.2	0.2	(0.9)	(0.1)	1.2
"Hals-Development", OJSC	52.3	48.7	8.5	81.2	3.6	3.6	1.2	(1.8)	3.5

The following table provides information about subsidiaries that has non-controlling interest (the proportion of voting rights held by non-controlling interests is equal to the proportion of ownership interests held) as at December 2012:

Name	*Activity*	*Country of registration*	*Proportion of non-controlling interest*	*Accumulated non-controlling interest in the subsidiary*	*Profit/(loss) attributable to non-controlling interest*	*Dividends paid to non-controlling interest during the year*
"Bank of Moscow", OJSC	Banking	Russia	4.48%	8.5	1.6	0.3
"RCB Bank Ltd " (former "Russian Commercial Bank (Cyprus) Limited")	Banking	Cyprus	40.00%	4.7	1.6	1.3
"Upravlyayuschaya kompaniya Dynamo", CJSC (former "VTB Arena", CJSC)	Real Estate	Russia	25.00%	2.9	(3.2)	–
CiTer Invest B.V.	Real Estate	Netherlands	49.50%	1.7	0.4	–
"VTB Bank (Azerbaijan)", OJSC	Banking	Azerbaijan	49.00%	0.2	–	–
"Hals-Development", OJSC	Real Estate	Russia	48.76%	4.0	0.3	–

There are no significant restrictions on the Group's ability to access or use assets and settle liabilities of subsidiaries listed above.

(in billions of Russian Roubles)

53. Non-Controlling Interests (continued)

The summarised financial information of these subsidiaries was as follows at 31 December 2012:

	Current assets	***Non-current assets***	***Current liabilities***	***Non-current liabilities***	***Profit/ (loss)***	***Total compre-hensive income***	***Cash flows from operating activities***	***Cash flows from investing activities***	***Cash flows from financial activities***
"Bank of Moscow", OJSC	588.4	679.3	688.2	389.1	29.1	32.0	(68.5)	(16.0)	92.5
"RCB Bank Ltd " (former "Russian Commercial Bank (Cyprus) Limited")	275.4	262.5	368.7	157.1	4.0	3.4	(12.9)	0.5	(0.1)
"Upravlyayuschaya kompaniya Dynamo", CJSC (former "VTB Arena", CJSC)	10.3	7.9	0.1	6.7	(12.7)	(12.7)	–	(2.2)	2.4
CiTer Invest B.V.	1.1	8.8	1.0	5.4	0.8	0.8	–	(2.0)	2.1
"VTB Bank (Azerbaijan)", OJSC	1.4	1.9	1.3	1.5	(0.1)	(0.1)	0.1	–	–
"Hals-Development", OJSC	44.4	45.6	4.3	77.4	0.7	0.7	(9.8)	4.9	4.7

54. Interests in Structured Entities

The Group issues eurobonds and subordinated Eurobonds through a number of consolidated structured entities incorporated in OECD countries.

Name	***Country of registration***
BOM Capital P.L.C	Ireland
Kuznetski Capital S.A.	Luxembourg
Northern Lights B.V.	Netherlands
Or-ICB S.A.	Luxembourg
Turgenevka ABS Finance B.V.	Netherlands
VTB Capital S.A	Luxembourg
VTB ECP Finance Limited	Ireland
VTB Eurasia Limited	Ireland

As at 31 December 2013 the Group guarantees all obligations of these entities represented by the eurobonds issued in the amount of RUR 394.3 billion and by the subordinated eurobonds issued in the amount of RUR 83.3 billion (31 December 2012: eurobonds issued in the amount of RUR 390.2 billion and subordinated Eurobonds issued in the amount of RUR 77.3 billion).

The Group issues mortgage-backed securities and purchases right of claims under mortgage through a consolidated structured entity performing its activity as mortgage agent.

Name	***Country of registration***
Russian Mortgage Backed Securities 2006-1, S.A.	Luxembourg

As at 31 December 2013 the Group guarantees all obligations of these entities represented by the bonds issued in the amount of RUR 0.4 billion (31 December 2012: RUR 0.5 billion). As at 31 December 2013 the Group reported retail mortgage loans to individuals recognised as a result of these entities consolidation in the amount of RUR 0.3 billion (31 December 2012: RUR 0.4 billion).

(in billions of Russian Roubles)

54. Interests in Structured Entities (continued)

The Group performs some development projects through a number of consolidated structured entities.

Name	***Country of registration***
Aktiv StroyInvest ltd	Russia
Global-Finance, CJSC	Russia
Linadia ltd	Russia
Sovremennie stroitelnie technologii, CJSC	Ukraine
Triada Invest, CJSC	Russia
Elit Development, CJSC	Russia
Zifaria Holdings Limited	Cyprus
Yorknew Management LTD	Cyprus

During 2013 and 2012 the Group did not provide any financial or other support to consolidated structured entities. The Group has no any current obligation or intention neither to provide financial or other support to consolidated structured entities, nor to assist the structured entities in obtaining financial support.

55. 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 2013 and 2012 the Bank's capital adequacy ratio in accordance with CBR requirements exceeded the minimum level and as at 31 December 2013 and 2012 was as follows:

	31 December 2013	***31 December 2012***
Capital	628.1	539.2
Risk-weighted assets	5,052.1	3,753.7
Capital adequacy ratio	12.4%	14.4%

(in billions of Russian Roubles)

55. Capital Management and Capital Adequacy (continued)

Capital adequacy ratio in accordance with CBR requirements (continued)

The Group's international risk based capital adequacy ratio is computed in accordance with the Basel Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks. These ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord as disclosed below:

	31 December 2013	*31 December 2012 (restated)*
Tier 1 capital		
Share capital	138.1	113.1
Share premium	433.8	358.5
Treasury shares and perpetual loan participation notes	(3.6)	(13.7)
Perpetual loan participation notes	73.6	68.3
Retained earnings	262.0	193.7
Unrealized gain on financial assets available-for-sale and cash flow hedge	3.0	4.3
Currency translation difference	12.5	8.8
Non-controlling interests	7.6	12.3
Deducted: Goodwill	(120.4)	(120.4)
Total Tier 1 capital	***806.6***	***624.9***
Tier 2 capital		
Land and premises revaluation reserve	20.1	20.8
Subordinated debt	271.9	272.6
Total Tier 2 capital	***292.0***	***293.4***
Total capital before deductions	**1,098.6**	**918.3**
Deducted: Investments in the capital of other banks and financial institutions	(5.8)	(23.0)
Total capital after deductions	**1,092.8**	**895.3**
Risk-weighted assets		
Credit risk	6,735.8	5,531.7
Market risks	695.0	672.1
Total risk-weighted assets	***7,430.8***	***6,203.8***
Tier 1 capital ratio to total risk-weighted assets	**10.9%**	**10.1%**
Total capital ratio to total risk-weighted assets	**14.7%**	**14.4%**

56. Subsequent Events

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Further, between 1 January 2014 and the date of the authorization of the financial statements, the Ukrainian Hryvnia devalued to Russian Rouble by approximately 24.5% calculated based on the National Bank of Ukraine's (NBU) exchange rate of RUR as of the respective date, and the NBU imposed certain restrictions on purchase of foreign currencies in the inter-bank market. International rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of these events has resulted in deterioration of liquidity and tighter credit conditions where credit is available. At 31 December 2013, the Group's investments in Ukrainian sovereign and municipal securities as well as loans to Ukrainian government fully or majority owned enterprises amounted to less than 0.4% of the total Group's assets. Further, international rating agencies revised their outlook of Russia's sovereign credit rating in local and foreign currency from stable to negative. These and any further negative developments in Ukraine could adversely impact results and financial position of the Group and or the Group's Ukrainian subsidiaries in a manner not currently determinable. No additional impairment was recognized by the Group at 31 December 2013 as a result of this uncertainty.

56. Subsequent Events (continued)

In January 2014 the Group sold a 12.2% stake in Burger King Russia (Cyprus) Ltd. for USD 25 million (RUR 0.9 billion) to a financial investor. As a result, the stake of Golden Star Investment Ltd. in Burger King Russia (Cyprus) Ltd. decreased to 36.6%.

In January 2014 the Group acquired a 22.5% equity stake in Russian Fitness Group ("RFG") for USD 19.3 million (RUR 0.7 billion). RFG operates under the "Fizkult", "World Class LITE" (business format) and World Class (premium and luxury format) brands.

In January 2014 VTB Capital launched a Luxembourg-registered UCITS-fund (Undertakings for Collective Investment in Transferable Securities) for foreign investors. VTB Capital invested USD 20 million (RUR 0.7 billion) to the Fund.

In March 2014, "Lenta Limited", one of the largest retail chains in Russia, completed initial public offering (IPO). As a result of the IPO VTB Capital Private Equity reduced its stake in "Lenta Limited" from 11.73% to 9.10%.

In January 2014 "VTB Capital Finance", LLC redeemed its RUR 1.0 billion local bonds payable upon maturity with a floating rate linked to the MICEX index and a fixed coupon of 0.01% payable semi-annually.

In February 2014 "VTB Capital Finance", LLC issued RUR 0.9 billion local bonds maturing in March 2015 with a floating rate linked to the USD-RUB exchange rate payable at maturity and a fixed coupon of 0.01% payable semi-annually.

In February 2014, "VTB Capital", Plc redeemed two notes on its EMTN programme in total amount USD 2.2 million (RUR 0.1 billion) and RUR 0.5 billion on due date.

In January-March 2014, VTB redeemed Euro-Commercial Paper (ECP) notes in the total amount of CHF 14.5 million (RUR 0.5 billion), USD 322.5 million (RUR 11.2 billon), and RUR 0.8 billion upon maturity.

In January 2014, "VTB Capital", Plc has issued under its EMTN programme auto-redeemable equity-linked note linked to a basket of share, denominated in USD and issued on 22 January 2014, with a notional of USD 4.4 million (RUR 0.1 billion) and a coupon of 5.5%, which matures on 5 February 2016.

In February 2014, "Bank VTB 24", CJSC securitized loan portfolio in the total amount RUR 10.8 billion.

In February and March 2014, "Bank VTB 24", CJSC redeemed three subordinated loans with a nominal value of RUR 3.8 billion received from "RZhD", JSC with original maturity from February 2018 to January 2020.