VTB BANK

Consolidated Financial Statements and Auditors' Report

For the years ended 31 December 2006, 2005 and 2004

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ERNST & YOUNG

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

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of the VTB Bank:

We have audited the accompanying consolidated financial statements of the VTB Bank ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheets as at 31 December 2006, 2005 and 2004 and the consolidated statements of income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

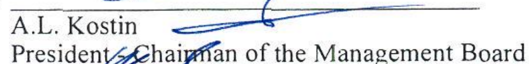
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2006, 2005, and 2004, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

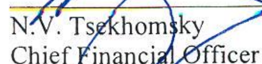
2 April 2007

	Note	2006	2005	2004
Assets				
Cash and short-term funds	6	3,581	2,692	1,520
Mandatory cash balances with central banks		648	404	232
Financial assets at fair value through profit or loss	7	5,120	5,051	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	8	2,938	1,352	340
Due from other banks	9	6,813	4,141	2,023
Loans and advances to customers	10	29,262	19,925	10,169
Assets of disposal group held for sale	33	–	337	–
Financial assets available-for-sale	11	888	881	190
Investments in associates	12, 40	200	118	77
Investment securities held-to-maturity	13	11	7	7
Premises and equipment	15	1,422	832	321
Investment property	16	178	198	–
Intangible assets	17	455	451	102
Deferred tax asset	30	93	82	74
Other assets	14	794	252	189
Total assets		**52,403**	**36,723**	**17,810**
Liabilities				
Due to other banks	18	7,587	6,629	3,254
Customer deposits	19	19,988	12,767	6,024
Liabilities of disposal group held for sale	33	–	199	–
Other borrowed funds	20	4,468	2,937	1,729
Debt securities issued	21	11,565	7,241	3,948
Deferred tax liability	30	125	162	1
Other liabilities	23	509	358	145
Total liabilities before subordinated debt		**44,242**	**30,293**	**15,101**
Subordinated debt	22	1,169	1,161	–
Total liabilities		**45,411**	**31,454**	**15,101**
Equity				
Share capital	24	2,500	2,500	2,153
Share premium	24	1,513	1,513	34
Unrealized gain on financial assets available-for-sale	8,11	154	89	58
Currency translation difference		352	86	184
Fixed assets revaluation reserve	15	341	72	–
Retained earnings		1,744	660	199
Equity attributable to shareholders of the parent		**6,604**	**4,920**	**2,628**
Minority interest		388	349	81
Total equity		**6,992**	**5,269**	**2,709**
Total liabilities and equity		**52,403**	**36,723**	**17,810**

Approved for issue by the Management Board and signed on 2 April 2007.



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



N.V. Tsekhomsky
Chief Financial Officer

	Note	2006	2005	2004
Interest income	25	3,637	1,830	1,058
Interest expense	25	(1,892)	(920)	(475)
Net interest income		**1,745**	**910**	**583**
Provision for loan impairment	29	(442)	(103)	(196)
Net interest income after provision for loan impairment		**1,303**	**807**	**387**
Gains less losses arising from financial assets at fair value through profit or loss		187	261	(5)
Gains less losses from available-for-sale financial assets	11	348	–	–
Gains less losses arising from dealing in foreign currencies		73	8	31
Foreign exchange translation gains less losses		265	(8)	114
Fee and commission income	26	401	190	118
Fee and commission expense	26	(50)	(22)	(12)
Extinguishment of liability	19, 29	–	14	100
Share in income of associates		15	24	2
Income arising from non-banking activities		111	155	141
Other operating income	27	157	94	53
Net non-interest income		**1,507**	**716**	**542**
Operating income		**2,810**	**1,523**	**929**
Staff costs and administrative expenses	28	(1,370)	(739)	(514)
Expenses arising from non-banking activities		(90)	(111)	(114)
Excess of fair value of acquired net assets over cost	39	–	30	–
Profit from disposal of subsidiaries	39	54	–	–
Profit before taxation		**1,404**	**703**	**301**
Income tax expense	30	(232)	(195)	(93)
Profit after taxation from continued operations		**1,172**	**508**	**208**
Profit from discontinued operations	33	7	3	–
Net profit		**1,179**	**511**	**208**
Net profit attributable to:				
Shareholders of the parent		**1,137**	**499**	**205**
Minority interest		**42**	**12**	**3**
Basic and diluted earnings per share (expressed in USD per share)	31	0.000218	0.000118	0.000049
Basic and diluted earnings per share – continuing operations (expressed in USD per share)		0.000217	0.000117	0.000049
Basic and diluted earnings per share – discontinued operations (expressed in USD per share)		0.000001	0.000001	–

	Note	2006	2005	2004
Cash flows from operating activities				
Interest received		3,461	1,834	987
Interest paid		(1,889)	(888)	(411)
Income received on operations with financial assets at fair value through profit or loss		100	230	56
Income received on dealing in foreign currency		76	8	31
Fees and commissions received		401	190	118
Fees and commissions paid		(50)	(22)	(12)
Other operating income received		166	193	47
Administrative and other operating expenses paid		(1,313)	(759)	(429)
Income tax paid		(316)	(91)	(98)
Cash flows from operating activities before changes in operating assets and liabilities		**636**	**695**	**289**
Net decrease (increase) in operating assets				
Net (increase) decrease in mandatory cash balances with central banks		(205)	(85)	179
Net decrease (increase) in restricted cash		50	(14)	(35)
Net decrease (increase) in financial assets at fair value through profit or loss and financial		493	(1,396)	(1,134)
Net decrease (increase) in financial assets pledged under repurchase agreement		591	(98)	(38)
Net (increase) decrease in due from banks		(2,556)	(9)	85
Net increase in loans and advances to customers		(8,420)	(5,327)	(4,856)
Net increase in other assets		(485)	(5)	(26)
Net (decrease) increase in operating liabilities				
Net increase in due to banks		859	101	1,201
Net increase in customer deposits		6,117	3,676	1,667
Net (decrease) increase in promissory notes and certificates of deposits issued		(203)	80	302
Net increase (decrease) in other liabilities		72	10	(24)
Net cash used in operating activities		**(3,051)**	**(2,372)**	**(2,390)**
Cash flows from investing activities				
Dividends received		44	–	–
Proceeds from sales or redemption of financial assets available-for-sale	11	1,136	251	4
Purchase of financial assets available-for-sale	11	(2,900)	(73)	(3)
Purchase of subsidiaries, net of cash acquired	39	(15)	(39)	84
Purchase of disposal group held for sale		–	(133)	–
Sale of disposal group held for sale	33	122	–	–
Disposal of subsidiaries, net of cash disposed	39	(9)	–	33
Purchase of associates		(5)	–	–
Purchase of investment securities held-to-maturity		(6)	–	(5)
Proceeds from redemption of investment securities held-to-maturity		2	–	–
Purchase of premises and equipment		(282)	(166)	(97)
Proceeds from sales of premises and equipment		46	68	–
Purchase of intangible assets		(8)	(5)	–
Proceeds from disposal of investment property		92	–	–
Net cash (used in) from investing activities		**(1,783)**	**(97)**	**16**

	Note	2006	2005	2004
Cash flows from financing activities				
Dividends paid		(63)	(61)	(57)
Increase in Central Bank of the Russian Federation funding		153	–	701
Decrease in Central Bank of the Russian Federation funding		(482)	–	–
Proceeds from other credit lines		528	295	–
Repayment of other credit lines		(113)	(146)	(2)
Proceeds from issue of domestic bonds		953	521	185
Repayment of domestic bonds		(72)	–	(32)
Proceeds from issuance of eurobonds		3,541	2,200	1,656
Repayment of eurobonds		(370)	(525)	–
Proceeds from issuance of debentures		241	157	–
Repayment of debentures		(157)	–	–
Proceeds from syndicated loans		2,698	993	883
Repayment of syndicated loans		(1,259)	(730)	(560)
Proceeds from subordinated debt	22	–	745	–
Contribution from the controlling shareholder	39	–	63	–
Cash arising from contribution of subsidiaries	39	–	181	–
Net cash provided by financing activities		**5,598**	**3,693**	**2,774**
Effect of exchange rate changes on cash and cash equivalents		**174**	**(66)**	**54**
Net increase in cash and cash equivalents		**938**	**1,158**	**454**
Cash and cash equivalents at beginning of the year	6	2,541	1,383	929
Cash and cash equivalents at the end of the year	**6**	**3,479**	**2,541**	**1,383**

	Attributable to shareholders of the parent								
	Share capital	**Share premium**	**Unrealized gain on financial assets available-for-sale**	**Fixed assets revaluation reserve**	**Currency translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2003	**2,153**	**34**	**–**	**–**	**135**	**51**	**2,373**	**105**	**2,478**
Unrealized gain on financial assets available-for-sale, net of tax (Note 8,11)	–	–	58	–	–	–	**58**	–	**58**
Effect of translation	–	–	–	–	49	–	**49**	9	**58**
Total income recognized directly in equity	–	–	**58**	–	**49**	–	**107**	**9**	**116**
Net profit	–	–	–	–	–	**205**	**205**	3	**208**
Total income for the period	–	–	**58**	–	**49**	**205**	**312**	**12**	**324**
Dividends declared (Note 32)	–	–	–	–	–	(57)	**(57)**	–	**(57)**
Disposal of subsidiary	–	–	–	–	–	–	–	(36)	**(36)**
Balance at 31 December 2004	**2,153**	**34**	**58**	**–**	**184**	**199**	**2,628**	**81**	**2,709**
Unrealized gain on financial assets available-for-sale, net of tax (Note 8,11)	–	–	31	–	–	–	**31**	–	**31**
Fixed assets revaluation, net of tax (Note 15)	–	–	–	72	–	–	**72**	–	**72**
Effect of translation	–	–	–	–	(98)	–	**(98)**	(5)	**(103)**
Total income and expense recognized directly in equity	–	–	**31**	**72**	**(98)**	**–**	**5**	**(5)**	**–**
Net profit	–	–	–	–	–	499	**499**	12	**511**
Total income and expense for the period	–	–	**31**	**72**	**(98)**	**499**	**504**	**7**	**511**
Contribution of subsidiaries by controlling shareholder (Notes 24, 39)	347	1,479	–	–	–	23	**1,849**	85	**1,934**
Dividends declared (Note 32)	–	–	–	–	–	(61)	**(61)**	–	**(61)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	156	**156**
Increase in share capital of subsidiaries	–	–	–	–	–	–	–	20	**20**
Balance at 31 December 2005	**2,500**	**1,513**	**89**	**72**	**86**	**660**	**4,920**	**349**	**5,269**
Unrealized gain on financial assets available-for-sale, net of tax (Note 8,11)	–	–	403	–	–	–	**403**	2	**405**
Transferred to profit or loss on sale, net of tax (Note 11)	–	–	(338)	–	–	–	**(338)**	-	**(338)**
Fixed assets revaluation, net of tax (Note 15)	–	–	–	271	–	–	**271**	11	**282**
Transfer of fixed assets revaluation reserve upon disposal or depreciation	–	–	–	(2)	–	2	–	–	–
Effect of translation	–	–	–	–	266	–	**266**	33	**299**
Total income recognized directly in equity	–	–	**65**	**269**	**266**	**2**	**602**	**46**	**648**
Net profit	–	–	–	–	–	1,137	**1,137**	42	**1,179**

	Attributable to shareholders of the parent								
	Share capital	**Share premium**	**Unrealized gain on financial assets available-for-sale**	**Fixed assets revaluation reserve**	**Currency translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Total income for the period	**–**	**–**	**65**	**269**	**266**	**1,139**	**1,739**	**88**	**1,827**
Dividends declared (Note 32)	–	–	**–**	–	–	(63)	**(63)**	(1)	**(64)**
Acquisition of subsidiaries	–	–	–	–	–	–	**–**	1	**1**
Increase in share capital of subsidiaries	–	–	–	–	–	(4)	**(4)**	9	**5**
Acquisition of minority interests	–	–	–	–	–	3	**3**	(7)	**(4)**
Changes in minority interests	–	–	–	–	–	9	**9**	(9)	–
Disposal of subsidiaries (Note 39)	–	–	–	–	–	–	–	(42)	**(42)**
Balance at 31 December 2006	**2,500**	**1,513**	**154**	**341**	**352**	**1,744**	**6,604**	**388**	**6,992**

1. Principal Activities

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

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

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

On December 29, 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance". The main retail subsidiary "Bank VTB 24", CJSC is also a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance" since February 22, 2005. OJSC "Industry & Construction Bank", a subsidiary acquired at the end of 2005, is also a member of the obligatory deposit insurance system since 11 January 2005. The State deposit insurance scheme implied that the State Corporation "Agency for Deposits Insurance" will guarantee repayment of individual deposits up to 100 thousand Russian Roubles ("RUR") (approximately US Dollars 4 thousand) per individual in case of the withdrawal of a license of a bank or a CBR imposed moratorium on payments. From 9 August 2006 the amount of guaranteed payment increased up to RUR 190 thousand (approximately US Dollars 7 thousand).

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

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

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group's operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through 4 subsidiary banks with its network of 151 branches, including 58 branches of VTB, 39 branches of CJSC "Bank VTB 24" and 54 branches of OJSC "Industry & Construction Bank", located in major Russian regions. The Group operates outside Russia through 11 bank subsidiaries, located in the Commonwealth of Independent States ("CIS") (Armenia, Georgia, Ukraine (2 banks)), Europe (Austria, Cyprus, Switzerland, Germany, France and Great Britain), Africa (Angola) and through 4 representative offices located in India, Italy, China and Belarus.

VTB's majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 99.9% of VTB's issued and outstanding shares.

The number of employees of the Group at 31 December 2006 was 28,466 (31 December 2005: 23,145; 31 December 2004: 13,132).

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

2. Operating Environment of the Group

The Group operates primarily within the Russian Federation. Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

3. Basis of Preparation

General

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

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

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian rouble (RUR). However, the Bank’s assets and liabilities are mostly concentrated in United States dollars (“US dollars” or “USD”) and RUR. The US dollar is used to a significant extent in, and has a significant impact on the operations of the Bank, and the Bank’s cash flows are primarily denominated in US dollars. Also, the US dollar is the currency in which Management of the Bank manages the business risks and exposures, and measures the performance of the Bank’s business. Based upon these and other factors, the functional currency of the Bank is considered to be the US dollar.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the amendment to IAS 39 “Financial Instruments: Recognition and Measurement”: Financial Guarantees, effective for annual periods beginning on or after 1 January 2006.

The amendment addresses the following several issues:

IAS 39 - Amendment for financial guarantee contracts accounting - amended the scope of IAS 39 to include financial guarantee contracts issued. The amendment addresses the treatment of financial guarantee contracts by the issuer. Under revised IAS 39 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”.

IAS 39 - Amendment for the fair value option - which restricted the use of the option to designate any financial asset or any financial liability as at fair value through profit or loss.

According to the revised IAS 39, an entity may designate financial assets and liabilities as at fair value through profit or loss only upon initial recognition when doing so results in more relevant information, because either:

a. it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising 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 about the group is provided internally on that basis to the entity’s key management personnel (as defined in IAS 24 Related Party Disclosures (revised 2003)), for example the entity’s Board of Directors and Chief executive officer.

3. Basis of Preparation (continued)

Changes in accounting policies (continued)

Also, according to the revised IAS 39, if a contract contains one or more embedded derivatives an entity may designate the entire hybrid (combined) contract as a financial asset or liability at fair value through profit or loss unless:

a) The embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

b) It is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortized cost.

For presentation and disclosure purposes, the Group has changed the name of the balance sheet line from "Securities pledged under repurchase agreements" to "Financial assets pledged under repurchase agreements and loaned financial assets". This balance sheet line includes financial assets at fair value through profit or loss and available-for-sale securities that are pledged as collateral under sale and repurchase agreements or are loaned by the Group to third parties.

The effect of the application of the new and revised standards on the balance sheet as at 31 December 2005 is as follows:

	As previously reported	Effect of adoption of IAS 39 revised	As adjusted
Financial assets available-for-sale	665	216	881
Financial assets at fair value through profit or loss	5,267	(216)	5,051

These reclasses had no impact on net income or shareholders' equity as of 31 December 2005.

There is no effect of application of the new and revised standards on the balance sheet, net income or shareholders' equity for the year ended 31 December 2004.

Reclassifications

The following reclassifications within the statement of income for the year ended 31 December 2005 to conform to the 2006 presentation:

	As previously reported	Reclassification	As adjusted
Interest income	1,759	71	1,830
Gains less losses arising from financial assets at fair value through profit or loss	332	(71)	261

The Group made certain reclassifications within the statement of income for the year ended 31 December 2004 to conform to the 2006 presentation:

	As previously reported	Reclassification	As adjusted
Interest income	1,049	9	1,058
Gains less losses arising from financial assets at fair value through profit or loss	4	(9)	(5)

The Group also made certain reclassifications within the statement of cash flows for the year ended 31 December 2005 to conform to the 2006 presentation:

	As previously reported	Reclassification	As adjusted
Interest received	1,763	71	1,834
Income received on operations with financial assets at fair value through profit or loss	301	(71)	230

3. Basis of Preparation (continued)

Reclassifications (continued)

The Group made certain reclassifications within the statement of cash flows for the year ended 31 December 2004 to conform to the 2006 presentation:

	As previously reported	Reclassification	As adjusted
Interest received	978	9	987
Income received on operations with financial assets at fair value through profit or loss	65	(9)	56

IFRSs and IFRIC interpretations not yet effective

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

Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures" (effective for annual periods beginning on or after 1 January 2007);
IFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2007)
Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures";
IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006);
IFRS 8 "Operating segments" (effective for periods beginning on or after 1 January 2009);
IFRIC 8 "Scope of IFRS 2" (effective for annual periods beginning on or after 1 May 2006)
IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006)
IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006)
IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007)
IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on or after 1 January 2008)

The Group would implement IFRS 7 "Financial Instruments: Disclosures", Amendment to IAS 1 "Presentation of financial Statements" – "Capital Disclosures"; IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives", IFRIC 10 "Interim Financial Reporting and Impairment" at 1 January 2007. The Group would implement IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" and IFRIC 12 "Service Concession Arrangements" at 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's consolidated financial statements in the period of initial application, except for the inclusion of new disclosures in accordance with IFRS 7 to enable users of the consolidated financial statements to evaluate the significance of the Group's financial instruments, the nature and extent of risks arising from those financial instruments, and the Group's objectives, policies and processes for managing capital.

4. Summary of Principal Accounting Policies

Subsidiaries

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

Acquisition of subsidiaries

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

4. Summary of Principal Accounting Policies (continued)

Subsidiaries (continued)

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

Minority interest is the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented as a separate component within the Group's equity.

Acquisition of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the purchase accounting method.

Increases in ownership interests in subsidiaries

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

Investments in associates

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

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

Financial assets

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

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

Financial assets at fair value through profit or loss

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

4. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Financial assets held for trading, which 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. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

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

Other financial assets at fair value through profit or loss are securities designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities. New restrictions on the use of the option to designate any financial asset or liability as at fair value through profit or loss have been introduced. Refer to the Note 3 "Changes in accounting policies".

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Loans and receivables of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognised 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. For investments carried at amortized cost, gains and losses are recognised in the statement of income when the investments are redeemed or impaired, as well as through the amortization process.

Held-to-maturity investments of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition.

Available-for-sale financial assets

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

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

4. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised 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.

The Group uses weighted average method of accounting for the derecognition of financial assets available-for-sale.

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 recognised initially, they are measured at fair value, plus, in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs, and then remeasured at amortized costs using the effective interest method. Other financial liabilities are carried at amortized cost.

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition not taking into consideration any measurement requirements in the scope of IAS 39.

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

Derecognition of financial liabilities

A financial liability is derecognised 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 recognised in the statement of income.

4. Summary of Principal Accounting Policies (continued)

Offsetting

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

Cash and cash equivalents

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

Mandatory cash balances with Central banks

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

Due from other banks

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

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo agreements") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognised. The securities are not reclassified in the balance sheet unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities 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 and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the consolidated financial statements in their original balance sheet category unless the counterparty has the right by contract or custom to sell or repledge the securities, in which case they are reclassified and presented separately. Securities borrowed are not recorded in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded in profit or loss within gains less losses arising from trading securities. The obligation to return the securities is recorded at fair value through profit or loss in other borrowed funds.

Derivative financial instruments

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

4. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

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

Promissory notes purchased

Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Leases

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

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

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

Impairment losses are recognised 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.

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

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

Impairment losses are recognised 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised 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.

4. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

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 recognised in the statement on income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Investment property

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

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value based on its market value. Market value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented within other operating income.

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

Premises and equipment

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

Premises and equipment of acquired subsidiaries are initially recorded in the consolidated balance sheet at their estimated fair value at the date of acquisition. No accumulated depreciation on the premises and equipment acquired during the business combination process is presented in the consolidated financial statements on the date of acquisition.

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

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

4. Summary of Principal Accounting Policies (continued)

Premises and equipment (continued)

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

Premises have been revalued to market value at 31 December 2006 and 2005. The revaluation was performed based on the reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

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

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

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

Depreciation

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

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

Estimated useful lives and residual values are reassessed annually.

Goodwill

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

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

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

4. Summary of Principal Accounting Policies (continued)

Goodwill (continued)

Impairment 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 recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Other intangible assets

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

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

Core deposit intangible

Core deposit intangible relates to the acquisition in OJSC "Industry & Construction Bank" of customer current deposits and identified as an intangible asset. The identification was based on examination of the banks' customer base. It was concluded that the bank had a well-established and long-dated relationship with its major customers and that demand deposits actual maturity was significantly longer than contract maturity. The useful life of the core deposit intangible was estimated as five years and it is amortized over its useful life using the straight-line method.

Assets (disposal group) classified as held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Assets of disposal group held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date. Both financial and non-financial assets are 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 within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period balance sheet are not reclassified or re-presented in the comparative balance sheet to reflect the classification at the end of the current period.

A disposal group represents the assets (current or non-current) 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 be transferred in the transaction. Goodwill is 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 balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

4. Summary of Principal Accounting Policies (continued)

Assets (disposal group) classified as held for sale (continued)

Held for sale premises and equipment, investment properties, intangible assets, or 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, equipment, and intangible assets are not depreciated or amortized. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. Reclassified non-current 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.

Liabilities directly associated with a disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the balance sheet.

Due to other banks

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

Customer deposits

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

Debt securities issued

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

Other borrowed funds

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

Taxation

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

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

4. Summary of Principal Accounting Policies (continued)

Taxation (continued)

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

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

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

Russia also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of other operating expenses.

Provisions for liabilities and charges

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

Credit related commitments

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

Share premium

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

Dividends

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

4. Summary of Principal Accounting Policies (continued)

Income and expense recognition

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

Salary costs

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

Foreign currency translation

Monetary assets and liabilities originally denominated in USD are stated at their original USD amounts. Monetary assets and liabilities in other currencies have been translated into USD using the exchange rate at the balance sheet date. Non-monetary assets and liabilities, which are denominated in currencies other than USD, have been translated into USD at the exchange rates in effect at the date of the transaction. Income and expenses, which were earned and incurred in currencies other than USD, have been translated into USD using a basis that approximates the rate of exchange at the date of the transaction.

Gains and losses arising from the translation of monetary assets and liabilities into USD are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

The consolidated financial statements are presented in USD, which is the Bank's functional and the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of income as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

At 31 December 2006, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 to RUR 26.3311 (at 31 December 2005: USD 1 to RUR 28.7825; at 31 December 2004: USD 1 to RUR 27.7487) and the principal rate of exchange used for translating balances in Euro was USD 1 to EURO 0.7589 (at 31 December 2005: USD 1 to EURO 0.8420; at 31 December 2004: USD 1 to EURO 0.7339).

4. Summary of Principal Accounting Policies (continued)

Fiduciary assets

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

Segment reporting

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

5. Significant Accounting Estimates and Judgements

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

Allowance for impairment of loans and receivables

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

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 of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was USD 294 million (31 December 2005: USD 270 million; 31 December 2004: USD 88 million). More details are provided in Note 17.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2006, 2005 and 2004 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Fair value estimation of unquoted shares

Details of fair value estimation of unquoted shares are provided in Note 11.

6. Cash and Short-Term Funds

	31 December 2006	31 December 2005	31 December 2004
Cash on hand	930	568	271
Cash balances with central banks (other than mandatory reserve deposits)	1,267	995	485
Correspondent accounts with other banks			
- Russian Federation	551	576	358
- Other countries	833	553	406
Total cash and short-term funds	**3,581**	**2,692**	**1,520**
Less: restricted cash	(102)	(151)	(137)
Total cash and cash equivalents	**3,479**	**2,541**	**1,383**

Restricted cash balances represent the balances on escrow accounts in amount of USD 6 million (31 December 2005: USD 52 million; 31 December 2004: USD 56 million) comprising USD 2 million in freely convertible currencies and USD 4 million in non-freely convertible currencies (31 December 2005: USD 48 million and USD 4 million, accordingly; 31 December 2004: USD 51 million and USD 5 million, accordingly), and other balances in non-freely convertible currencies in amount of USD 96 million (31 December 2005: USD 99 million; 31 December 2004: USD 81 million). Restricted cash balances were collateralized by USD 92 million (31 December 2005: USD 143 million; 31 December 2004: USD 132 million). For the purposes of the consolidated statement of cash flows, restricted cash is not included in cash and cash equivalents.

7. Financial Assets at Fair Value Through Profit or Loss

	31 December 2006	31 December 2005	31 December 2004
Financial assets held for trading	4,786	3,558	2,017
Financial assets designated as at fair value through profit or loss	334	1,493	549
Total	**5,120**	**5,051**	**2,566**

Management of the Group decided to designate as "financial assets at fair value through profit or loss" on 1 January 2005 all debt and equity securities, except for investments in equity instruments that do not have a quoted market price in an active market, loans and receivables and held-to-maturity instruments. Such designation is performed at initial recognition of the respective assets. The same approach was applied to securities purchased during 2005, except for the securities held by subsidiaries acquired by the Bank in 2005. The financial assets designated as at fair value through profit or loss are managed on a fair value basis, in accordance with the risk management or investment strategies adopted by each group member and the information provided to key management personnel. EADS shares purchased in 2006 were included in financial assets available-for-sale based on the initial intention of the Group.

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

Financial assets held for trading

	31 December 2006	31 December 2005	31 December 2004
Debt securities denominated in USD			
Russian corporate Eurobonds	583	290	258
Bonds issued by foreign companies and banks	369	234	79
Russian MinFin bonds (OVGVZ)	74	34	43
Eurobonds of the Russian Federation	37	59	12
Bonds issued by foreign governments	12	65	–
Promissory notes and debentures	8	–	452
Debt securities denominated in RUR			
Promissory notes and debentures	2,171	1,460	781
Russian Federal loan bonds (OFZ)	902	606	114
Bonds of the Central Bank of the Russian Federation	–	7	85
Debt securities denominated in other currencies			
Foreign corporate bonds	157	103	14
Bonds issued by foreign governments	75	–	3
Russian corporate Eurobonds	15	13	4
Equity securities	308	664	153
Balances arising from derivative financial instruments (Note 34)	75	23	19
Total	**4,786**	**3,558**	**2,017**

Russian corporate Eurobonds are mainly US dollar denominated interest-bearing securities issued by major Russian corporations and banks, which are freely tradable internationally. The Eurobonds have maturities ranging from January 2007 to May 2034 (31 December 2005: from September 2006 to January 2012; 31 December 2004: from May 2005 to April 2014) and coupon ranging from 7% to 12% (31 December 2005: from 7% to 14%; 31 December 2004: from 8% to 13%).

Bonds issued by foreign companies and banks include notes issued by foreign banks linked to bonds issued by a major Russian gas company, to Russian MinFin bonds and to VTB Eurobonds. The notes, which are linked to VTB Eurobonds are not removed from the consolidated balance sheet as there is no legal right to offset these instruments. These securities have maturities ranging from March 2007 to January 2049 (31 December 2005: from March 2007 to October 2015) and have coupon rates ranging from 7% to 14% (31 December 2005: from 6% to 17%; 31 December 2004: from 10% to 17%).

Promissory notes and debentures represent securities denominated in RUR and are issued primarily by Russian banks, large manufacturing, telecom and oil and gas companies, and local authorities. The bills of exchange and debentures have maturities ranging from January 2007 to December 2046 (31 December 2005: from January 2006 to August 2014; 31 December 2004: from February 2005 to August 2014) and coupon ranging from 4% to 16% (31 December 2005 and 2004: from 4% to 17%).

Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation. These OFZ bonds are issued at a discount to their nominal value, have maturity dates ranging from June 2007 to February 2036 (31 December 2005: February 2006 to August 2018; 31 December 2004: March 2005 to August 2018), coupon rates ranging from 6% to 10% (31 December 2005: from 6% to 10%; 31 December 2004: from 6% to 10%).

Foreign corporate bonds represent securities issued in EURO and GBP (31 December 2005: in EURO) and have maturities from October 2007 to June 2035 (31 December 2005: from July 2006 to December 2030) and interest rates ranging from 1% to 12% (31 December 2005: from 2% to 4%).

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

Equity securities are mainly issued by major Russian and European companies and banks.

Financial assets designated as at fair value through profit or loss

	31 December 2006	31 December 2005	31 December 2004
Bonds issued by foreign companies and banks	123	99	98
Eurobonds of the Russian Federation	107	360	242
Bonds of Russian companies and banks	74	548	129
Municipal bonds	16	15	38
Bonds issued by foreign governments	8	252	19
Russian MinFin bonds (OVGVZ)	–	85	9
Promissory notes of Russian companies and banks	–	16	–
Promissory notes of foreign companies and banks	–	100	12
Other	6	18	2
Total	**334**	**1,493**	**549**

Bonds of foreign companies and banks included in financial assets designated as at fair value through profit or loss represent bonds of local issuers involved predominantly in banking and other industries and have maturities from March 2007 to March 2021 (31 December 2005: from January 2006 to March 2025; 31 December 2004: from December 2008 to October 2014) and have coupon rates from 1% to 17% (31 December 2005: from 1% to 18%; 31 December 2004: from 6 months EURIBOR+0.53% to 10%).

Eurobonds of the Russian Federation included in financial assets designated as at fair value through profit are US dollar denominated securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Group's portfolio of Eurobonds as of 31 December 2006 consists of 5 tranches of securities with maturities ranging from June 2007 to March 2030 (31 December 2005: 5 tranches with maturity dates from June 2007 to March 2030; 31 December 2004: 4 tranches with maturity dates from June 2007 to March 2030). The annual coupon rates on these bonds vary from 5% to 13% p.a. (31 December 2005 and 2004: from 5% to 13% p.a.).

Bonds of Russian companies and banks included in financial assets designated as at fair value through profit or loss are mainly Eurobonds of large Russian companies and banks, which are freely tradable internationally. These bonds have maturity dates ranging from February 2007 to November 2014 (31 December 2005: March 2006 to December 2015; 31 December 2004: from June 2006 to November 2014) and have both floating and fixed rates.

At 31 December 2005, bonds issued by foreign governments in financial assets designated as at fair value through profit or loss represent mostly USD and Euro denominated securities with maturity dates ranging from January 2006 till December 2038 and coupon interest rates ranging from 2% to 9%.

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

	31 December 2006	31 December 2005	31 December 2004
Financial assets at fair value through profit or loss			
Promissory notes	139	–	–
Bonds issued by foreign companies and banks	52	195	–
Russian Federal loan bonds (OFZ)	43	38	–
Russian corporate Eurobonds	43	67	–
Equity securities	27	118	1
Bonds issued by foreign governments	26	–	17
Russian Municipal bonds	7	170	116
Russian corporate bonds	3	–	60
Eurobonds of Russian Federation and MinFin Bonds	–	303	146
Total Financial assets at fair value through profit or loss	***340***	***891***	***340***
Financial assets available-for-sale			
EADS shares	1,402	–	–
Bonds issued by foreign governments	645	281	–
Bonds issued by foreign companies and banks	551	180	–
Total Financial assets available-for-sale	***2,598***	***461***	***–***
Total	**2,938**	**1,352**	**340**

In the third quarter of 2006 VTB purchased 41 million shares of European Aeronautic Defense and Space Company (EADS) (approximately 5% of the share capital). The Group had unrealized gains on EADS shares of 111 USD million, net of tax, accounted within equity under caption "Unrealized gain on available-for-sale financial assets" at 31 December 2006.

Bonds issued by foreign governments represent bonds issued by European and CIS governments (31 December 2005 and 2004: European governments) with maturity from March 2007 to June 2036 (31 December 2005: March 2007; 31 December 2004: March 2012) and coupon rate from 5% to 7% (31 December 2005: 5%; 31 December 2004: from 4% to 6%).

Bonds issued by foreign companies and banks represent securities denominated in EURO, USD, GBP and have maturities ranging from June 2007 to December 2030 (31 December 2005: from January 2006 to November 2010) and coupon interest rates ranging from 4% to 6% (31 December 2005: from 2% to 5%).

Promissory notes represent RUR denominated notes with maturity in February 2007 and coupon of 15%.

At 31 December 2005 equity securities represent shares of a large Russian bank.

Russian municipal bonds represent debt securities denominated in RUR and issued by regional authorities of the Russian Federation. At 31 December 2005 they have maturities ranging from June 2008 to August 2014 (31 December 2004: from March 2005 to October 2010) and coupon rates ranging from 9% to 14% (31 December 2004: from 10% to 14%).

Russian Eurobonds and MinFin Bonds are described in Note 7.

9. Due from Other Banks

	31 December 2006	31 December 2005	31 December 2004
Current term placements with other banks	6,013	3,558	1,860
Reverse sale and repurchase agreements with other banks	808	590	174
Overdue placements with other banks	–	–	100
	6,821	**4,148**	**2,134**
Less: Allowance for loan impairment	(8)	(7)	(111)
Total due from other banks	**6,813**	**4,141**	**2,023**

At 31 December 2004 included in due from other banks were rouble-denominated loans to a Russian bank totaling USD 100 million. At 31 December 2004, the allowance for impairment on these loans comprised USD 100 million. These loans were written-off against the allowance in 2005. Movements in the allowance for loan impairment are presented in Note 29.

At 31 December 2006 the Bank received a collateral under reverse sale and repurchase agreements with other banks with a fair value of USD 930 million (31 December 2005: USD 779 million; 31 December 2004: USD 198 million).

10. Loans and Advances to Customers

	31 December 2006	31 December 2005	31 December 2004
Current loans and advances	28,548	19,078	10,281
Reverse sale and repurchase agreements with customers	1,152	1,168	76
Rescheduled loans and advances	131	60	84
Overdue loans and advances	404	227	281
	30,235	**20,533**	**10,722**
Less: Allowance for loan impairment (Note 29)	(973)	(608)	(553)
Total loans and advances to customers	**29,262**	**19,925**	**10,169**

At 31 December 2006, included in current loans are lease receivables of USD 469 million (31 December 2005: USD 141 million, 31 December 2004: USD 18 million), equal to the net investment in the lease.

The finance lease receivables were as follows:

	31 December 2006	31 December 2005	31 December 2004
Gross investment in leases	661	165	23
Less: Unearned finance lease income	(192)	(24)	(5)
Net investment in leases before allowance	**469**	**141**	**18**
Less: allowance for uncollectible finance lease receivables	(2)	(1)	–
Net investment in leases	**467**	**140**	**18**

At 31 December 2006 the Group had one borrower (state transport entity) with aggregated net investment in lease of USD 296 million representing leasing of rolling-stock.

10. Loans and Advances to Customers (continued)

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

	31 December 2006	31 December 2005	31 December 2004
Within 1 year	165	56	1
From 1 to 5 years	385	109	22
More than 5 years	111	–	–
Minimum lease payments receivable	**661**	**165**	**23**

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

	31 December 2006		31 December 2005		31 December 2004	
	Amount	%	Amount	%	Amount	%
Finance	5,049	17	4,184	20	1,709	16
Trade and commerce	4,790	16	3,000	15	1,576	15
Manufacturing	4,067	13	2,402	12	2,229	21
Individuals	2,533	8	851	4	130	1
Building construction	2,364	8	1,605	8	365	3
Government bodies	1,668	6	959	5	511	5
Metals	1,556	5	1,673	8	1,077	10
Oil and Gas	1,507	5	888	4	553	5
Transport	1,288	4	511	3	350	3
Food and agriculture	1,104	4	603	3	438	4
Energy	937	3	706	3	670	6
Chemical	789	3	652	3	235	2
Coal mining	705	2	793	4	170	2
Telecommunications and media	406	1	360	2	351	3
Aircraft	243	1	271	1	4	–
Other	1,229	4	1,075	5	354	4
Total gross loans and advances to customers	**30,235**	**100**	**20,533**	**100**	**10,722**	**100**

At 31 December 2006, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprise USD 5,342 million, or 18% of the gross loan portfolio (31 December 2005: USD 4,049 million, or 20%, 31 December 2004: USD 3,712 million, or 35%).

At 31 December 2006, outstanding loans issued under reverse repos do not contain any significant concentrations (31 December 2005: balances with 4 customers comprised USD 595 million, or 3% of gross loan portfolio, 31 December 2004: no significant deals).

At 31 December 2005 and at 31 December 2004 included in loans and advances was a loan to a large corporate customer totaling USD 1,000 million with final maturity in 2009 and interest rate of 9.6% per annum. The Group obtained cash collateral of USD 550 million in respect of this loan, therefore its net exposure was USD 450 million, which was also collateralized by shares of a large Russian metal company. The fair value of these shares exceeded the carrying amount of the loan. The Group transferred this USD 450 million participation in the loan to a third party, which is not a related party to the Group. Additionally the Group wrote a put option on the transferred asset executable in 3 years. As a result of this transaction, the Group retained credit risk but transferred certain other risks on the USD 450 million participation and retained control over this asset. Accordingly, as of 31 December 2005 the Group continued to recognize the above participation in the amount of USD 450 million and recognized the associated liability in the amount of USD 464 million within customer deposits and an additional receivable of put option premium of USD 14 million in other assets. In 2006 the amount of cash collateral received by the Group in respect of this loan decreased to USD 250 million increasing net exposure on the loan to USD 750 million. In December 2006, the loan was partially redeemed by the borrower, therefore the total outstanding amount of the loan decreased to USD 300 million as of 31 December 2006. Accordingly, the put option in the amount of USD 450 million written by the Group was early released.

10. Loans and Advances to Customers (continued)

At 31 December 2006 the Bank received a collateral under reverse sale and repurchase agreements with customers with a fair value of USD 1 216 million (31 December 2005: USD 1 403 million; 31 December 2004: USD 86 million).

At 31 December 2006 accrued interest income on impaired loans was USD 105 million (31 December 2005: USD 62 million; 31 December 2004: USD 41 million).

11. Financial Assets Available-for-Sale

	31 December 2006	31 December 2005	31 December 2004
OJSC "Alrosa" shares	333	–	–
Bonds issued by foreign companies and banks	162	192	–
Other equity investments with share smaller than 20%	149	81	14
Russian corporate Eurobonds	85	115	–
Eurobonds of the Russian Federation	55	104	–
Russian MinFin bonds (OVGVZ)	30	36	–
Promissory notes	26	39	–
JSC "International Moscow Bank" shares	20	146	–
Bonds issued by foreign governments	15	26	–
Municipal bonds	13	7	–
OJSC "KamAZ" shares	–	132	92
Russian corporate bonds	–	3	–
OJSC "AvtoVAZ" shares	–	–	84
Total	**888**	**881**	**190**

JSC "Alrosa" shares (10.63% of share capital) were acquired in the second quarter 2006. These shares are unquoted. The fair value of these investments at 31 December 2006 was determined by using discounted cash flow analysis adjusted for the impact of change in net assets of this company from the date of acquisition through year end. As a result of this, the Group had unrealized gains on JSC "Alrosa" shares of USD 20 million, net of tax, including unrealized foreign exchange gain, accounted within equity.

The estimated fair value of JSC "Alrosa" shares at 31 December 2006 was calculated by using average of the market approach, discounted cash flow method and cost and revenue method. For cost and revenue method a discount of 30% for minority stake and a 20% discount for liquidity was used.

Bonds issued by foreign companies and banks include securities with maturities ranging from March 2007 to November 2046 (31 December 2005: from December 2006 to August 2045) and coupon rates from 2% to 9% (31 December 2005: from 3% to 10%).

Other equity investments at 31 December 2006 include investment in shares of a European bank. The fair value of this investment was estimated using discounted cash flow model, resulting in recognition of an unrealized gain of USD 54 million, accounted within equity.

Russian corporate Eurobonds and Eurobonds of the Russian Federation are described in Note 7.

As a result of the acquisition of BCEN-Eurobank in 2005, the Group acquired 19.8% of the total shares of JSC "International Moscow Bank" ("IMB") domiciled in Russia. At 30 September 2006, the fair value of these shares increased to USD 332 million (31 December 2005: USD 146 million). The increase in fair value of securities was accounted for within the equity with no tax effect due to the tax status of BCEN-Eurobank. In the fourth quarter 2006 the fair value of these shares further increased to USD 395 million. The Group sold the shares of IMB to the third party for USD 395 million and transferred the realized gain of USD 249 million from equity to the statement of income within gains less losses from available-for-sale financial assets. At 31 December 2006, investment into USD 20 million shares of IMB represents the investment into the additional issue of shares occurred in December 2006 that are subject to sale under the binding agreement.

11. Financial Assets Available-for-Sale (continued)

The estimated fair value of investment into International Moscow Bank (IMB) at 31 December 2005 was calculated by using the market approach, namely the comparable companies method and the comparable transactions method. Calculations within the comparable transactions method were adjusted for a minority interest discount of 40%, whilst a lack of marketability discount (of 15%) was applied to the market approach valuation results for IMB. The Bank's management believes that a change in the above assumptions to a reasonably possible alternative would not result in a significantly different fair value.

At 31 December 2005, included in the financial assets available-for-sale were corporate shares of an automobile production company OJSC "KamAZ" with a fair value of USD 132 million which were sold in 2006 for USD 135 million. Realized gain of USD 89 million, net of tax, was transferred from equity to the statement of income within gains less losses from available-for-sale financial assets.

At 31 December 2004, included in the financial assets available-for-sale were corporate shares of automobile production company OJSC "AvtoVAZ", with a fair value of USD 84 million which was disposed of in 2005 at its fair value.

12. Investments in Associates

			31 December 2006		31 December 2005		31 December 2004	
	Country of registration	**Industry**	**Amount**	**Equity controlled**	**Amount**	**Equity controlled**	**Amount**	**Equity controlled**
"Eurofinance Mosnarbank", OJSC	Russia	Bank	116	34.07%	92	32.65%	–	–
"East-West United Bank", S.A.	Luxembourg	Bank	40	48.55%	–	50.74%	29	34.00%
"Halladale PLC"	Great Britain	Property	26	23.00%	23	23.00%	–	–
"Insurance Company VTB-Rosno", Ltd	Russia	Insurance	9	49.99%	–	100.00%	–	69.80%
"Vietnam-Russia Joint Venture Bank"	Vietnam	Bank	5	49.00%	–	–	–	–
"Management Company ICB", limited	Russia	Finance	4	24.98%	3	30.91%	–	–
"Interbank Trading House", Ltd	Russia	Commerce	–	50.00%	–	100.00%	–	100.00%
"VTB Bank (Deutschland)" AG	Germany	Bank	–	78.82%	–	83.54%	48	31.90%
Total Investments in Associates			**200**		**118**		**77**	

At 23 June 2004, the Bank sold 5% of East-West United Bank shares. As a result of this transaction, the Bank's participation in East-West Bank decreased from 53% to 48% effective 23 June 2004. At 14 December 2004, the Bank sold additional 14% of East-West United Bank shares. At 31 December 2004, the Bank's share in East-West United Bank was 34%. Therefore, as from 23 June 2004 such investment was accounted for using the equity method. The carrying value of the investment at 31 December 2004 amounted to USD 29 million.

As part of contribution made by the controlling shareholder to the share capital of VTB at the end of December 2005 the Group obtained additional 17% of East-West United Bank shares increasing its stake to 51% and additional 52% of VTB Bank (Deutschland) shares increasing its stake to 84% (see Note 39). These banks became subsidiaries of VTB and were consolidated in financial statements as at 31 December 2005. At the end of December 2006, VTB sold 2% stake in East-West United Bank (EWUB) to a third party, decreasing the Group's share in EWUB to 48.55%. Accordingly, at the date of disposal the Group deconsolidated EWUB and accounted for this investment under the equity method.

In 2006, the Group lost control over Insurance Company VTB-Rosno and started accounting for this investment by using the equity method (see Note 39).

In 2006, the Group lost control over Interbank Trading House and started accounting for that investment by using the equity method (see Note 39).

12. Investments in Associates (continued)

In November 2006, VTB established a Vietnam-Russia Joint Venture Bank (associate) with 49% shareholding of VTB and contributed USD 5 million into its capital.

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

	31 December 2006	31 December 2005	31 December 2004
Assets	2,648	1,836	1,479
Liabilities	2,187	1,485	1,257
Net assets	461	351	222
Revenue	310	222	55
Net income	(12)	40	6

The unrecognized share of losses of associates for 2006 and cumulatively at 31 December 2006 was USD 3 million and USD 28 million, respectively.

13. Investment Securities Held-to-Maturity

Investment securities held-to-maturity comprise securities issued by foreign governments with maturities ranging from February 2007 to August 2010.

14. Other Assets

	31 December 2006	31 December 2005	31 December 2004
Trade debtors and prepayments	209	84	84
Rights of claim to construct and receive the title of ownership of premises under investment contracts	169	–	–
Unsettled transactions	119	14	10
Taxes recoverable	105	64	21
Inventories	68	13	16
Deferred expenses	44	28	9
Receivable of put option premium	29	14	–
Precious metals	22	4	11
Settlements on securities operations	3	–	–
Settlements on foreign exchange operations	2	14	15
Other assets	24	17	23
Total	**794**	**252**	**189**

At 31 December 2006 rights of claim to construct and receive the title of ownership of premises under investment contracts contained a prepayment of USD 169 million under a construction contract. Under this contract the developer is obliged to construct an office at the Moscow International Business Center “Moscow City” and transfer the title of ownership on this office to VTB after the construction is completed in 2008.

Movements in the allowance for other assets impairment are presented in Note 29.

15. Premises and Equipment

The movements in property and equipment were as follows:

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2005	**592**	**164**	**76**	**832**
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2006	**595**	**267**	**76**	**938**
Acquisitions of subsidiaries	9	7	6	**22**
Disposal of subsidiaries	(15)	(2)	(1)	**(18)**
Additions	64	82	136	**282**
Transfer	118	32	(150)	**–**
Disposals	(26)	(17)	(3)	**(46)**
Revaluation	360	–	–	**360**
Translation difference	25	19	2	**46**
Closing balance at 31 December 2006	**1,130**	**388**	**66**	**1,584**
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2006	**3**	**103**	**–**	**106**
Disposal of subsidiaries	(1)	(1)	–	**(2)**
Depreciation charge	16	58	–	**74**
Disposals	(3)	(6)	–	**(9)**
Revaluation	(19)	–	–	**(19)**
Translation difference	4	8	–	**12**
Closing balance at 31 December 2006	**–**	**162**	**–**	**162**
Net book amount at 31 December 2006	**1,130**	**226**	**66**	**1,422**

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2004	**181**	**115**	**25**	**321**
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2005	**199**	**201**	**25**	**425**
Acquisitions of subsidiaries	258	37	24	**319**
Disposal of subsidiaries	(1)	–	–	**(1)**
Additions	50	42	51	**143**
Transfer	13	10	(23)	**–**
Disposals	(15)	(22)	(1)	**(38)**
Revaluation	91	–	–	**91**
Translation difference	–	(1)	–	**(1)**
Closing balance at 31 December 2005	**595**	**267**	**76**	**938**
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2005	**18**	**86**	**–**	**104**
Disposal of subsidiaries	(1)	–	–	**(1)**
Depreciation charge	10	28	–	**38**
Disposals	(3)	(11)	–	**(14)**
Revaluation	(21)	–	–	**(21)**
Closing balance at 31 December 2005	**3**	**103**	**–**	**106**
Net book amount at 31 December 2005	**592**	**164**	**76**	**832**

15. Premises and Equipment (continued)

	Premises	Office and computer equipment	Construction in progress	Total
Net book amount at 31 December 2003	**158**	**82**	**10**	**250**
COST OR REVALUED AMOUNT				
Opening balance at 1 January 2004	**171**	**126**	**10**	**307**
Acquisitions of subsidiaries	15	18	2	**35**
Disposal of subsidiaries	(8)	(1)	–	**(9)**
Additions	21	54	17	**92**
Transfer	1	3	(4)	–
Disposals	(4)	(5)	–	**(9)**
Translation difference	3	6	–	**9**
Closing balance at 31 December 2004	**199**	**201**	**25**	**425**
ACCUMULATED DEPRECIATION				
Opening balance at 1 January 2004	**13**	**44**	**–**	**57**
Disposal of subsidiaries	–	(1)	–	**(1)**
Depreciation charge	6	43	–	**49**
Disposals	(1)	(2)	–	**(3)**
Translation difference	–	2	–	**2**
Closing balance at 31 December 2004	**18**	**86**	**–**	**104**
Net book amount at 31 December 2004	**181**	**115**	**25**	**321**

The Transfer caption includes movements from Construction in Progress to Premises and Office and computer equipment upon completion of construction and/or putting of the fixed asset in use.

Premises of the Group are subject to revaluation on a regular basis. The Group engaged an independent appraiser to determine the fair value of its premises. Fair value was determined by reference to market-based evidence. The dates of the latest revaluations were 31 December 2006 and 2005. If the buildings were measured using the cost model, the carrying amounts would be as follows:

	31 December 2006	31 December 2005	31 December 2004
Cost	679	504	199
Accumulated depreciation and impairment	40	24	18
Net carrying amount	**639**	**480**	**181**

The Bank's premises were independently valued as of 31 December 2006, 2005 and 2000. The valuation was carried out by independent appraisal firms. The basis used for the appraisal was primarily open market value.

The revaluation of the Group's premises as of 31 December 2006 was carried out by an independent firm of valuers, Neo Centre. The basis used for the appraisal was primarily open market value. The revaluation surplus amounted to USD 379 million: USD 6 million of additional value were credited to other income as a reversal of negative revaluation of fixed assets, which carried out from 2005 valuation, and USD 373 million, including minority interest of USD 11 million, were posted to fixed assets revaluation reserve within the shareholders' equity net of deferred income tax in the amount of USD 91 million.

The revaluation of the Group's premises as of 31 December 2005 was carried out by an independent firm of valuers, Neo Centre. The basis used for the appraisal was primarily open market value. The revaluation surplus amounted to USD 112 million: USD 27 million of additional value were credited to other income as a reversal of negative revaluation of fixed assets, which carried out from the prior period revaluation, and USD 6 million was

15. Premises and Equipment (continued)

recorded as negative revaluation and recognised in operating expenses, and USD 91 million was posted to fixed assets revaluation reserve within shareholders' equity net of deferred income tax in the amount of USD 19 million.

16. Investment Property

	2006	2005	2004
Investment property as at 1 January	**198**	–	–
Acquisitions of subsidiaries	–	198	–
Translation effect	20	–	–
Revaluation (Note 27)	52	–	–
Disposals	(92)	–	–
Investment property as at 31 December	**178**	**198**	**–**

As a result of acquisition of ICB in December 2005 the Bank also received investment property with fair value amounting to USD 198 million at 31 December 2005.

In 2006, ICB revalued all of its investment property and increased its fair value by USD 52 million including USD 11 million which was subsequently realized as a result of a sale of investment property for USD 92 million. The valuation was carried out by an independent firm of valuers, Neo Centre, mainly on the basis of open market prices.

At 31 December 2006, included in investment property are buildings and business-centers held for operating leasing of USD 60 million located in St. Petersburg region, Ekaterinburg and Ukraine (31 December 2005: USD 96 million) and land for development and resale of USD 118 million located in St. Petersburg and Moscow regions (31 December 2005: USD 102 million).

17. Intangible Assets

The movements in intangible assets were as follows:

	Goodwill	Core deposit intangible	Computer software	Total
Net book amount at 31 December 2005	**270**	**154**	**27**	**451**
COST				
Opening balance at 1 January 2006	**270**	**154**	**42**	**466**
Additions	–	–	8	**8**
Acquisition through business combinations	13	6	–	**19**
Disposals	–	–	(10)	**(10)**
Translation difference	25	14	1	**40**
Closing balance at 31 December 2006	**308**	**174**	**41**	**523**
ACCUMULATED AMORTIZATION AND IMPAIRMENT				
Opening balance at 1 January 2006	**–**	**–**	**15**	**15**
Amortization charge	–	34	5	**39**
Disposals	–	–	(1)	**(1)**
Impairment	14	–	–	**14**
Translation difference	–	–	1	**1**
Closing balance at 31 December 2006	**14**	**34**	**20**	**68**
Net book amount at 31 December 2006	**294**	**140**	**21**	**455**

17. Intangible Assets (continued)

	Goodwill	Core deposit intangible	Computer software	Total
Net book amount at 31 December 2004	**88**	**–**	**14**	**102**
COST				
Opening balance at 1 January 2005	**94**	**–**	**29**	**123**
Elimination of accumulated amortization of goodwill on adoption of revised standards	(6)	–	–	**(6)**
Additions	–	–	5	**5**
Acquisition through business combinations	182	154	17	**353**
Disposals	–	–	(9)	**(9)**
Closing balance at 31 December 2005	**270**	**154**	**42**	**466**
ACCUMULATED AMORTIZATION AND IMPAIRMENT				
Opening balance at 1 January 2005	**6**	**–**	**15**	**21**
Elimination of accumulated amortization of goodwill on adoption of revised standards	(6)	–	–	**(6)**
Amortization charge	–	–	2	**2**
Disposals	–	–	(2)	**(2)**
Closing balance at 31 December 2005	**–**	**–**	**15**	**15**
Net book amount at 31 December 2005	**270**	**154**	**27**	**451**

	Goodwill	Core deposit intangible	Computer software	Total
Net book amount at 31 December 2003	**20**	**–**	**12**	**32**
COST				
Opening balance at 1 January 2004	**22**	**–**	**25**	**47**
Acquisition through business combinations	75	–	3	**78**
Additions	–	–	1	**1**
Other	(3)	–	–	**(3)**
Closing balance at 31 December 2004	**94**	**–**	**29**	**123**
ACCUMULATED AMORTIZATION AND IMPAIRMENT				
Opening balance at 1 January 2004	**2**	**–**	**13**	**15**
Amortization charge	4	–	2	**6**
Closing balance at 31 December 2004	**6**	**–**	**15**	**21**
Net book amount at 31 December 2004	**88**	**–**	**14**	**102**

17. Intangible Assets (continued)

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

	31 December 2006			31 December 2005			31 December 2004		
	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total	Carrying amount of goodwill	Carrying amount of core deposit intangible	Total
"Bank VTB 24", CJSC	78	–	**78**	71	–	**71**	71	–	**71**
"Industry & Construction Bank", OJSC	199	134	**333**	182	154	**336**	–	–	–
"VTB Bank (Armenia)" CJSC	4	–	**4**	4	–	**4**	4	–	**4**
"Almaz-Press", CJSC	–	–	–	13	–	**13**	13	–	**13**
"Mriya", JSCB	13	6	**19**	–	–	–	–	–	–
	294	**140**	**434**	**270**	**154**	**424**	**88**	**–**	**88**

Management of the Bank believes that "Bank VTB 24", CJSC as a whole represents the appropriate level within the Group, at which goodwill is monitored for management purposes and therefore, should be considered as a cash-generating unit for impairment testing purposes. The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using pretax cash flow projections (adjusted for depreciation) based on financial budgets approved by management covering a four-year period. The discount rate applied to cash flow projections is 10% (31 December 2005: 10%).

The following describes each key assumption on which management has based its cash flow projections for "Bank VTB 24", CJSC to undertake impairment testing of goodwill:

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

The recoverable amount of OJSC "Industry & Construction Bank" was based on the market quotes of its shares at 31 December 2006 which amounted to USD 1,665 million (31 December 2005: USD 1,040 million).

In 2006, goodwill of USD 14 million allocated to CJSC "Almaz-Press" was written-off through impairment charge, based on the estimation of the recoverability of that cash-generating unit determined on a value in use calculation using cash flow projections based on financial budgets covering a five-year period.

18. Due to Other Banks

	31 December 2006	31 December 2005	31 December 2004
Term loans and deposits	3,080	3,787	2,608
Correspondent accounts and overnight deposits of other banks	1,931	1,554	465
Sale and repurchase agreements with other banks	2,576	1,288	181
Total due to other banks	**7,587**	**6,629**	**3,254**

Financial assets pledged against sale and repurchase agreements are financial assets at fair value through profit or loss and financial assets available-for-sale with a total fair value of USD 2,929 million (31 December 2005: USD 1,349 million, 31 December 2004: USD 340 million) (see Note 8).

18. Due to Other Banks (continued)

At 31 December 2006 the Group has a legal right to set-off and intends to settle a deposit in the amount of EURO 260 million due from a European bank against the due to that bank under the sale and repurchase agreements, accordingly, that financial liability was presented net of the related asset.

19. Customer Deposits

	31 December 2006	31 December 2005	31 December 2004
State and public organizations			
Current/settlement deposits	774	574	609
Term deposits	1,398	582	339
Other legal entities			
Current/settlement deposits	5,598	3,863	1,575
Term deposits	4,883	2,566	1,390
Individuals			
Current/settlement deposits	1,777	1,010	312
Term deposits	5,549	4,170	1,799
Sale and repurchase agreements	9	2	–
Total customer deposits	**19,988**	**12,767**	**6,024**

Included in customer deposits are:

- Restricted deposits amounting to USD 10 million (31 December 2005: USD 77 million; 31 December 2004: USD 80 million), where matching deposits were placed by the Group in escrow accounts (see Note 6).
- Deposits of USD 66 million (31 December 2005: USD 55 million; 31 December 2004: USD 60 million) were held as collateral against irrevocable commitments under import letters of credit and guarantees (see Note 34).

At 31 December 2006 sale and repurchase agreements of USD 9 million (31 December 2005: USD 2 million) represent the amounts payable to legal entities in connection with sale and repurchase agreements. Securities pledged against sale and repurchase agreements are financial assets through profit and loss with fair value of USD 9 million (2005: USD 3 million) (see Note 8).

Economic sector risk concentrations within the customer deposits are as follows:

	31 December 2006		31 December 2005		31 December 2004	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Individuals	7,326	37	5,180	41	2,111	35
Finance	2,943	15	2,623	21	915	15
Government bodies	1,538	8	398	3	370	6
Trade and commerce	1,429	7	616	5	340	6
Metals	1,198	6	863	7	885	15
Manufacturing	903	5	416	3	201	3
Building construction	859	4	460	4	63	1
Oil and Gas	827	4	428	3	194	3
Transport	420	2	187	1	44	1
Food and agriculture	374	2	115	1	10	-
Energy	350	2	674	5	433	7
Coal mining	274	1	7	-	34	1
Chemical	261	1	55	-	2	-
Aircraft	241	1	73	1	75	1
Telecommunications and media	185	1	145	1	74	1
Others	860	4	527	4	273	5
Total customer deposits	**19,988**	**100**	**12,767**	**100**	**6,024**	**100**

19. Customer Deposits (continued)

In December 2005, the Group purchased a deposit placed with the Group at a lower price than its carrying value. As a result, the Group recognized a gain from extinguishment of liability within the income statement amounting to USD 14 million, which represents a difference between the carrying value of the deposit and its purchase price.

20. Other Borrowed Funds

	31 December 2006	31 December 2005	31 December 2004
CBR deposits	653	982	694
Syndicated loans	2,864	1,426	885
Revolving credit lines	15	8	146
Other credit lines	936	521	4
Total other borrowed funds	**4,468**	**2,937**	**1,729**

Syndicated loans at 31 December 2006 comprise the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Syndicated loan	LIBOR+0.35%	August 2009	334	330
Syndicated loan	LIBOR + 0.375%	May 2009	602	600
Syndicated loan	LIBOR + 0.2%	February 2007	301	300
Syndicated loan	5.77%	December 2007	201	200
Syndicated loan	6.35%	July 2007	141	140
Syndicated loan	LIBOR + 0.575%	March 2008	177	174
Syndicated loan	6.05%	November 2008	275	275
Syndicated loan	5.75%	July 2009	150	150
Syndicated loan	6.07%	December 2007	100	100
Syndicated loan	5.75%	October 2008	199	200
Syndicated loan	6.55%	June 2008	151	150
Other syndicated loans	2.54%-6.66%	February 2007-August 2016	233	241
Total syndicated loans			**2,864**	**2,860**

Syndicated loans at 31 December 2005 comprise the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Syndicated loan	LIBOR + 0.15%	February 2006	501	500
Syndicated loan	LIBOR + 1.2%	April 2008	452	450
Syndicated loan	LIBOR + 1.6%	November 2007	151	300
Syndicated loan	LIBOR + 1%	From April 2005 to July 2007	140	140
Syndicated loan	LIBOR + 2.95%	From February 2005 to February 2006	92	90
Other syndicated loans	From 2.54% to LIBOR+3.2%	From February 2006 to March 2016	90	115
Total syndicated loans			**1,426**	**1,595**

20. Other Borrowed Funds (continued)

Syndicated loans at 31 December 2004 comprise the following:

	Interest rate	Maturity	Carrying amount	Total amount of loan facility available
Syndicated loan	LIBOR plus 1.6%	November 2007	301	300
Syndicated loan	LIBOR plus 1.0%	March 2005	300	300
Syndicated loan	LIBOR plus 1.4%	June 2005	275	275
Other syndicated loans	From 2.54% to 2.82%	From August 2005 to February 2007	9	9
Total syndicated loans			**885**	**884**

Other credit lines represent borrowings made by the Group from other banks, mainly OECD based, under non-revolving open credit lines with interest ranging from 3% to 12.2% under USD-denominated credit lines (31 December 2005: from 3.4% to 6.4%; 31 December 2004: 4.3%) from 0.8% to 7.5% under Euro-denominated credit lines (31 December 2005: from 0.8% to 5.8%) and from 2.2% to 11% under credit lines denominated in other currencies (31 December 2005: from 2.2% to 3.1%). The total amount of loan facility available under non-revolving credit lines is USD 936 million (31 December 2005: USD 521 million; 31 December 2004: USD 4 million).

In connection with the acquisition of Guta Bank (now named CJSC “VTB 24") by the Group in July 2004, the CBR placed a USD 700 million special purpose deposit with VTB at one-year LIBOR, maturing in July 2005, with a carrying value of USD 694 million. The deposit is available to maintain Guta Bank’s liquidity and for the use in Guta Bank’s operations. In July 2005, the term of the deposit has been prolonged to 20 July 2006 at a fixed rate of 4.07%. In July 2006, the amount of deposit was reduced to USD 500 million, and its term was prolonged to July 2007 at a fixed rate of 5.66%. The Group has initially recognized the CBR deposit at its fair value, calculated based on market rates for similar deposits.

21. Debt Securities Issued

	31 December 2006	31 December 2005	31 December 2004
Bonds	9,341	5,060	2,227
Promissory notes	1,877	1,736	1,521
Deposit certificates	106	288	200
Debentures	241	157	–
Total debt securities issued	**11,565**	**7,241**	**3,948**

Promissory notes issued include both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to June 2015 (31 December 2005 and 2004: from demand to December 2012). Effective interest rates range from 0% to 12% (31 December 2005: from 0% to 10%; 31 December 2004: from 0% to 16%).

At 31 December 2006, debentures issued include EUR 200 million (31 December 2005: EUR 130 million) of SSDs (“Schuldscheindarlehen”) issued in January 2006 under the local German rules and the rules of Austrian market with maturity in January 2007 bearing an interest rate of EURIBOR + 0.3% p.a. (31 December 2005: maturity in January 2006, bearing an interest rate of EURIBOR + 1.15% p.a.).

21. Debt Securities Issued (continued)

As of 31 December 2006 bonds comprise the following:

	Interest	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by VTB under Euro Medium Term Note borrowings program of USD 10,000 million					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	539	541	102.5%
Series 3 issued in July 2004	LIBOR + 2.9% payable quarterly	July 2007	300	304	101.8%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	439	442	107.3%
Series 6 issued in June 2005	6.25% payable semi-annually	June 2035	1,000	997	102.8%
Series 8 issued in December 2005	LIBOR + 0.75% payable quarterly	September 2007	1,000	1,000	100.4%
Series 10 issued in November 2006	LIBOR + 0.6% payable quarterly	August 2008	1,750	1,762	100.3%
USD denominated Residential Mortgage Backed Floating Rate Notes issued by VTB					
Class A Residential Mortgage Backed Floating Rate Notes issued in July 2006	LIBOR + 1% payable monthly	May 2034	65	65	100.0%
Class B Residential Mortgage Backed Floating Rate Notes issued in July 2006	LIBOR + 2% payable monthly	May 2034	11	11	100.0%
USD denominated Eurobonds issued by "Industry & Construction Bank", OJSC					
Series 1 issued in July 2005	6.875% payable semi-annually	July 2008	288	294	100.0%
USD denominated Eurobonds issued by CJSC "Vneshtorgbank Retail Services" (renamed to "Bank VTB 24" CJSC)					
Series 1 issued in December 2006	LIBOR + 0.82% payable quarterly	July 2008	499	498	100.0%
USD denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)					
Series 1 issued in June 2003	4.3% payable semi-annually	June 2008	150	150	97.5%
Series 3 issued in October 2004	5.1% payable annually	October 2007	195	198	100.9%
Series 5 issued in October 2006	LIBOR + 0.8% payable quarterly	October 2009	496	503	100.0%
USD denominated Eurobonds issued by Donau-Bank AG (renamed into "VTB Bank (Austria)" AG)					
Private placement issued in December 2006	6.27% - 6.31%, LIBOR + 1.27% payable semi-annually	December 2009	105	105	100.0%
Subtotal USD denominated Eurobonds			**6,837**	**6,870**	

21. Debt Securities Issued (continued)

	Interest	Maturity	Face value	Carrying value	Market price, % of face value
EURO denominated Eurobonds issued by VTB					
Series 9 issued in February 2006	4.25% payable annually	February 2016	652	675	98.6%
EURO denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)					
Series 4 issued in January 2005	EURIBOR + 1.2% payable semi-annually	January 2008	65	66	100.5%
Subtotal EURO denominated Eurobonds			**717**	**741**	
RUR denominated bonds issued by VTB					
4th tranche of Russian Rouble denominated debentures issued in March 2004	6.5% payable semi-annually	March 2009	190	193	100.0%
5th tranche of Russian Rouble denominated debentures issued in October 2005	6.2% payable quarterly	October 2013	570	576	100.2%
6th tranche of Russian Rouble denominated debentures issued in July 2006	6.5% payable quarterly	October 2013	570	577	100.4%
Eurobond issued in April 2006	7,0% payable semi-annually	April 2009	380	384	101.0%
Subtotal RUR denominated bonds			**1,710**	**1,730**	
Total Bonds			**9,264**	**9,341**	

As of 31 December 2005 bonds comprise the following:

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by VTB under EURO Medium Term Note borrowings program of USD 10,000 million					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	539	539	102.9%
Series 3 issued in July 2004	LIBOR + 2.9% payable quarterly	July 2007	300	304	103.2%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	420	420	107.3%
Series 5 issued in December 2004	LIBOR + 1.35% payable quarterly	June 2006	350	350	100.2%
Series 6 issued in June 2005	6.25% payable semi-annually	June 2035	1,000	1,000	102.4%
Series 8 issued in December 2005	LIBOR + 0.75% payable quarterly	September 2007	1,000	1,000	100.2%
USD denominated Eurobonds issued by "Industry & Construction Bank", OJSC					
Series 1 issued in July 2005	6.875% payable semi-annually	July 2008	286	287	101.3%

21. Debt Securities Issued (continued)

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)					
Series 1 issued in June 2003	4.3% payable semi-annually	June 2008	144	144	96.9%
Series 2 issued in December 2003	5.9% payable semi-annually	December 2006	20	20	100.0%
Series 3 issued in October 2004	5.1% payable annually	October 2007	200	203	101.9%
Subtotal USD denominated Eurobonds			**4,259**	**4,267**	
EURO denominated Eurobonds issued by "Moscow Narodny Bank Limited" (renamed to "VTB Bank (Europe)", Plc.)					
Series 4 issued in January 2005	3.4% payable semi-annually	January 2008	59	60	100.0%
Subtotal EURO denominated Eurobonds			**59**	**60**	
RUR denominated bonds issued by VTB					
3rd tranche of Russian Rouble denominated debentures issued in February 2003	From 14% to 15.5% payable annually	February 2006	72	72	101.1%
4th tranche of Russian Rouble denominated debentures issued in March 2004	From 5.43% to 5.6% payable semi-annually	March 2009	140	140	99.6%
5th tranche of Russian Rouble denominated debentures issued in October 2005	6.2% payable quarterly	October 2013	521	521	99.5%
Subtotal RUR denominated bonds			**733**	**733**	
Total Bonds			**5,051**	**5,060**	

As of 31 December 2004 bonds comprise the following:

	Interest rate	Maturity	Face value	Carrying value	Market price, % of face value
USD denominated Eurobonds issued by VTB under Medium Term Note borrowings program of USD 3,000 million:					
Series 1 issued in December 2003 and March 2004	6.875% payable semi-annually	December 2008	550	545	104.8%
Series 2 issued in April 2004	LIBOR + 2% payable quarterly	April 2005	325	326	100.2%
Series 3 issued in July 2004	LIBOR + 2.9% payable quarterly	July 2007	300	302	103.5%
Series 4 issued in October 2004	7.5% payable semi-annually	October 2011	450	446	107.0%
Series 5 issued in December 2004	LIBOR + 1.35% payable quarterly	June 2006	350	350	100.1%
Subtotal USD denominated Eurobonds			**1,975**	**1,969**	
RUR denominated bonds issued by VTB:					
3rd tranche of Russian Rouble denominated debentures	From 14% to 15.5%	February 2006	72	76	108.0%
4th tranche of Russian Rouble denominated debentures	5.43%	March 2009	180	182	99.0%
Subtotal RUR denominated bonds			**252**	**258**	
Total Bonds			**2,227**	**2,227**	

21. Debt Securities Issued (continued)

In February 2006 VTB issued EUR 500 million Series 9 Eurobonds under its EMTN Program with a fixed rate of 4.25% p.a. The issue has 10-year maturity (February 2016) and may be redeemed in February 2011 at the option of noteholders (5-year put option).

In February 2006, VTB redeemed Series 3 RUR denominated bonds with a face value of USD 72 million.

In April 2006, VTB issued RUR-denominated Eurobonds with a face value of 10 billion (or USD 373 million) with fixed rate 7% p.a. The issue has a 3-year maturity.

In June 2006, VTB redeemed Series 5 Eurobonds with face value of USD 350 million.

In July 2006, VTB issued RUR 15 billion (USD 560 million) Series 6 bonds due July 2016 with a fixed rate of 6.5% p.a. The issue has 10-year maturity (July 2016) and may be redeemed in July 2007 at the option of the noteholders (1-year put option).

In July 2006, VTB issued USD 88.3 million Mortgage-backed notes through a special purpose entity. The notes are issued at a floating LIBOR–based rate and are finally due in May 2034. The securities are collateralized with a portfolio of 1,696 mortgage loans to individuals secured by residential properties in Moscow and St. Petersburg. All the risks and rewards remained with VTB, and therefore, the mortgage loans were not derecognised. The risks were not transferred due to a subordinated loan granted by VTB to the special purpose entity and repurchase of class C of Mortgage-backed notes, which absorbs all credit risks. The carrying value of the mortgage loans is USD 88 million.

In October 2006, Moscow Narodny Bank (renamed to "VTB Bank (Europe)", Plc.) issued a USD 500 million Series 5 Eurobond with a floating rate of LIBOR+0.80% maturing in October 2009.

In November 2006, VTB issued a USD 1,750 million Series 10 Eurobond with a floating rate of LIBOR+0.60% maturing in August 2008.

In December 2006, VTB 24 issued a USD 500 million Eurobond with a floating rate of LIBOR+0.82% maturing in December 2009.

In December 2006, VTB Bank (Austria) privately placed three tranches of notes of USD 36 million maturing in December 2009 with a fixed rate of 6.27%, USD 14 million maturing December 2009 with a floating rate of LIBOR+1.27% and USD 55 million maturing in December 2011 with a fixed rate of 6.31%.

Deposit certificates are denominated in RUR and have maturities ranging from demand to June 2007 (31 December 2005: from demand to December 2006; 31 December 2004: from demand to December 2005). Interest rates on deposit certificates range between 3% and 6% (31 December 2005: between 0% and 10%; 31 December 2004: between 0% and 16%).

22. Subordinated Debt

On 4 February 2005, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued USD 750 million of Eurobonds (with a call option for early repayment on the fifth anniversary of such date) due February 2015, the proceeds of which financed a subordinated loan to VTB. The eurobonds bear interest at 6.315% per annum payable semi-annually, with an interest rate step-up in 2010. As of 31 December 2006 the carrying amount of this subordinated debt was USD 766 million (31 December 2005: USD 766 million). The Bank's management intends to settle the debt in 2010 before the interest rate step-up.

On 29 September 2005, OJSC "Industry & Construction Bank" issued USD 400 million subordinated Eurobonds due September 2015 with early redemption call option on 1 October 2010 at face value. The Eurobonds bear interest at 6.2% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxemburg) for the purpose of financing a subordinated loan to the Bank. As of 31 December 2006, the carrying amount of this subordinated debt was USD 389 million (31 December 2005: USD 387 million). The Bank's management intends to settle the debt in 2010 before the interest rate step-up.

On 26 December 2006, OJSC "Industry & Construction Bank" upon maturity redeemed RUR 220 million subordinated loan with interest at 10.0% per annum payable semi-annually. This loan was obtained on 27 December 2000. At 31 December 2005, the carrying amount of this subordinated debt was USD 8 million.

22. Subordinated Debt (continued)

As a result of disposal of “Trading House VTB”, Ltd., the Group recognized a subordinated loan raised by “Bank VTB 24”, CJSC in October 2000 which is due in October 2015 to “Trading House VTB”, Ltd and carries an interest rate at 6.0% per annum. As of 31 December 2006 the carrying amount of this subordinated loan was USD 14 million (31 December 2005 and 2004: nil).

23. Other Liabilities

	31 December 2006	31 December 2005	31 December 2004
Trade creditors and prepayments received	149	58	36
Liabilities to pay taxes	80	25	20
Payable to employees	68	44	–
Liabilities on pension plans	51	46	23
Negative replacement value of derivatives (Note 34)	51	36	14
Unsettled transactions	23	17	14
Deferred income	19	18	5
Obligation to delivery securities	9	43	–
Provisions on insurance payments	7	7	1
Dividends payable	7	6	–
Provisions for credit related commitments (Note 29)	3	–	18
Settlements on foreign exchange operations	2	36	–
Other liabilities	40	22	14
Total	**509**	**358**	**145**

24. Share Capital and Reserves

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

	31 December 2006		31 December 2005		31 December 2004	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Ordinary shares	5,211,112,400,000	2,500	52,111,124	2,500	42,137,236	2,153
Total share capital	**5,211,112,400,000**	**2,500**	**52,111,124**	**2,500**	**42,137,236**	**2,153**

Contributions to the Bank’s share capital were originally made in RUR, foreign currency, and gold bullion. All ordinary shares rank equally and carry one vote. A nominal value of all ordinary shares was RUR 1 thousand per share up to December 2006, when CBR registered the split of shares (1 share was split to 100,000 shares) and change of nominal value of share from RUR 1 thousand to RUR 0.01. The Bank also has 2,611,200,000 authorized ordinary shares with a par value of RUR 0.01 each, which are currently not issued.

In October 2002, the CBRF transferred its 99.9% shareholding in the Bank to the Ministry of Property Relations of the Russian Federation. In March 2004 the Ministry of Property Relations was abolished and succeeded by the Federal Property Management Agency.

On 26 December 2005, the Central Bank of Russia registered the increase of VTB’s share capital of RUR 9,974 million (USD 347 million at exchange rate as of 26 December 2005) through issuance of 9,973,888 shares at par value of 1,000 RUR. The price per share was RUR 3,760 (USD 130.6 at exchange rate as of 26 December 2005). Refer to Note 39.

At 31 December 2006 and 2005 the share premium amounted to USD 1,513 million (31 December 2004: USD 34 million). Increase in share premium is described in Note 39.

At 31 December 2006, 2005 and 2004 the reserves include both distributable and non-distributable reserves.

25. Interest Income and Expense

	2006	2005	2004
Interest income			
Loans and advances to customers	2,872	1,425	778
Securities	459	268	214
Due from other banks	306	137	66
Total interest income	**3,637**	**1,830**	**1,058**
Interest expense			
Customer deposits	(740)	(334)	(159)
Debt securities issued	(517)	(266)	(209)
Due to banks and other borrowed funds	(561)	(277)	(107)
Subordinated debt	(74)	(43)	–
Total interest expense	**(1,892)**	**(920)**	**(475)**
Net interest income	**1,745**	**910**	**583**

In 2006, 2005 and 2004 majority of interest income on securities is represented by interest income on financial assets at fair value through profit or loss.

26. Fee and Commission Income and Expense

	2006	2005	2004
Commission on settlement transactions	202	74	34
Commission on cash transactions	75	29	23
Commission on guarantees issued	61	48	25
Commission on operations with securities	35	12	8
Other	28	27	28
Total fee and commission income	**401**	**190**	**118**
Commission on settlement transactions	(24)	(5)	(3)
Commission on cash transactions	(9)	(6)	(5)
Commission on guarantees issued	(3)	(2)	(1)
Commission on loans granted	(1)	(2)	(1)
Other	(13)	(7)	(2)
Total fee and commission expense	**(50)**	**(22)**	**(12)**
Net fee and commission income	**351**	**168**	**106**

27. Other Operating Income

	2006	2005	2004
Unrealised increase in fair value revaluation of investment property (Note 16)	52	–	–
Dividends received	44	2	1
Income arising from operating leasing	9	–	–
Fines and penalties received	6	8	1
Reversal of impairment of fixed assets (Note 15)	6	27	–
Income arising from disposal of property	3	21	–
Reversal of other provisions (Note 29)	–	8	5
Other	37	28	46
Total other operating income	**157**	**94**	**53**

28. Staff Costs and Administrative Expenses

	2006	2005	2004
Staff costs	606	334	213
Defined contribution pension expense	66	30	23
Depreciation and other expenses related to premises and equipment	171	94	80
Leasing and rent expenses	80	48	34
Advertising expenses	74	40	20
Taxes other than on income	70	50	36
Insurance	47	14	3
Professional services	39	22	21
Security expenses	32	20	14
Amortization of core deposit intangible (Note 17)	34	–	–
Post and telecommunication expenses	27	17	17
Charity	18	19	14
Impairment and amortization of intangibles, except for amortization of core deposit intangible (Note 17)	19	–	4
Transport expenses	11	9	11
Impairment of fixed assets	–	6	–
Other	76	36	24
Total staff costs and administrative expenses	**1,370**	**739**	**514**

29. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks and loans and advances to customers were as follows:

	Due from other banks	Loans and advances to customers	Total
31 December 2003	**122**	**470**	**592**
Provision for loan impairment during the period	11	185	**196**
Write-offs	–	(102)	**(102)**
Disposal of subsidiary (Note 39, 40)	(22)	–	**(22)**
31 December 2004	**111**	**553**	**664**
(Reversal of provision) provision for loan impairment during the period	(7)	110	**103**
Write-offs	(97)	(55)	**(152)**
31 December 2005	**7**	**608**	**615**
Provision for loan impairment during the period	–	442	**442**
Write-offs	–	(13)	**(13)**
Recoveries of amounts written-off in previous period	–	–	–
Currency translation difference	1	10	**11**
Disposal of subsidiaries (Note 39, 40)	–	(74)	**(74)**
31 December 2006	**8**	**973**	**981**

At 31 December 2003, included in overdue loans was a deposit of USD 100 million placed with a foreign bank for the purpose of financing Russian fishing enterprises. The Group treated this amount as loans to customers as the fishing enterprises were the ultimate borrowers under the loans and created a 100% allowance for loan impairment against these loans. The loans were originally financed by deposits from a state-owned Russian bank, which were included in due to other banks. In December 2004, the Group favourably negotiated the extinguishment of debt related to these deposits, thus resulting in the recognition of a gain from extinguishment of a liability of USD 100 million in the Group's income statement for 2004. The respective loans were written off during the 2004 as uncollectible.

29. Allowances for Impairment and Provisions (continued)

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

	Other assets	Credit related commitments	Total
31 December 2003	**–**	**10**	**10**
Reversal of provision for impairment during the period	–	(5)	(5)
Purchase of subsidiaries	–	13	13
31 December 2004	**–**	**18**	**18**
(Reversal of provision) provision for impairment during the period	10	(18)	(8)
Write-offs	(10)	–	(10)
31 December 2005	**–**	**–**	**–**
(Reversal of provision) provision for impairment during the period	(3)	3	–
Recoveries of amounts written-off in previous period	3	–	**3**
31 December 2006	**–**	**3**	**3**

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

30. Income Tax Expense

Income tax expense comprises the following:

	2006	2005	2004
Current tax charge	366	90	124
Deferred taxation movement due to the origination and reversal of temporary differences	(134)	105	(31)
Income tax expense for the year	**232**	**195**	**93**

The income tax rate applicable to the majority of the Group's income is 24%. The income tax rate applicable to subsidiaries' income ranges from zero to 41% in 2006 (2005: 4.25% to 25%; 2004: 4.25% to 34%). The change in the lower tax rate from 4.25% to zero relates to the tax-free status of VTB Bank (France). The change in the upper level of tax rate from 34% to 41% relates to high tax rate of new subsidiary VTB Bank (Deutschland), purchased in December 2005, which is registered in Germany. The change in the upper level of tax rate from 34% to 25% in 2005 relates to the change in the income tax rate in Austria during 2006. Reconciliation between the expected and the actual taxation charge is provided below.

	2006	2005	2004
IFRS profit before taxation	**1,404**	**703**	**301**
Theoretical tax charge at the applicable statutory rate of each company within the Group	309	166	83
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Non deductible expenses	28	37	42
- Changes in value of investment in shares	–	–	(12)
- Income which is exempt from taxation	(44)	(2)	(4)
- Effect of change in tax rates	(25)	(7)	14
- Other non-temporary differences	10	4	11
- Tax losses utilized	(10)	(23)	(11)
- Translation effect	(10)	13	(30)
- Change in unrecognized deferred taxes	14	12	–
- Previously unrecorded tax losses now recognised	(28)	(9)	–
- Other	(12)	4	–
Income tax expense for the year	**232**	**195**	**93**

30. Income Tax Expense (continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 41% (2005: from 4.25% to 41%; 2004: from 4.25% to 34%). The change in the lower range of the tax rate from 4.25% to 10% relates to the change in the tax rate in Cyprus in 2006. The Bank and its subsidiaries have no right to set off current tax assets and tax liabilities between legal entities, so deferred tax assets and deferred tax liabilities are separately assessed for each entity.

		Origination and reversal of temporary differences			Origination and reversal of temporary differences				Origination and reversal of temporary differences			
	2003	In the statement of income	Directly in equity	2004	In the statement of income	Directly in equity	Effect of business combination (Note 39)	2005	In the statement of income	Directly in equity	Effect of business combination (Note 39)	2006
Tax effect of deductible temporary differences:												
Allowances for impairment and provisions for other losses	48	(19)	–	29	8	–	2	39	73	–	(12)	100
Tax losses carried forward	78	(29)	–	49	12	–	34	95	6	3	–	104
Accrued expenses	1	19	–	20	(5)	–	3	18	17	–	–	35
Other	6	14	–	20	(16)	–	18	22	15	–	–	37
Gross deferred tax assets	133	(15)	–	118	(1)	–	57	174	111	3	(12)	276
Unrecognized deferred tax assets	–	–	–	–	(12)	–	–	(12)	(14)	–	12	(14)
Gross deferred tax asset	**133**	**(15)**	**–**	**118**	**(13)**	**–**	**57**	**162**	**97**	**3**	**-**	**262**
Tax effect of taxable temporary differences:												
Fair value measurement of securities	(48)	52	(29)	(25)	(59)	8	(2)	(78)	62	(16)	–	(32)
Property and equipment	(14)	(1)	–	(15)	(37)	(19)	(23)	(94)	(9)	(91)	6	(188)
Intangible assets	–	–	–	–	–	–	(37)	(37)	7	(3)	–	(33)
Other	–	(5)	–	(5)	4	–	(32)	(33)	(23)	-	15	(41)
Gross deferred tax liability	**(62)**	**46**	**(29)**	**(45)**	**(92)**	**(11)**	**(94)**	**(242)**	**37**	**(110)**	**21**	**(294)**
Deferred tax asset, net	**83**	**(9)**	**–**	**74**	**(24)**	**–**	**32**	**82**	**8**	**3**	**-**	**93**
Deferred tax liability, net	**(12)**	**40**	**(29)**	**(1)**	**(81)**	**(11)**	**(69)**	**(162)**	**126**	**(110)**	**21**	**(125)**

30. Income Tax Expense (continued)

At 31 December 2006, VTB Bank (Austria) and VTB Bank (Deutschland) had unused tax losses of USD 641 million (2005: USD 419 million; 2004: USD 238 million) for which no deferred tax asset was recognized due to uncertainty that these banks will have sufficient future taxable profits against which unused tax losses can be utilized. Losses of VTB Bank (Austria) do not expire and losses of VTB Bank (Deutschland) would expire when it would be reorganized as a branch of VTB Bank (Europe).

In 2006 the Bank has significant non-taxable income, which contributed to the decrease in effective tax rate.

At 31 December 2006, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability have not been recognized was USD 205 million (31 December 2005: USD 460 million; 31 December 2004: USD 22 million).

31. Basic and Diluted Earnings per Share

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

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

	2006	2005	2004
Net profit attributable to shareholders of the parent *(in millions of US dollars)*	1,137	499	205
Weighted average number of ordinary shares (adjusted retrospectively for split of 1 share to 100,000 shares in 2006) in issue	5,211,112,400,000	4,230,119,032,329	4,213,723,600,000
Basic and diluted earnings per share (expressed in USD per share)	**0.000218**	**0.000118**	**0.000049**
Basic and diluted earnings per share – continuing operations (expressed in USD per share)	0.000217	0.000117	0.000049
Basic and diluted earnings per share – discontinued operations (expressed in USD per share)	0.000001	0.000001	-

32. Dividends

VTB does not have a formal policy for payment of dividends. The amount of dividends to be declared and paid is decided at VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with Russian Accounting Regulation on a stand-alone basis. In 2004, VTB declared and paid RUR 1.6 billion (USD 57 million at the exchange rate of RUR 27.75 per USD 1.00) in dividends for 2003 (USD 1.35 per share). In 2005, VTB declared and paid a dividend of RUR 1.7 billion (USD 61 million at the exchange rate of RUR 27.87 per USD 1.00) for 2004 (USD 1.45 per share). In June 2006, VTB declared and paid a dividend of RUR 1.7 billion (USD 63 million at the exchange rate of RUR 27.0611 per USD 1.00) for 2005 (USD 1.21 per share).

In 2006, ICB declared and paid a dividend of RUR 126 million (USD 4.7 million at the exchange rate of RUR 27.0789 per USD 1.00) for 2005, resulting in reduction of minority interest in ICB (25%) by USD 1 million.

33. Disposal Group Held for Sale

At the end of June 2005, a subsidiary of CJSC "Vneshtorgbank Retail Services" (renamed to "Bank VTB 24", CJSC) purchased a 100% interest in CJSC "Sales", a holding company for a number of Russian companies involved in aircraft engine manufacturing. The management intention was to sell this investment within 12 months, therefore the Bank applied IFRS 5 for its accounting. The Bank has calculated fair values of the CJSC "Sales" consolidated assets and liabilities at the acquisition date amounting to USD 334 million and USD 201 million, respectively. CJSC "Sales" holding was classified as a disposal group held for sale under provisions of IFRS 5 and included into the geographical segment "Russia". In June 2006 the Group initiated the sale of the Disposal Group. The deal was closed in August 2006 and the Group recognized gain on sale of USD 5 million, net of tax. (Refer to Note 40).

33. Disposal Group Held for Sale (continued)

Net profit of discontinued operations relating to the disposal group held for sale from 1 January 2006 till the date of disposal was USD 2 million (from the date of acquisition to 31 December 2005: USD 3 million).

34. Contingencies, Commitments, and Derivative Financial Instruments

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

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

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

Outstanding credit related commitments are as follows:

	31 December 2006	31 December 2005	31 December 2004
Guarantees issued	3,164	2,040	1,908
Undrawn credit lines	3,944	2,828	995
Import letters of credit	999	559	389
Commitments to extend credit	1,814	1,023	477
Other credit related commitments	–	10	510
Less: allowance for losses on credit related commitments	(3)	–	(18)
Total credit related commitments	**9,918**	**6,460**	**4,261**

The Bank has received export letters of credit for further advising to its customers. The total amount of received letters of credit as of 31 December 2006 was USD 2,120 million (31 December 2005: USD 1,829 million; 31 December 2004: USD 2,005 million). Commitments under import letters of credit and guarantees are collateralized by customer deposits of USD 66 million (31 December 2005: USD 55 million; 31 December 2004: USD 60 million).

At 31 December 2006, included in guarantees issued above are guarantees issued for one Russian company of USD 806 million (25% of the guarantees issued) (31 December 2005: USD 445 million, 22% of the guarantees issued; 31 December 2004: USD 930 million, 49% of the guarantees issued).

At 31 December 2004, included in other credit related commitments above is a commitment of the Group to guarantee the repayment of a loan issued to a Russian company in the amount of USD 500 million. This commitment expired and was cancelled in February 2005.

Movements in the allowance for losses on credit related commitments are disclosed in Note 29.

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

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

Remaining contractual maturity	2006	2005	2004
Not later than 1 year	35	26	1
Later than 1 year but not later than 5 years	77	60	2
Later than 5 years	84	54	–
Total operating lease commitments	**196**	**140**	**3**

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 principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2006. These contracts were mainly entered into in December 2006 and settled early in January 2007.

The table below includes contracts outstanding at 31 December 2006:

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Forward and futures contracts						
- sale of foreign currency	287	–	7	1,662	(2)	16
- purchase of foreign currency	303	(6)	–	631	(4)	4
- exchange of foreign currency	5	–	–	332	(15)	1
- sale of precious metals	–	–	–	166	–	2
- sale of securities	–	–	–	6	–	–
- purchase of securities				100	–	23
Swaps						
- sale of foreign currency	64	–	–	111	–	1
- purchase of foreign currency	1	–	–	233	–	5
- exchange of foreign currency	5	–	–	1,292	(12)	2
- sale of credit default swaps	–	–	–	612	–	–
- purchase of credit default swaps	–	–	–	29	–	–
- interest rate swaps	78	–	–	219	(4)	–
Options on precious metals						
- purchased put on precious metals	–	–	–	9	–	–
- purchased call on precious metals	–	–	–	10	–	–
Options on foreign currency						
- written put on foreign currency	–	–	–	42	–	–
- purchased put on foreign currency	–	–	–	30	–	–
- written call on foreign currency	–	–	–	87	–	–
- purchased call on foreign currency	–	–	–	7	–	–
Options on securities						
- written put on securities	2,060	–	–	79	–	4
- purchased put on securities				190	(8)	
- written call on securities	57	–	–	–	–	–
- purchased call on securities	55	–	–	96	–	10
Total	**2,915**	**(6)**	**7**	**5,943**	**(45)**	**68**

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

The table below includes contracts outstanding at 31 December 2005.

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Forward and futures contracts						
- sale of foreign currency	671	(3)	1	10	–	–
- purchase of foreign currency	1,881	(4)	7	370	(11)	–
- exchange of foreign currency	–	–	–	22	–	–
- sale of precious metals	–	–	–	203	–	9
- sale of securities	48	–	–	–	–	–
- purchase of securities	8	–	–	61	(1)	–
Swaps						
- sale of foreign currency	77	–	–	70	–	1
- purchase of foreign currency	40	–	–	314	(8)	–
- exchange of foreign currency	64	–	1	644	(4)	2
- sale of credit default swaps	–	–	–	185	–	2
- interest rate swaps	–	–	–	17	(5)	–
Options on precious metals						
- purchased call on precious metals	–	–	–	5	–	–
Options on foreign currency						
- written put on foreign currency	–	–	–	474	–	–
- purchased put on foreign currency	–	–	–	65	–	–
- purchased call on foreign currency	–	–	–	18	–	–
Options on securities						
- written put on securities	–	–	–	83	–	–
- purchased put on securities	5	–	–	–	–	–
- written call on securities	–	–	–	59	–	–
- purchased call on securities	–	–	–	84	–	–
Total	**2,794**	**(7)**	**9**	**2,684**	**(29)**	**14**

The table below includes contracts outstanding at 31 December 2004.

	Domestic			Foreign		
	Notional amount	**Negative fair value**	**Positive fair value**	**Notional amount**	**Negative fair value**	**Positive fair value**
Forward and futures contracts						
- sale of foreign currency	25	–	–	69	–	–
- purchase of foreign currency	135	(1)	–	458	(11)	1
- sale of precious metals	–	–	–	1	–	–
- sale of securities	88	–	–	31	(1)	–
- purchase of securities	72	–	–	10	–	–
Swaps						
- sale of foreign currency	20	–	–	16	(1)	–
- purchase of foreign currency	203	–	–	896	–	18
Total	**543**	**(1)**	**–**	**1,481**	**(13)**	**19**

Purchase commitments. As of December 31, 2006 the Group had USD 275 million outstanding commitments for purchase of precious metals (31 December 2005: USD 249 million; 31 December 2004: USD 285 million). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognised on these contracts.

35. Analysis by Segment

In accordance with IAS 14, "Segment Reporting", the Group's primary format for reporting segment information is geographical segments. Geographical segment information is based on geographical location of assets and liabilities and related revenues of entities within the Group. VTB has predominantly one business segment, commercial banking, therefore no business segment disclosure is presented. Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, is set out below for the year ended 31 December 2006:

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

	Russia	Other CIS	Europe	Total before intersegment eliminations	Inter-segment	Total
Revenues from:						
External customers	3,969	138	1,087	5,194		**5,194**
Other segments	119	–	12	131	(131)	**–**
Total revenues	4,088	138	1,099	5,325	(131)	**5,194**
Segment results (profit before taxation)	1,045	9	350	1404		**1,404**
Income tax expense						**(232)**
Profit after taxation from continued operations						**1,172**
Profit from discontinued operations	7	–	–	7		**7**
Net profit						**1,179**
Segment assets as of 31 December 2006 less income tax assets	41,161	1,233	12,367	54,761	(2,468)	**52,293**
Income tax assets	16	4	90	110		**110**
Segment assets as of 31 December 2006	41,177	1,237	12,457	54,871	(2,468)	**52,403**
Segment liabilities as of 31 December 2006 less income tax liabilities	36,218	1,049	10,455	47,722	(2,468)	**45,254**
Income tax liabilities	136	4	17	157		**157**
Segment liabilities as of 31 December 2006	36,354	1,053	10,472	47,879	(2,468)	**45,411**
Other segment items						
Share in income of associates	3	–	12	15		**15**
Profit from disposal of subsidiaries	54	–	–	54		**54**
Capital expenditure	232	50	8	290		**290**
Depreciation and amortization charge	66	5	8	79		**79**
Other non-cash income (expenses)						
Provision for loan impairment	(382)	(27)	(33)	(442)		**(442)**
Interest income	2,869	113	784	3,766	(129)	**3,637**
Interest expense	(1,426)	(56)	(539)	(2,021)	129	**(1,892)**
Net interest income	1,443	57	245	1,745		**1,745**

35. Analysis by Segment (continued)

Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, at 31 December 2005 is set out below:

	Russia	Other CIS	Europe	Total before intersegment eliminations	Inter-segment eliminations	Total
Revenues from						
External customers	**2,178**	**34**	**364**	**2,576**		**2,576**
Other segments	**55**	**–**	**6**	**61**	**(61)**	**–**
Total revenues	**2,233**	**34**	**370**	**2,637**	**(61)**	**2,576**
Segment results (profit before taxation)	607	5	91	703		**703**
Income tax expense						**(195)**
Profit after taxation from continued operations						**508**
Profit from discontinued operations	3	–	–	3		**3**
Net profit						**511**
Segment assets as of 31 December 2005 less income tax assets	27,615	427	10,168	38,210	(1,607)	**36,603**
Income tax assets	45	-	75	120		**120**
Segment assets as of 31 December 2005	27,660	427	10,243	38,330	(1,607)	**36,723**
Segment liabilities as of 31 December 2005 less income tax liabilities	24,109	371	8,394	32,874	(1,607)	**31,267**
Income tax liabilities	163	1	23	187		**187**
Segment liabilities as of 31 December 2005	24,272	372	8,417	33,061	(1,607)	**31,454**
Other segment items						
Share in income of associates	22	–	2	24		**24**
Capital expenditure	133	14	1	148		**148**
Depreciation and amortization charge	37	2	1	40		**40**
Provision for loan impairment	(102)	(3)	2	(103)		**(103)**
Interest income	1,558	23	308	1,889	(59)	**1,830**
Interest expense	(733)	(9)	(237)	(979)	59	**(920)**
Net interest income	825	14	71	910		**910**

35. Analysis by Segment (continued)

Segment information for the three main reportable geographical segments of the Group, Russia, Other CIS and Europe, at 31 December 2004 is set out below:

	Russia	Other CIS	Europe	Total before intersegment eliminations	Inter-segment eliminations	Total
Revenues from						
External customers	**1,501**	**8**	**103**	**1,612**		**1,612**
Other segments	**5**	**–**	**20**	**25**	**(25)**	**–**
Total revenues	**1,506**	**8**	**123**	**1,637**	**(25)**	**1,612**
Segment results (profit before taxation)	274	2	25	301		**301**
Income tax expense						**(93)**
Profit after taxation from continued operations						**208**
Segment assets as of 31 December 2004 less income tax assets	14,975	87	3,762	18,824	(1,109)	**17,715**
Income tax assets	50	–	45	95		**95**
Segment assets as of 31 December 2004	15,025	87	3,807	18,919	(1,109)	**17,810**
Segment liabilities as of 31 December 2004 less income tax liabilities	12,968	73	3,148	16,189	(1,109)	**15,080**
Income tax liabilities	18	1	2	21		**21**
Segment liabilities as of 31 December 2004	12,986	74	3,150	16,210	(1,109)	**15,101**
Other segment items						
Share in income of associates	–	–	2	2		**2**
Capital expenditure	89	2	2	93		**93**
Depreciation and amortization charge	48	1	2	51		**51**
Provision for loan impairment	(200)	–	4	(196)		**(196)**
Interest income	936	5	138	1,079	(21)	**1,058**
Interest expense	(427)	(2)	(67)	(496)	21	**(475)**
Net interest income	509	3	71	583		**583**

36. Financial Risk Management

The Management Board has overall responsibility for risk management at VTB. On a Group level and within VTB a number of committees and departments are established to coordinate day-to-day risk management. On a Group-wide basis risk management is overseen by the Risk Management Commission.

The Assets and Liabilities Committee (the "ALCO") establishes major balance sheet parameters for use in asset and liability management and monitors compliance within VTB with the assistance of VTB's Credit and Risks Control Department (the "CRCD"). The ALCO, VTB's Credit Committee (the "CC"), the CRCD and the Treasury carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) and liquidity risks.

The CRCD proposes risk limits on various banking operations and prepares recommendations regarding market risk and liquidity risk management for the ALCO. The CRCD reports to the ALCO, the CC and the Management Board.

36. Financial Risk Management (continued)

Credit risk

Credit risk is the risk that a counterparty will not be able to meet its obligations in full when due. The Group is primarily exposed to credit risk through its loan portfolio, securities portfolios, guarantees, commitments and other on- and off-balance sheet credit exposures. On a Group-wide basis credit risk management is overseen by the Risk Management Commission which adopted a Group-wide credit policy.

Credit risk management at VTB includes establishing limits in relation to single borrowers, groups of borrowers, industries, regions and foreign countries, which are set and regularly reviewed by the CRCD, approved by the CC and comply with exposure limits established by the CBR.

VTB attempts to reduce credit risk by conducting a thorough investigation of each prospective borrower to determine its ability to repay its debt.

Each Group bank adopts and revises its credit risk management policy on a regular basis in compliance with the oversights and regulatory requirements of the country in which it operates.

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2006 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	2,636	734	211	**3,581**
Mandatory cash balances with central banks	571	26	51	**648**
Financial assets at fair value through profit or loss	3,709	1,296	115	**5,120**
Financial assets pledged under repurchase agreements and loaned financial assets	219	2,676	43	**2,938**
Due from other banks	2,228	4,248	337	**6,813**
Loans and advances to customers	22,802	1,116	5,344	**29,262**
Financial assets available-for-sale	529	317	42	**888**
Investments in associates	129	66	5	**200**
Investment securities held-to-maturity	–	5	6	**11**
Premises and equipment	1,161	141	120	**1,422**
Investment property	177	–	1	**178**
Intangible assets	420	11	24	**455**
Deferred tax asset		90	3	**93**
Other assets	578	170	46	**794**
Total assets	**35,159**	**10,896**	**6,348**	**52,403**
Liabilities				
Due to other banks	2,707	4,270	610	**7,587**
Customer deposits	17,092	562	2,334	**19,988**
Other borrowed funds	733	3,467	268	**4,468**
Debt securities issued	2,992	8,223	350	**11,565**
Deferred tax liability	121	2	2	**125**
Other liabilities	274	215	20	**509**
Subordinated debt	–	1,155	14	**1,169**
Total liabilities	**23,919**	**17,894**	**3,598**	**45,411**
Net balance sheet position	**11,240**	**(6,998)**	**2,750**	**6,992**
Net off-balance sheet position - Credit Related Commitments	**8,239**	**496**	**1,183**	**9,918**
Net off balance sheet position - derivatives	**(1)**	**25**	**–**	**24**

36. Financial Risk Management (continued)

Geographical concentration (continued)

As at 31 December 2005 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	1,874	406	412	**2,692**
Mandatory cash balances with central banks	344	18	42	**404**
Financial assets at fair value through profit or loss	3,301	1,421	329	**5,051**
Financial assets pledged under repurchase agreements and loaned financial assets	629	713	10	**1,352**
Due from other banks	1,666	1,933	542	**4,141**
Loans and advances to customers	16,378	653	2,894	**19,925**
Assets of disposal group held for sale	337	–	–	**337**
Financial assets available-for-sale	573	207	101	**881**
Investments in associates	95	23	–	**118**
Investment securities held-to-maturity	–	5	2	**7**
Premises and equipment	656	108	68	**832**
Investment property	198	–	–	**198**
Intangible assets	450	1	–	**451**
Deferred tax asset	9	73	–	**82**
Other assets	208	35	9	**252**
Total assets	**26,718**	**5,596**	**4,409**	**36,723**
Liabilities				
Due to other banks	3,336	2,508	785	**6,629**
Customer deposits	11,245	653	869	**12,767**
Liabilities of disposal group held for sale	199	–	–	**199**
Other borrowed funds	1,262	1,345	330	**2,937**
Debt securities issued	2,812	4,352	77	**7,241**
Deferred tax liability	146	16	–	**162**
Other liabilities	245	80	33	**358**
Subordinated debt	7	1,140	14	**1,161**
Total liabilities	**19,252**	**10,094**	**2,108**	**31,454**
Net balance sheet position	**7,466**	**(4,498)**	**2,301**	**5,269**
Net off-balance sheet position - Credit Related Commitments	**5,615**	**354**	**491**	**6,460**
Net derivative position	**–**	**(13)**	**–**	**(13)**

36. Financial Risk Management (continued)

Geographical concentration (continued)

As at 31 December 2004 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	598	319	603	**1,520**
Mandatory cash balances with central banks	217	11	4	**232**
Financial assets at fair value through profit or loss	2,317	238	11	**2,566**
Financial assets pledged under repurchase agreements and loaned financial assets	322	18	–	**340**
Due from other banks	678	1,100	245	**2,023**
Loans and advances to customers	8,088	1,887	194	**10,169**
Financial assets available-for-sale	190	–	–	**190**
Investments in associates	–	77	–	**77**
Investment securities held-to-maturity	–	7	–	**7**
Premises and equipment	300	12	9	**321**
Intangible assets	98	–	4	**102**
Deferred tax asset	40	34	–	**74**
Other assets	124	62	3	**189**
Total assets	**12,972**	**3,765**	**1,073**	**17,810**
Liabilities				
Due to other banks	1,877	974	403	**3,254**
Customer deposits	5,336	332	356	**6,024**
Other borrowed funds	700	1,029	–	**1,729**
Debt securities issued	1,851	2,097	–	**3,948**
Deferred tax liability	1	–	–	**1**
Other liabilities	109	36	–	**145**
Total liabilities	**9,874**	**4,468**	**759**	**15,101**
Net balance sheet position	**3,098**	**(703)**	**314**	**2,709**
Net off-balance sheet position - Credit Related Commitments	**4,060**	**170**	**31**	**4,261**
Net derivative position	**(1)**	**6**	**–**	**5**

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

The ALCO sets VTB's policies for market risks, with the aim of limiting and reducing the amount of possible losses on open market positions which may be incurred by VTB due to negative changes in currency exchange rates, interest rates and securities quotations. The CRCD monitors compliance with market risk limits on a daily basis. VTB measures markets risks using a value-at-risk methodology, which estimates the largest potential loss in pre-tax profit over a given holding period for a specified confidence level. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk measurement.

36. Financial Risk Management (continued)

Currency risk

The Group is exposed to currency risk through mismatches in the currency denomination of assets and liabilities and also through currency positions from transactions in foreign currencies. As the U.S. dollar is the functional currency of VTB, fluctuations in foreign currencies relative to the U.S. dollar could impact VTB's financial position and results of operation. VTB manages its currency exposure risk by seeking to match the currency of its assets with that of its liabilities on a currency-by-currency basis within certain limits. The ALCO reviews the currency position and sets open currency position limits, which are monitored on a daily basis. These limits also comply with the requirements of the Central Bank of Russia.

Non-monetary assets (such as shares, ADR, GDR) for the purposes of currency risk analysis are allocated based on the currency of the country of origin of issuer of underlying asset whereas other non-monetary assets (such as premises and equipment, investment property, intangible assets) are allocated based on the functional currency of VTB and the respective subsidiary.

As at 31 December 2006 the Group's exposure to currency risk is as follows:

	USD	RUR	EURO	Other currencies	Total
Assets					
Cash and short-term funds	925	2,113	345	198	**3,581**
Mandatory cash balances with central banks	3	571	26	48	**648**
Financial assets at fair value through profit or loss	1,426	3,354	302	38	**5,120**
Financial assets pledged under repurchase agreements and loaned financial assets	243	212	1,707	776	**2,938**
Due from other banks	3,993	1,339	1,447	34	**6,813**
Loans and advances to customers	13,514	13,809	1,565	374	**29,262**
Financial assets available-for-sale	290	364	188	46	**888**
Investments in associates	5	129	40	26	**200**
Investment securities held-to-maturity	–	–	–	11	**11**
Premises and equipment	632	529	71	190	**1,422**
Investment property	–	177	–	1	**178**
Intangible assets	4	416	11	24	**455**
Deferred tax asset	–	–	61	32	**93**
Other assets	63	527	118	86	**794**
Total assets	**21,098**	**23,540**	**5,881**	**1,884**	**52,403**
Liabilities					
Due to other banks	2,851	1,244	2,497	995	**7,587**
Customer deposits	4,561	13,652	1,470	305	**19,988**
Other borrowed funds	3,759	3	519	187	**4,468**
Debt securities issued	7,226	3,351	987	1	**11,565**
Deferred tax liability	–	121	–	4	**125**
Other liabilities	78	247	113	71	**509**
Subordinated debt	1,169	–	–	–	**1,169**
Total liabilities	**19,644**	**18,618**	**5,586**	**1,563**	**45,411**
Net balance sheet position	**1,454**	**4,922**	**295**	**321**	**6,992**
Net off-balance sheet position - Credit Related Commitments	**4,708**	**2,974**	**1,836**	**400**	**9,918**
Net derivative position	**(1,035)**	**13**	**32**	**1,014**	**24**

36. Financial Risk Management (continued)

Currency risk (continued)

As at 31 December 2005 the Group's exposure to currency risk is as follows:

	USD	RUR	EURO	Other currencies	Total
Assets					
Cash and short-term funds	1,002	1,348	186	156	**2,692**
Mandatory cash balances with central banks	–	344	18	42	**404**
Financial assets at fair value through profit or loss	1,855	2,722	444	30	**5,051**
Financial assets pledged under repurchase agreements and loaned financial assets	490	327	33	502	**1,352**
Due from other banks	2,025	1,023	991	102	**4,141**
Loans and advances to customers	9,593	9,408	793	131	**19,925**
Assets of disposal group held for sale	–	337	–	–	**337**
Financial assets available-for-sale	575	182	110	14	**881**
Investments in associates	–	94	–	24	**118**
Investment securities held-to-maturity	–	–	–	7	**7**
Premises and equipment	358	299	88	87	**832**
Investment property	–	198	–	–	**198**
Intangible assets	4	442	–	5	**451**
Deferred tax asset	–	10	43	29	**82**
Other assets	89	130	19	14	**252**
Total assets	**15,991**	**16,864**	**2,725**	**1,143**	**36,723**
Liabilities					
Due to other banks	3,564	1,127	1,230	708	**6,629**
Customer deposits	4,685	6,425	1,242	415	**12,767**
Liabilities of disposal group held for sale	67	132	–	–	**199**
Other borrowed funds	2,325	4	384	224	**2,937**
Debt securities issued	4,913	2,261	67	–	**7,241**
Deferred tax liability	–	147	15	–	**162**
Other liabilities	124	151	80	3	**358**
Subordinated debt	1,113	48	–	–	**1,161**
Total liabilities	**16,791**	**10,295**	**3,018**	**1,350**	**31,454**
Net balance sheet position	**(800)**	**6,569**	**(293)**	**(207)**	**5,269**
Net off-balance sheet position - Credit Related Commitments	**3,658**	**1,609**	**1,044**	**149**	**6,460**
Net derivative position	**(51)**	**(1,121)**	**604**	**555**	**(13)**

36. Financial Risk Management (continued)

Currency risk (continued)

At 31 December 2004, the Group has the following positions in currencies:

	USD	RUR	EURO	Other currencies	Total
Assets					
Cash and short-term funds	530	750	134	106	**1,520**
Mandatory cash balances with central banks	–	217	11	4	**232**
Financial assets at fair value through profit or loss	1,276	1,235	55	–	**2,566**
Financial assets pledged under repurchase agreements and loaned financial assets	205	116	19	–	**340**
Due from other banks	984	732	286	21	**2,023**
Loans and advances to customers	5,115	4,531	483	40	**10,169**
Financial assets available-for-sale	–	190	–	–	**190**
Investments in associates	–	–	77	–	**77**
Investment securities held-to-maturity	–	1	–	6	**7**
Premises and equipment	204	97	9	11	**321**
Intangible assets	4	98	–	–	**102**
Deferred tax asset	–	40	34	–	**74**
Other assets	16	89	72	12	**189**
Total assets	**8,334**	**8,096**	**1,180**	**200**	**17,810**
Liabilities					
Due to other banks	2,124	438	569	123	**3,254**
Customer deposits	2,301	2,741	905	77	**6,024**
Other borrowed funds	1,714	–	7	8	**1,729**
Debt securities issued	2,542	1,378	28	–	**3,948**
Deferred tax liability	–	1	–	–	**1**
Other liabilities	55	66	18	6	**145**
Total liabilities	**8,736**	**4,624**	**1,527**	**214**	**15,101**
Net balance sheet position	**(402)**	**3,472**	**(347)**	**(14)**	**2,709**
Net off-balance sheet position - Credit Related Commitments	**2,840**	**853**	**537**	**31**	**4,261**
Net derivative position	**(242)**	**(681)**	**844**	**84**	**5**

Liquidity risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in the inability to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. VTB is exposed to liquidity risk primarily in the funding of its customer loan and securities portfolio. To manage VTB's liquidity, the ALCO sets minimum levels of liquid assets and maturity mismatch limits, and determines liquidity requirements.

The Treasury currently performs functions of VTB's centralized liquidity, currency and interest rate risk management, including maintenance of required liquidity levels and optimal currency and term structure of the Bank's balance; forecasting VTB's future liquidity; taking part in centralized management of the cost-effectiveness and profitability of VTB's operations and yield levels with various terms on financial markets (yield curve); and, along with VTB's other departments, developing and executing transfer pricing of VTB's cash resources.

VTB is also subject to liquidity requirements set by the CBR.

36. Financial Risk Management (continued)

Liquidity risk (continued)

The table below shows assets and liabilities at 31 December 2006 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	3,581	–	–	–	–	**3,581**
Mandatory cash balances with central banks	266	135	75	172	–	**648**
Financial assets at fair value through profit or loss	4,787	33	7	287	6	**5,120**
Financial assets pledged under repurchase agreements and loaned financial assets	340	343	13	840	1,402	**2,938**
Due from other banks	5,295	461	479	578	–	**6,813**
Loans and advances to customers	2,290	7,477	5,744	13,672	79	**29,262**
Financial assets available-for-sale	14	49	6	317	502	**888**
Investments in associates	–	–	–	–	200	**200**
Investment securities held-to-maturity	6	–	–	5	–	**11**
Premises and equipment	–	–	–	–	1,422	**1,422**
Investment property	–	–	–	–	178	**178**
Intangible assets	–	–	–	–	455	**455**
Deferred tax asset	–	–	–	–	93	**93**
Other assets	150	323	182	93	46	**794**
Total assets	**16,729**	**8,821**	**6,506**	**15,964**	**4,383**	**52,403**
Liabilities						
Due to other banks	4,633	1,225	803	926	–	**7,587**
Customer deposits	10,205	5,603	2,275	1,905	–	**19,988**
Other borrowed funds	158	539	1,127	2,644	–	**4,468**
Debt securities issued	471	1,252	1,604	8,238	–	**11,565**
Deferred tax liability	–	–	–	–	125	**125**
Other liabilities	135	165	25	69	115	**509**
Subordinated debt	–	7	–	1,162	–	**1,169**
Total liabilities	**15,602**	**8,791**	**5,834**	**14,944**	**240**	**45,411**
Net liquidity gap	**1,127**	**30**	**672**	**1,020**	**4,143**	**6,992**
Cumulative liquidity gap	**1,127**	**1,157**	**1,829**	**2,849**	**6,992**	

36. Financial Risk Management (continued)

Liquidity risk (continued)

The table below shows assets and liabilities at 31 December 2005 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	2,692	–	–	–	–	**2,692**
Mandatory cash balances with central banks	217	90	47	50	–	**404**
Financial assets at fair value through profit or loss	3,565	162	40	1,266	18	**5,051**
Financial assets pledged under repurchase agreements and loaned financial assets	908	37	26	381	–	**1,352**
Due from other banks	2,817	633	188	503	–	**4,141**
Loans and advances to customers	1,692	5,719	4,318	8,145	51	**19,925**
Assets of disposal group held for sale	–	337	–	–	–	**337**
Financial assets available-for-sale	32	28	38	424	359	**881**
Investments in associates	–	–	–	–	118	**118**
Investment securities held-to-maturity	–	1	2	4	–	**7**
Premises and equipment	–	–	–	–	832	**832**
Investment property	–	–	–	–	198	**198**
Intangible assets	–	–	–	–	451	**451**
Deferred tax asset	–	–	–	–	82	**82**
Other assets	25	36	8	104	79	**252**
Total assets	**11,948**	**7,043**	**4,667**	**10,877**	**2,188**	**36,723**
Liabilities						
Due to other banks	3,684	1,130	238	1,577	–	**6,629**
Customer deposits	7,219	2,693	1,565	1,290	–	**12,767**
Liabilities of disposal group held for sale	–	199	–	–	–	**199**
Other borrowed funds	104	736	905	1,192	–	**2,937**
Debt securities issued	364	870	830	5,177	–	**7,241**
Deferred tax liability	–	–	–	–	162	**162**
Other liabilities	54	40	18	45	201	**358**
Subordinated debt	4	6	7	1,144	–	**1,161**
Total liabilities	**11,429**	**5,674**	**3,563**	**10,425**	**363**	**31,454**
Net liquidity gap	**519**	**1,369**	**1,104**	**452**	**1,825**	**5,269**
Cumulative liquidity gap	**519**	**1,888**	**2,992**	**3,444**	**5,269**	

36. Financial Risk Management (continued)

Liquidity risk (continued)

The table below shows assets and liabilities at 31 December 2004 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue, maturity undefined	Total
Assets						
Cash and short-term funds	1,520	–	–	–	–	**1,520**
Mandatory cash balances with central banks	77	66	33	56	–	**232**
Financial assets at fair value through profit or loss	2,017	12	4	531	2	**2,566**
Financial assets pledged under repurchase agreements and loaned financial assets	340	–	–	–	–	**340**
Due from other banks	1,107	373	329	214	–	**2,023**
Loans and advances to customers	1,208	3,108	2,105	3,733	15	**10,169**
Financial assets available-for-sale	–	–	–	–	190	**190**
Investments in associates	–	–	–	–	77	**77**
Investment securities held-to-maturity	–	–	2	5	–	**7**
Premises and equipment	–	–	–	–	321	**321**
Intangible assets	–	–	–	–	102	**102**
Deferred tax asset	–	–	–	–	74	**74**
Other assets	85	49	24	6	25	**189**
Total assets	**6,354**	**3,608**	**2,497**	**4,545**	**806**	**17,810**
Liabilities						
Due to banks	1,167	895	465	727	–	**3,254**
Customer deposits	3,267	1,682	635	440	–	**6,024**
Other borrowed funds	6	580	835	308	–	**1,729**
Debt securities issued	67	833	658	2,390	–	**3,948**
Deferred tax liability	–	–	–	–	1	**1**
Other liabilities	39	41	4	18	43	**145**
Total liabilities	**4,546**	**4,031**	**2,597**	**3,883**	**44**	**15,101**
Net liquidity gap	**1,808**	**(423)**	**(100)**	**662**	**762**	**2,709**
Cumulative liquidity gap	**1,808**	**1,385**	**1,285**	**1,947**	**2,709**	

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

Further, 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.

36. Financial Risk Management (continued)

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates in its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The interest rate risk is managed by the ALCO and the Treasury.

The Group is exposed to interest rate risk, principally as a result of lending at fixed interest rates, in amounts and for periods, which differ from those of term borrowings. In practice, interest rates are often fixed on a short-term or floating basis. Also, interest rates that are contractually fixed on both assets and liabilities may be renegotiated to reflect current market conditions. Therefore, the majority of the Group's balances carry interest at rates approximating market interest rates. The Group normally seeks to establish its interest rate positions at optimal profitability/risk level taken decisions if necessary in respect of the operations changing the asset/liabilities maturity structure.

The table below summarizes the Group's exposure to interest rate risks at 31 December 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined / non-interest bearing	Total
Assets						
Cash and short-term funds	3,581	–	–	–	–	**3,581**
Mandatory cash balances with central banks	266	135	75	172	–	**648**
Financial assets at fair value through profit or loss	1,633	2,303	248	622	314	**5,120**
Financial assets pledged under repurchase agreements and loaned financial assets	471	1,015	–	23	1,429	**2,938**
Due from other banks	5,454	761	340	258	–	**6,813**
Loans and advances to customers	3,257	8,327	10,999	6,600	79	**29,262**
Financial assets available-for-sale	44	88	1	253	502	**888**
Investments in associates	–	–	–	–	200	**200**
Investment securities held-to-maturity	6	–	5	–	–	**11**
Premises and equipment	–	–	–	–	1,422	**1,422**
Investment property	–	–	–	–	178	**178**
Intangible assets	–	–	–	–	455	**455**
Deferred tax asset	–	–	–	–	93	**93**
Other assets	–	–	–	–	794	**794**
Total assets	**14,712**	**12,629**	**11,668**	**7,928**	**5,466**	**52,403**
Liabilities						
Due to other banks	4,747	1,347	777	716	–	**7,587**
Customer deposits	10,215	5,604	2,274	1,895	–	**19,988**
Other borrowed funds	598	2,729	627	514	–	**4,468**
Debt securities issued	1,611	2,940	300	6,714	–	**11,565**
Deferred tax liability	–	–	–	–	125	**125**
Other liabilities	–	–	–	–	509	**509**
Subordinated debt	–	7	–	1,162	–	**1,169**
Total liabilities	**17,171**	**12,627**	**3,978**	**11,001**	**634**	**45,411**
Net repricing gap	**(2,459)**	**2**	**7,690**	**(3,073)**	**4,832**	**6,992**

36. Financial Risk Management (continued)

The table below summarizes the Group's exposure to interest rate risks at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	On demand and up to 1 month	From 1 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined / non-interest bearing	Total
Assets						
Cash and short-term funds	2,692	–	–	–	–	**2,692**
Mandatory cash balances with central banks	217	90	47	50	–	**404**
Financial assets at fair value through profit or loss	44	509	292	3,542	664	**5,051**
Financial assets pledged under repurchase agreements and loaned financial assets	17	165	87	965	118	**1,352**
Due from other banks	3,267	643	169	62	–	**4,141**
Loans and advances to customers	3,464	5,763	3,965	6,682	51	**19,925**
Assets of disposal group held for sale	132	–	205	–	–	**337**
Financial assets available-for-sale	-	32	26	464	359	**881**
Investments in associates	–	–	–	–	118	**118**
Investment securities held-to-maturity	–	1	2	4	–	**7**
Premises and equipment	–	–	–	–	832	**832**
Investment property	–	–	–	–	198	**198**
Intangible assets	–	–	–	–	451	**451**
Deferred tax asset	–	–	–	–	82	**82**
Other assets	–	–	–	–	252	**252**
Total assets	**9,833**	**7,203**	**4,793**	**11,769**	**3,125**	**36,723**
Liabilities						
Due to other banks	3,969	1,295	104	1,261	–	**6,629**
Customer deposits	7,258	2,694	1,550	1,265	–	**12,767**
Liabilities of disposal group held for sale	94	65	–	–	40	**199**
Other borrowed funds	2,300	373	169	95	–	**2,937**
Debt securities issued	619	870	981	4,771	–	**7,241**
Deferred tax liability	–	–	–	–	162	**162**
Other liabilities	–	–	–	–	358	**358**
Subordinated debt	4	6	7	1,144	–	**1,161**
Total liabilities	**14,244**	**5,303**	**2,811**	**8,536**	**560**	**31,454**
Net repricing gap	**(4,411)**	**1,900**	**1,982**	**3,233**	**2,565**	**5,269**

36. Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarizes the Group's exposure to interest rate risks at 31 December 2004. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Overdue, maturity undefined / non-interest bearing	Total
Assets						
Cash and short-term funds	1,520	–	–	–	–	**1,520**
Mandatory cash balances with central banks	77	66	33	56	–	**232**
Financial assets at fair value through profit or loss	4	27	684	1,696	155	**2,566**
Financial assets pledged under repurchase agreements and loaned financial assets	–	60	–	279	1	**340**
Due from other banks	1,117	373	319	214	–	**2,023**
Loans and advances to customers	1,187	3,975	2,104	2,888	15	**10,169**
Financial assets available-for-sale	–	–	–	–	190	**190**
Investments in associates	–	–	–	–	77	**77**
Investment securities held-to-maturity	–	–	2	5	–	**7**
Premises and equipment	–	–	–	–	321	**321**
Intangible assets	–				102	**102**
Deferred tax asset	–	–	–	–	74	**74**
Other assets	–	–	–	–	189	**189**
Total assets	**3,905**	**4,501**	**3,142**	**5,138**	**1,124**	**17,810**
Liabilities						
Due to banks	1,186	943	405	720	–	**3,254**
Customer deposits	3,267	1,682	635	440	–	**6,024**
Other borrowed funds	581	306	835	7	–	**1,729**
Debt securities issued	692	858	658	1,740	–	**3,948**
Deferred tax liability	–	–	–	–	1	**1**
Other liabilities	–	–	–	–	145	**145**
Total liabilities	**5,726**	**3,789**	**2,533**	**2,907**	**146**	**15,101**
Net repricing gap	**(1,821)**	**712**	**609**	**2,231**	**978**	**2,709**

36. Financial Risk Management (continued)

Interest rate risk (continued)

The table below summarizes the effective interest rates by major currencies for major monetary financial instruments. The analysis has been prepared using effective contractual rates.

	31 December 2006				31 December 2005				31 December 2004			
	USD	RUR	EURO	Other curren-cies	USD	RUR	EURO	Other curren-cies	USD	RUR	EURO	Other curren-cies
Assets												
Cash and short-term funds	4%	0%	3%	1%	2%	1%	1%	1%	1%	1%	1%	1%
Financial assets at fair value through profit or loss	8%	7%	6%	6%	7%	7%	4%	4%	7%	6%	5%	–
Financial assets pledged under repurchase agreements and loaned financial assets	5%	6%	4%	5%	5%	6%	2%	5%	4%	1%	4%	–
Due from other banks	5%	4%	3%	4%	4%	8%	3%	3%	6%	9%	3%	1%
Loans and advances to customers	9%	13%	8%	14%	9%	13%	8%	11%	8%	13%	8%	7%
Debt investment securities available-for-sale	6%	-	3%	-	4%	2%	1%	2%	–	3%	–	–
Investment securities held-to-maturity	-	-	-	8%	–	–	–	3%	–	5%	–	3%
Liabilities												
Due to other banks	6%	6%	3%	5%	5%	5%	3%	5%	4%	4%	5%	1%
Customer deposits	6%	6%	6%	2%	4%	4%	4%	3%	4%	4%	5%	4%
Other borrowed funds	5%	11%	4%	4%	5%	4%	4%	2%	3%	–	4%	3%
Debt securities issued	6%	6%	4%	-	6%	6%	3%	–	6%	6%	4%	–
Subordinated debt	7%	-	-	-	6%	6%	–	–	–	–	–	–

The sign "–" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

37. Fair Values of Financial Instruments

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

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

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

Due from other bank and cash and cash equivalents. Management has estimated that at 31 December 2006, 2005 and 2004 the fair value of due from other banks and cash and cash equivalents was not materially different from their respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Loans and advances to customers. Management has estimated that at 31 December 2006, 2005 and 2004 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

37. Fair Values of Financial Instruments (continued)

Borrowings. Management has estimated that at 31 December 2006, 2005 and 2004 the fair values of borrowings were not materially different from their respective carrying values. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

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

	31 December 2006		31 December 2005		31 December 2004	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and short-term funds	3,581	3,581	2,692	2,692	1,520	1,520
Financial assets at fair value through profit or loss	5,120	5,120	5,051	5,051	2,566	2,566
Financial assets pledged under repurchase agreements and loaned financial assets	2,938	2,938	1,352	1,352	340	340
Due from other banks	6,813	6,813	4,141	4,141	2,023	2,023
Loans and advances to customers	29,262	29,262	19,925	19,926	10,169	10,169
Financial assets available-for-sale	888	888	881	881	190	190
Investment securities held-to-maturity	11	11	7	7	7	7
Financial liabilities						
Due to other banks	7,587	7,587	6,629	6,629	3,254	3,254
Customer deposits	19,988	19,988	12,767	12,767	6,024	6,024
Other borrowed funds	4,468	4,468	2,937	2,937	1,729	1,729
Debt securities issued	11,565	11,677	7,241	7,315	3,948	4,021
Subordinated debt	1,169	1,193	1,161	1,173	-	-

38. Related Party Transactions

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

Commencing 1 January 2005, the revised IAS 24 removed the exemption for state-controlled entities from the requirement to disclose transactions with other state-controlled entities. Since the Bank is a state-owned entity, the Bank introduced a policy, in accordance with which it discloses transactions and outstanding balances, as well as details of guarantees given or received, with directly or indirectly state-owned entities.

The following material related party transactions on non-arms' length basis are disclosed in the report:

- Deposit of CBR in relation to the acquisition of "Bank VTB 24" in 2004 (Note 39)
- Contribution in kind of foreign banks in December 2005 (Note 39)
- Extinguishment of debt and the related loans write-off in 2004 (Note 29)
- Disposal of subsidiaries in 2006 (Note 22, 39)

38. Related Party Transactions (continued)

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

Balance sheet

	31 December 2006		31 December 2005		31 December 2004	
	State-owned entities	Associates	State-owned entities	Associates	State-owned entities	Associates
Assets						
Cash and short-term funds	1,236	–	1,212	–	195	20
Mandatory cash balances with central banks	571	–	329	–	232	–
Financial assets at fair value through profit or loss	2,456	–	2,873	–	1,365	–
Financial assets pledged under repurchase agreements and loaned financial assets	207	–	454	–	322	–
Due from other banks	731	72	354	–	326	12
Loans and advances to customers	5,435	65	4,429	–	2,599	–
Allowance for loan impairment	(80)	(31)	(99)	–	(134)	–
Financial assets available-for-sale	470	–	301	–	176	–
Liabilities						
Due to other banks	495	7	1,242	–	556	10
Customer deposits	4,221	6	1,973	2	1,613	–
Other borrowed funds	653	–	982	–	694	–
Credit Related Commitments						
Guarantees issued	1,758	–	1,044	–	1,026	–
Undrawn credit lines	1,079	–	501	–	157	–
Import letters of credit	100	–	79	–	27	–
Commitments to extend credit	333	34	183	–	85	–
Other credit related commitments	100	2	–	–	–	–

Income Statement

	2006	2005	2004
Interest income			
Loans and advances to customers	436	293	198
Securities	214	109	129
Due from other banks	30	22	10
Interest expense			
Customer deposits	(138)	(58)	(60)
Due to other banks	(79)	(85)	(11)
Extinguishment of liabilities	–	100	–
Reversal of allowance (provision) for impairment	(12)	35	34
Gain from disposal of subsidiaries	51	–	–

For the period ended 31 December 2006, the total remuneration of the directors and key management personnel amounted to USD 40.5 million (31 December 2005: USD 9.4 million; 2004: USD 7.4 million). Pension contributions of the directors and key management personnel amounted to USD 1.9 million (2005: USD 0.3 million; 2004: USD 0.2 million). A key management personnel includes VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries.

39. Business Combination and Disposals of Subsidiaries

Acquisitions of Banks from the Central Bank of Russian Federation

Based on a decision of Russian Federation authorities the CBR sold shares in five European banks to VTB. At the end of December 2005, VTB purchased from the CBR 89% of ordinary shares of Moscow Narodny Bank (London) (renamed to "VTB Bank (Europe)", Plc.), 87% of ordinary shares of BCEN-Eurobank (Paris) (renamed to "VTB Bank (France)"), 15% of ordinary shares of Donau-bank (renamed to "VTB Bank (Austria)", AG) (thus increasing its stake to 100%), 15% in East-West United Bank (increasing its stake to 51%, since 2% is held by BCEN-Eurobank) and 52% in Ost-West Handelsbank (Frankfurt) (renamed to "VTB Bank (Deutschland)", AG) (thus increasing its stake to 84%).

The acquisitions were completed by the end of December 2005. Additionally it was agreed to transfer certain deposits of the CBR in the above banks to VTB. The amount of consideration paid by VTB for the acquired shares in net assets and purchased deposits was based on the carrying amount of the above assets and deposits in the accounting records of the CBR, which is less than the fair value of these net assets at the date of the sale.

To finance the above transaction, on 26 December 2005 Russian Federation Government (the controlling shareholder of VTB) contributed cash in the amount of USD 1,303 million to the capital of VTB. On 26 December 2005, VTB paid the purchase consideration for the shares and deposits in the above five banks to the CBR in the total amount of USD 1,240 million.

Management of VTB believes that the above transaction represents contribution in kind of shares and deposits in certain banks by the controlling shareholder. Therefore, VTB has recorded the contribution in kind as an increase in equity at the Group's share in the fair value of the banks contributed, which comprised USD 1,763 million. Additionally, the difference between the cash contributed by the Government and the cash paid to the CBR in the amount of USD 63 million was recorded as a contribution from the controlling shareholder.

Management of VTB considers the acquisition of VTB Bank (Europe), VTB Bank (France), East-West United Bank, VTB Bank (Deutschland), a business combination under common control, as both the seller (the CBR) and the acquirer (VTB) are state-controlled entities. VTB has accounted for these acquisitions under the purchase method.

The aggregated fair value of identifiable assets, liabilities and contingent liabilities of VTB Bank (Europe), VTB Bank (France), East-West United Bank, VTB Bank (Deutschland) as at the date of acquisition were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	180	180
Mandatory cash balances with central banks	9	9
Financial assets at fair value through profit or loss	405	405
Financial assets pledged under repurchase agreements and loaned financial assets	710	710
Due from other banks	1,929	1,937
Loans and advances to customers	1,877	1,877
Financial assets available-for-sale	580	526
Investments in associates	25	23
Premises and equipment	132	113
Deferred tax asset	39	36
Other assets	21	21
Total assets	**5,907**	**5,837**

39. Business Combination and Disposals of Subsidiaries (continued)

Acquisitions of Banks from the Central Bank of Russian Federation (continued)

Liabilities		
Due to other banks	3,134	3,134
Customer deposits	303	303
Other borrowed funds	422	422
Debt securities issued	425	425
Subordinated debt	354	354
Deferred tax liability	22	14
Other liabilities	111	111
Total liabilities	**4,771**	**4,763**
Fair value of net assets	**1,136**	**1,074**
Contribution of deposits	688	
Less: minority interests	(169)	
Group's share of the fair value of net assets	**1,655**	
Increase in equity attributable to shareholders of the parent (contribution of business: Group's share in fair values of contributed banks, including revaluation of share of associate plus cash difference)	**1,849**	
Existing interest before acquisitions	67	
Less: revaluation of investment in associate	(23)	
Less: minority interest in VTB Bank (Austria)	(84)	
Less: cash difference, including deposit in VTB Bank (Austria)	(154)	
Group's share of fair value of net assets contributed	**1,655**	

Contribution of deposits represents purchase of deposits in fore-mentioned subsidiary banks from the CBR as part of the business combination.

The amount of profit and loss of the acquired banks from the acquisition dates to 31 December 2005 is immaterial. The Group's share in the fair value of the banks business contributed approximates the fair value of the net assets of these banks, thus no goodwill was recorded as a result of this transaction.

The increase of share in VTB Bank (Austria) from 85% to 100% was accounted for as the increase of share in the previously consolidated subsidiary with necessary reallocations between minority interest and retained earnings in the Balance Sheet.

Revenues and profit for 2005 of the combined entity as though the acquisitions date had been the beginning of the period were not disclosed, as that would be impracticable because the majority of the newly acquired subsidiaries did not prepare IFRS financial statements for 2005.

39. Business Combination and Disposals of Subsidiaries (continued)

Acquisition of OJSC "Industry & Construction Bank" (ICB)

In March 2005, VTB acquired a 25% plus one share of initial interest in OJSC "Industry & Construction Bank" (ICB), a major corporate and retail bank of the Russian North West located in St. Petersburg, in exchange for a cash payment of approximately USD 97 million.

On December 28, 2005 VTB purchased 630,488,500 ordinary shares of ICB with par value of 1 RUR per share for USD 480 million. As a result of this transaction, VTB's ownership percentage increased from 25% plus one share to 75% plus three shares of the share capital of ICB. VTB hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of ICB as of the acquisition date and allocate the cost of business combination at each acquisition date. The amount of profit and loss of ICB from the acquisition date to December 31, 2005 is immaterial.

As a result of the first acquisition of 25% plus one share in ICB, there was an excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost in the amount of USD 30 million. This excess was recognised in the consolidated income statement. As a result of the additional acquisition of 50% in ICB, goodwill in the amount of USD 182 million arose. This goodwill was recognised as an intangible asset at 31 December 2005.

The fair value and carrying value of the identifiable assets and liabilities of ICB as at 31 March 2005 were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	377	377
Mandatory cash balances with central banks	74	74
Financial assets at fair value through profit or loss	603	603
Due from other banks	375	375
Loans and advances to customers	1,944	1,927
Premises and equipment	179	130
Investment property	71	68
Intangible assets	148	6
Deferred tax asset	1	1
Other assets	35	35
Total assets	**3,807**	**3,596**
Liabilities		
Due to other banks	232	231
Customer deposits	2,292	2,287
Other borrowed funds	359	356
Debt securities issued	282	288
Deferred tax liability	50	–
Other liabilities	33	33
Total liabilities before subordinated debt	**3,248**	**3,195**
Subordinated debt	46	44
Total liabilities	**3,294**	**3,239**
Fair value of net assets	**513**	**357**
Initial acquisition share	25%	
Fair value of initial acquisition of net assets	127	
Contribution paid	(97)	
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost	30	

39. Business Combination and Disposals of Subsidiaries (continued)

Acquisition of OJSC "Industry & Construction Bank" (ICB) (continued)

The fair value and carrying value of identifiable assets and liabilities of ICB as at 31 December 2005 were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	451	451
Mandatory cash balances with central banks	87	87
Financial assets at fair value through profit or loss	960	960
Financial assets pledged under repurchase agreements and loaned financial assets	241	241
Due from other banks	217	217
Loans and advances to customers	2,780	2,762
Financial assets available-for-sale	3	3
Investments in associates	2	2
Premises and equipment	189	138
Investment property	198	198
Intangible assets	154	–
Other assets	45	45
Total assets	**5,327**	**5,104**
Liabilities		
Due to other banks	389	389
Customer deposits	2,978	2,976
Other borrowed funds	330	328
Debt securities issued	529	533
Deferred tax liability	53	–
Other liabilities	40	40
Total liabilities before subordinated debt	**4,319**	**4,266**
Subordinated debt	410	409
Total liabilities	**4,729**	**4,675**
Fair value of net assets	**598**	**429**
Additional acquisition share	50%	
Fair value of additional acquisition of net assets	298	
Contribution paid	(480)	
Goodwill	182	

From the date of acquisition of 25% share to 31 December 2005, ICB bank generated USD 108 million net profit, which was included in the Group's consolidated income statement for the year ended 31 December 2005. If the acquisition of 25% share had taken place at the beginning of the year, the net profit of the Group would have been USD 516 million and operating income would have been USD 1,528 million. If the acquisition of 75% share had taken place at the beginning of the year, the net profit of the Group would have been USD 597 million and operating income would have been USD 1,609 million.

Acquisition of Guta Bank (renamed to "Bank VTB 24", CJSC)

In July 2004, VTB purchased 85.8% of the ordinary voting shares in Guta Bank for a cash payment of approximately RUR 1 million (USD 34 thousand at the exchange rate of RUR 29.077 per USD 1). In connection with the acquisition of Guta Bank, the CBR placed a USD 700 million special purpose deposit with VTB at the LIBOR rate for one year. The deposit was provided to maintain Guta Bank's liquidity and for the use in the Bank's operations. The term of the deposit could be prolonged with the agreement of VTB and the CBR. VTB has extended a credit line to Guta Bank of RUR 10,000 million (USD 344 million at the exchange rate of RUR 29.077 per USD 1) maturing in one year and bearing interest rate of 6% p.a. with interest payment at maturity, which is secured by Guta Bank's loan portfolio. As of 31 December 2004, the amount drawn down by Guta Bank under this credit line was RUR 6,900 million (USD 249 million at the exchange rate of RUR 27.7487 per USD 1). As of the date of its acquisition by VTB, Guta Bank had a net loan exposure of approximately USD 240 million to companies related to its former shareholders.

39. Business Combination and Disposals of Subsidiaries (continued)

Acquisition of Guta Bank (renamed to VTB 24) (continued)

The fair value and carrying value of identifiable assets and liabilities of Guta bank as at the acquisition date were:

	Fair value	Carrying value
Assets		
Cash and short-term funds	31	31
Mandatory cash balances with central banks	22	22
Due from other banks	15	15
Loans and advances to customers	506	506
Financial assets available-for-sale	50	46
Accrued interest receivable and other assets	14	13
Premises and equipment	28	28
	666	**661**
Liabilities		
Due to other banks	96	97
Customer deposits	426	428
Debt securities issued	207	209
Accrued interest payable and other liabilities	18	18
	747	**752**
Fair value of net assets	**(81)**	
Fair value adjustment of deposit received from the CBR in connection with the acquisition of Guta bank	10	
Goodwill	71	
Costs associated with the acquisition:		
Cash paid, RUR	1,000,000	
Cash paid, USD million	–	

From the date of acquisition to 31 December 2004, Guta bank incurred a USD 17 million net loss, which was included in the Group's consolidated statement of income for the year ended 31 December 2004. If the acquisition had taken place at the beginning of the year, the net profit of the Group would have been USD 199 million and operating income would have been USD 939 million.

Other acquisitions

During 2005 the Group had business combinations with United Georgian Bank (renamed to "VTB Bank (Georgia)", JSC) and Armsberbank (renamed to "VTB Bank (Armenia)", CJSC), which did not have a material effect on the Group, thus they are not separately disclosed (Note 40).

At the end of March 2006 VTB purchased 1,312,802,167 ordinary shares (98% of the share capital) of the Bank "Mriya" located in Ukraine for USD 66 million. VTB hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of the Bank "Mriya" as of the acquisition date. Goodwill recognized at the purchase date was USD 13 million.

39. Business Combination and Disposals of Subsidiaries (continued)

Other acquisitions (continued)

If the acquisition of the Bank "Mriya" had taken place at the beginning of the year, the net profit of the Group and operating income would not have been materially different. The fair values of identifiable assets and liabilities of the Bank "Mriya" at the date of acquisition were not materially different from carrying values of these assets and liabilities immediately before the acquisition. The fair values of identifiable assets and liabilities of the Bank "Mriya" at the acquisition date were:

	Fair Value	Carrying Value
Assets		
Cash and short-term funds	52	52
Financial assets at fair value through profit or loss	6	6
Due from other banks	8	7
Loans and advances to customers	325	329
Premises and equipment	26	18
Investment property	1	–
Intangible assets	6	–
Other assets	2	3
Total assets	**426**	**415**
Liabilities		
Due to other banks	32	33
Customer deposits	293	290
Other borrowed funds	26	26
Debt securities issued	1	1
Subordinated debt	1	1
Deferred tax liability	2	–
Other liabilities	17	16
Total liabilities	**372**	**367**
Fair value of net assets	**54**	
Contribution paid	66	
Goodwill	13	

Disposal of subsidiaries

At the end of 2005, VTB approved an increase in the participants' fund of Trading House VTB. The increase of the participants fund was purchased in January 2006 by a state-owned bank (a related party), thus decreasing the share of the Group in Trading House VTB to 50%. This transaction was finalized in June 2006 and the Group retained control over Trading House VTB as of June 30, 2006. The Trading House VTB was renamed to "Interbank Trading House", Ltd (ITH).

39. Business Combination and Disposals of Subsidiaries (continued)

Disposal of subsidiaries (continued)

At the end of September 2006 the Board of Directors of "Interbank Trading House", Ltd was reappointed to include new members representing the other participant resulting in the Group losing control over ITH. The Group accounted for a disposal of "Interbank Trading House", Ltd with recognition of USD 51 million gain within Profit from disposal of subsidiaries. As of 31 September 2006, the Group accounted for ITH investment under IAS 28 requirement using the equity method of accounting. The assets and liabilities disposed are as follows:

	30 September 2006
Assets	
Cash and short-term funds	1
Due from other banks	54
Loans and advances to customers	4
Intangible assets	1
Other assets	3
Total assets	**63**
Liabilities	
Due to other banks	108
Other liabilities	6
Total liabilities	**114**
Net assets	(51)
Total carrying amount of net assets disposed	**(51)**

In May 2006 the Group decided to decrease the ownership in "Insurance Capital", Ltd to a non-controlling share (49.99%) with simultaneous renaming of the company to "Insurance Company VTB-Rosno", Ltd and increasing the share capital to RUR 436 million (USD 16 million). The deal was completed in July 2006. The Group lost control over "Insurance Company VTB-Rosno", Ltd after the transaction and deconsolidated this entity. The Group recognized this investment under the equity method of accounting.

The assets and liabilities disposed are as follows:

	1 July 2006
Assets	
Cash and short-term funds	16
Deferred tax asset	1
Other assets	7
Total assets	**24**
Liabilities	
Other liabilities	29
Total liabilities	**29**
Net assets	(5)
Total carrying amount of net assets disposed	**(5)**

The Group has recorded a gain from the disposal of "Insurance Company VTB-Rosno", Ltd in the amount of USD 5 million within Profit from disposal of subsidiaries.

In December 2006, VTB sold a 2% stake in "East-West United Bank", S.A. (EWUB) to a third party, decreasing the Group's share in EWUB to 48.55%, accordingly at the date of disposal the Group deconsolidated EWUB and accounted for that investment under the equity method.

39. Business Combination and Disposals of Subsidiaries (continued)

Disposal of subsidiaries (continued)

At the disposal date the assets and liabilities of EWUB were as follows:

	31 December 2006
Assets	
Cash and short-term funds	8
Mandatory cash balances with central banks	4
Financial assets pledged under repurchase agreements and loaned financial assets	25
Due from other banks	52
Loans and advances to customers	182
Financial assets available-for-sale	81
Premises and equipment	11
Other assets	13
Total assets	**376**
Liabilities	
Due to other banks	147
Customer deposits	111
Subordinated debt	6
Deferred tax liability	15
Other liabilities	15
Total liabilities	**294**
Net assets	82
Total carrying amount of net assets disposed	**82**

The Group has recorded a loss from the disposal of EWUB in the amount of USD 2 million within Profit from disposal of subsidiaries.

40. Consolidated Subsidiaries and Associates

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

			Percentage of ownership		
Name	Activity	Country of registration	31 December 2006	31 December 2005	31 December 2004
Subsidiaries					
“VTB Bank (Austria)” AG	Banking	Austria	100.00%	100.00%	85.00%
“Russian Commercial Bank (Cyprus) Limited”	Banking	Cyprus	100.00%	100.00%	100.00%
“Russian Commercial Bank Ltd”	Banking	Switzerland	100.00%	100.00%	100.00%
“Vneshtorgbank (Ukraine)”, CJSC	Banking	Ukraine	100.00%	100.00%	–
“Mriya”, OJSC	Banking	Ukraine	98.47%	–	–
“VTB Bank (Armenia)”, CJSC	Banking	Armenia	70.00%	70.00%	70.00%
“VTB Bank (Georgia)”, JSC	Banking	Georgia	53.17%	50.00%	–
“Bank VTB 24”, CJSC	Banking	Russia	96.68%	92.19%	85.80%
“VTB Broker” , OJSC	Banking	Russia	99.83%	99.80%	99.80%
“Novosibirskvneshtorgbank”, CJSC	Banking	Russia	99.58%	97.60%	97.60%
“VTB Bank (Deutschland)” AG	Banking	Germany	78.82%	83.54%	31.90%
“Industry & Construction Bank”, OJSC	Banking	Russia	75.00%	75.00%	–
“VTB Bank (France)”	Banking	France	77.55%	87.04%	–
“VTB Bank (Europe)”, Plc.	Banking	Great Britain	89.10%	89.10%	–
Bank “Povolzhskiy”, CJSC	Banking	Russia	–	–	60.40%
“VTB Capital (Namibia) (Property) Limited”	Investment	Namibia	50.03%	–	–
“Multicarta”, Ltd	Plastic cards	Russia	100.00%	100.00%	100.00%
“Euroleasing”, GMBH	Leasing	Germany	63.00%	63.00%	60.00%
“Rafinco Co.”, , Inc.	Trading	USA	100.00%	100.00%	100.00%
“I.T.C. Consultants (Cyprus)”, Ltd	Finance	Cyprus	100.00%	100.00%	100.00%
“VB-Service”, Ltd	Commerce	Russia	100.00%	100.00%	100.00%

40. Consolidated Subsidiaries and Associates (continued)

			Percentage of ownership		
Name	**Activity**	**Country of registration**	**31 December 2006**	**31 December 2005**	**31 December 2004**
"Konobeevo", OJSC	Recreation	Russia	–	89.99%	89.99%
"Non-state Pension Fund of Vneshtorgbank"	Insurance	Russia	100.00%	100.00%	100.00%
"Almaz-Press", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Almaz-Print", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Rassvet-Expo", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Rasters", CJSC	Publishing	Russia	100.00%	100.00%	100.00%
"Dom Rybaka", Ltd	Recreation	Russia	100.00%	100.00%	100.00%
"VTB-Leasing", OJSC	Leasing	Russia	100.00%	100.00%	100.00%
"Embassy Development Limited"	Finance	Jersey	100.00%	100.00%	–
"VTB-Capital", CJSC	Finance	Russia	100.00%	55.00%	–
"VTB-Capital-Stolitsa", CJSC	Trading	Russia	99.00%	–	–
"VTB Strategic Investments (Russia) Limited"	Investment	England	89.10%	–	–
"VTB Strategic Investments Limited"	Investment	England	89.10%	89.10%	–
"VTB Finance", B.V.	Finance	Netherlands	89.10%	89.10%	–
"Business-Finance", Ltd	Finance	Russia	96.68%	92.19%	–
"Baltiyskaya Trade Industrial Company", CJSC	Commerce	Russia	–	75.00%	–
"ICB Finance B.V."	Finance	Netherlands	75.00%	75.00%	–
"ICB Finance", Ltd	Finance	Russia	75.00%	75.00%	–
"Uralpromstroyleasing" , Ltd	Leasing	Russia	75.00%	75.00%	–
"ICB-Invest Group", OJSC	Finance	Russia	74.25%	74.25%	–
"Korsar", Ltd	Commerce	Russia	–	75.00%	–
"Adamas", Ltd	Real estate	Russia	–	75.00%	–
"Derzhava", Ltd	Real estate	Russia	–	75.00%	–
"Korpus 104", Ltd	Real estate	Russia	–	75.00%	–
"Prestizh", Ltd	Real estate	Russia	–	63.75%	–
"Dolgovoi centre VTB RU", CJSC	Finance	Russia	96.68%	–	–
"Sistema Plus", CJSC	Finance	Russia	96.68%	92.19%	–
"Tekhnoinvest", CJSC	Trading	Russia	87.01%	92.19%	–
Subsidiaries within disposal group:					
"Sales", CJSC	Finance	Russia	–	92.19%	–
"PM-Nedvigimost", CJSC	Trading	Russia	–	92.19%	–
"Remos-PM", CJSC	Manufacturing	Russia	–	92.19%	–
"Instrumentalniy zavod - Permskie Motory", CJSC	Manufacturing	Russia	–	92.19%	–
"Energetic-PM", OJSC	Energy	Russia	–	90.90%	–
"Reduktor-PM", OJSC	Manufacturing	Russia	–	74.96%	–
"Kaskad-PM", CJSC	Manufacturing	Russia	–	80.48%	–
"Gheleznodoroghnik-PM", CJSC	Transport	Russia	–	92.19%	–
"Nedvighimost-PM", Ltd	Leasing	Russia	–	91.27%	–
"Permskiy Motorniy zavod", OJSC	Manufacturing	Russia	–	66.04%	–
"Metallist-PM", CJSC	Manufacturing	Russia	–	78.86%	–
"Perm-Energy", CJSC	Engineering	Russia	–	78.36%	–
"PM-Upravlenie", CJSC	Leasing	Russia	–	68.26%	–
"Obscheghitie-PM", OJSC	Service	Russia	–	42.26%	–
"Usluga-PM", Ltd	Service	Russia	–	61.15%	–
Associates					
"Eurofinance Mosnarbank", OJSC	Banking	Russia	34.07%	32.65%	–
"Halladale PLC"	Property	Great Britain	23.00%	23.00%	–
"Vietnam –Russia Joint Bank (joint bank)"	Banking	Vietnam	49.00%	–	–
"East-West United Bank", S.A.	Banking	Luxembourg	48.55%	50.74%	34.00%
"Insurance company VTB-Rosno" , Ltd	Insurance	Russia	49.99%	100.00%	69.80%
"Interbank Trading House", Ltd	Commerce	Russia	50.00%	100.00%	100.00%
"Management Company ICB", Ltd	Finance	Russia	24.98%	30.91%	–
Associates within disposal group:					
"UK PMK"	Finance	Russia	–	32.52%	–
'Permskie Motory", OJSC	Manufacturing	Russia	–	26.70%	–

40. Consolidated Subsidiaries and Associates (continued)

In April 2004, the Group acquired 70% of the share capital of CJSC Armsberbank located in Armenia in exchange for cash payment of USD 9 million. As of 31 December 2004, its financial statements are consolidated into the Group's financial statements. As a result of this acquisition, the Group has recognized positive goodwill of USD 4 million in accordance with IFRS 3 "Business Combination". In 2005, CJSC Armsberbank increased its equity by issuing additional shares of USD 10 million. VTB purchased 70% additional shares in the amount of USD 7 million, and consequently VTB's share in the capital of CJSC Armsberbank was not changed.

In January 2005, VTB acquired a 50% plus one share interest in United Georgian Bank ("UGB") in Tbilisi, Georgia, for approximately USD 7 million.

On 21 January 2005, the National Bank of Ukraine registered CJSC "Vneshtorgbank (Ukraine)", a wholly-owned subsidiary of VTB. CJSC "Vneshtorgbank (Ukraine)" began operations on 18 March 2005 and initially focused on providing international settlement services, loans and trade financing. Its initial share capital, contributed by VTB, was 80 million hryvnas (approximately USD 15 million). On 10 June 2005, an extraordinary meeting of shareholders approved an increase of share capital by 195 million hryvnas (USD 38 million).

On 6 June 2005, Guta Bank's shareholders changed its name to CJSC "Vneshtorgbank Retail Services" (VTB Retail Services), as the Group planned to restructure its retail operations, combining the retail and small business banking operations of VTB and VTB Retail Services. Starting in autumn of 2005, VTB began to gradually transfer to VTB Retail Services its retail and small business operations, along with the related assets and liabilities. In August 2005, VTB Retail Services began offering retail and small business banking services in Moscow and Russian regions under the "Vneshtorgbank 24" brand.

In November 2005, VTB Retail Services issued 2,740,500 shares at par value of RUR 1,000. On 30 November 2005, VTB purchased all shares issued by VTB Retail Services at RUR 3,284 per share. As a result, the share capital of VTB Retail Services increased by RUR 8,999,999 thousand. As a result of this transaction, VTB's ownership percentage in VTB Retail Services increased from 85.8% to 92.2%.

In December 2005 VTB sold its 62.4% owned subsidiary, Bank "Povolzhskiy", CJSC located in Ulyanovsk to a third party for USD 1.5 million.

In March and April 2006 the Bank purchased an additional issue of shares of the "United Georgian Bank". The total increase of the share capital was planned to be Georgian lari 20 million (20 million shares, or USD 11 million at period end exchange rate), of which VTB purchased 11,281,848 shares. The share of VTB in the "United Georgian Bank was 53.13% after the shares were fully subscribed.

In April, 2006 "Armsberbank", CJSC was renamed into "VTB Bank (Armenia)", CJSC.

In June 2006, VTB Retail Services issued 4,242,425 shares at a price of RUR 1,650 per share (par value RUR 1,000) for the total amount of RUR 7,000,000 thousand. VTB purchased all shares issued by VTB Retail Services. As a result of this transaction, VTB's ownership percentage in VTB Retail Services increased to 95.93%. The share issue was registered by the Central Bank of Russia on 5 June 2006.

In June 2006 VTB Group initiated the sale of a disposal Group held for sale. The deal was closed in August 2006, when the transfer of ownership was approved by Russian anti-monopoly authorities. VTB Group sold an 81.25% interest in CJSC "Sales" to an unrelated party (Refer to Note 33) for USD 122 million, which resulted in a profit of USD 8 million. The Group continues to own 18.75% interest in CJSC "Sales" and accounted for this investment under IAS 39 requirements as an available-for-sale financial asset.

40. Consolidated Subsidiaries and Associates (continued)

On 22 September 2006 the extraordinary general meeting of shareholders of OJSC "Industry & Construction Bank" (ICB) approved the merger with the Bank. The ratio of share conversion was set at 1 ICB share with a face value of 1 RUR into 385 VTB shares with a face value of 0.01 Russian roubles. ICB also offered to ICB shareholders that dispute this merger to buy out all shares at a price of 22 RUR per 1 ICB share. This merger is subject to approval of VTB's general meeting of shareholders.

In September 2006, two subsidiaries of ICB, "Adamas" and "Derzhava", ceased to be consolidated in the Group's financial statements, because ICB concluded option agreements with a third party, which has the right to purchase participation in these subsidiaries at any date before December 31, 2006. As a result, these option agreements give potential voting rights to the third party to govern the financial and operating policies of these subsidiaries. In December 2006 the options were executed.

On September 29, 2006 VTB increased its ownership percentage in Ost-West Handelsbank, AG from 83.54% to 88.46% by purchasing additional shares of Ost-West Handelsbank, AG for the total amount of EUR 3 million.

In September 2006, VTB opened an office of a subsidiary bank in Angola Banco VTB Africa SA (VTB Africa) with 66% shareholding held by VTB.

In October 2006, VTB established a subsidiary financial company in Namibia "VTB Capital (Namibia) (Proprietary) Limited" with 50% plus 2 shares shareholding held by VTB.

In October 2006, the Group started the re-branding process to unite its principal subsidiaries under a common name – VTB. In October 2006, "Ost-West Handelsbank" AG, "Donau-bank" AG, "BCEN-Eurobank" and "Moscow Narodny Bank Limited" were renamed into "VTB Bank (Deutschland)" AG, "VTB Bank (Austria)" AG, "VTB Bank (France)" and "VTB Bank (Europe)", Plc., respectively. In November 2006, CJSC "Vneshtorgbank Retail Services" was renamed into CJSC "Bank VTB 24". In November 2006, OJSC Bank "Zabaikalsky" was renamed into OJSC "VTB Broker". In December 2006, "United Georgian Bank" was renamed into "VTB Bank (Georgia)".

In November 2006, VTB established a Vietnam-Russia Joint Venture Bank with a 49% shareholding held by VTB.

In December 2006, CJSC "Bank VTB 24" (VTB 24) issued 2,315,119 shares at a price of RUR 1,650 per share (par value RUR 1,000) for the total amount of RUR 3,819,946 thousand. VTB purchased all shares issued by VTB 24. As a result of this transaction, VTB's ownership percentage in VTB 24 increased to 96.68%. The share issue was registered by the Central Bank of Russia on 25 December 2006.

In December 2006 VTB sold VTB Bank (Deutschland) and VTB Bank (France) to VTB Bank (Europe), the Group's share in these banks decreased to 78.82% and 77.55%, accordingly.

In December 2006, VTB sold a 2% stake in East-West United Bank (EWUB) to a third party, decreasing the Group's share in capital of EWUB to 48.55%. Accordingly, at the date of disposal the Group deconsolidated EWUB and accounted for that investment under the equity method.

41. Capital Adequacy

The CBR requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Russian accounting legislation. As of 31 December 2006, 2005 and 2004 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2006, 2005 and 2004 was 14.0%, 14.1% and 12.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

42. Subsequent Events

In March 2007, OJSC Vneshtorgbank was renamed to “VTB Bank” (OJSC).

In March 2007, the extraordinary general meeting of shareholders of VTB approved the increase of the share capital by 1,734,333,866,664 shares (24.97% of VTB number of shares after the increase).

In March 2007, VTB issued a EUR 1,000 million Eurobond with a floating rate of EURIBOR+0.6% maturing in March 2009.

In March 2007, VTB issued a GBP 300 million Eurobond with an interest rate of 6.332% maturing in March 2010.

In March 2007, VTB purchased 25% plus one share in OJSC “Terminal” for approximately USD 40 million. OJSC “Terminal” is established to finance the construction of “Sheremetyevo-3” airport terminal.

In March 2007 VTB Bank (Europe) issued additional 194,700,000 ordinary shares. VTB purchased all shares issued by VTB Bank (Europe) for GBP 52 million (USD 102 million). As a result of this transaction VTB increased its ownership in VTB Bank (Europe) to 91.83%.

In March 2007, VTB’s subsidiary bank in Angola Banco VTB Africa SA (VTB Africa) with 66% shareholding of VTB was registered and started operations.

In March 2007, VTB has initiated the acquisition of a subsidiary bank in Belarus. The extraordinary general meeting of shareholders of “Slavneftebank”, CJSC approved the increase of share capital, the new share issue to be purchased by VTB whose share would be 50% + 1 share. VTB transferred approximately USD 25 million for these newly issued shares. Belarus bank authorities have not yet completed the registration of the share issue.