VTB BANK

Consolidated Financial Statements and Auditors' Report

For the years ended 31 December 2007 and 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of VTB Bank:

We have audited the accompanying consolidated financial statements of VTB Bank ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated balance sheets as at 31 December 2007 and 2006 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 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

21 April 2008

Ernst & Young Vneshaudit

(expressed in millions of US dollars)

	Note	2007	2006
Assets			
Cash and short-term funds	6	5,160	3,581
Mandatory cash balances with central banks		825	648
Financial assets at fair value through profit or loss	7	10,436	5,120
Financial assets pledged under repurchase agreements and loaned financial assets	8	2,212	2,938
Due from other banks	9	9,733	6,813
Loans and advances to customers	10	58,549	29,262
Financial assets available-for-sale	11	858	888
Investments in associates	12, 40	167	200
Investment securities held-to-maturity	13	5	11
Premises and equipment	15	1,997	1,422
Investment property	16	168	178
Intangible assets	17	480	455
Deferred tax asset	31	215	93
Other assets	14	1,804	794
Total assets		**92,609**	**52,403**
Liabilities			
Due to other banks	18	14,794	7,587
Customer deposits	19	37,098	19,988
Other borrowed funds	20	5,176	4,468
Debt securities issued	21	16,489	11,565
Deferred tax liability	31	149	125
Other liabilities	23	1,231	509
Total liabilities before subordinated debt		**74,937**	**44,242**
Subordinated debt	22	1,171	1,169
Total liabilities		**76,108**	**45,411**
Equity			
Share capital	24	3,084	2,500
Share premium	24	8,792	1,513
Treasury shares		(21)	–
Unrealized gain on financial assets available-for-sale and cash flow hedge	8,11, 34	109	154
Currency translation difference		663	352
Premises revaluation reserve	15	587	341
Retained earnings		2,993	1,744
Equity attributable to shareholders of the parent		**16,207**	**6,604**
Minority interest		294	388
Total equity		**16,501**	**6,992**
Total liabilities and equity		**92,609**	**52,403**

Approved for issue and signed on 21 April 2008.

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

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

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

	Note	2007	2006
Interest income	25	5,387	3,606
Interest expense	25	(2,831)	(1,892)
Net interest income		**2,556**	**1,714**
Provision charge for impairment	30	(526)	(442)
Net interest income after provision for impairment		**2,030**	**1,272**
Gains less losses arising from financial instruments at fair value through profit or loss	26	138	218
Gains less losses from available-for-sale financial assets	8,11	116	348
Gains less losses arising from dealing in foreign currencies		547	73
Foreign exchange translation gains less losses		108	265
Fee and commission income	27	637	401
Fee and commission expense	27	(80)	(50)
Share in income of associates		18	15
Income arising from non-banking activities		95	111
Other operating income	28	123	157
Net non-interest income		**1,702**	**1,538**
Operating income		**3,732**	**2,810**
Staff costs and administrative expenses	29	(1,948)	(1,370)
Expenses arising from non-banking activities		(63)	(90)
Profit from disposal of subsidiaries and associates	12,39	98	54
Profit before taxation		**1,819**	**1,404**
Income tax expense	31	(305)	(232)
Profit after taxation from continuing operations		**1,514**	**1,172**
Profit from discontinued operations		–	7
Net profit		**1,514**	**1,179**
Net profit attributable to:			
Shareholders of the parent		**1,480**	**1,137**
Minority interest		**34**	**42**
Basic and diluted earnings per share (expressed in USD per share)	32	**0.000241**	**0.000218**
Basic and diluted earnings per share – continuing operations (expressed in USD per share)		0.000241	0.000217
Basic and diluted earnings per share – discontinued operations (expressed in USD per share)		0.000000	0.000001

(expressed in millions of US dollars)

	Note	2007	2006
Cash flows from operating activities			
Interest received		5,246	3,430
Interest paid		(2,622)	(1,889)
Income received on operations with financial instruments at fair value through profit or loss		286	131
Income received on dealing in foreign currency		474	76
Fees and commissions received		637	401
Fees and commissions paid		(96)	(50)
Income arising from non-banking activities and other operating income received		110	166
Staff costs, administrative expenses and expenses arising from non-banking activities paid		(1,790)	(1,313)
Income tax paid		(476)	(316)
Cash flows from operating activities before changes in operating assets and liabilities		**1,769**	**636**
Net decrease (increase) in operating assets			
Net increase in mandatory cash balances with central banks		(125)	(205)
Net decrease in restricted cash		38	50
Net (increase) decrease in financial assets at fair value through profit or loss		(5,521)	1,084
Net increase in due from other banks		(2,617)	(2,556)
Net increase in loans and advances to customers		(28,231)	(8,420)
Net increase in other assets		(914)	(485)
Net (decrease) increase in operating liabilities			
Net increase in due to other banks		6,805	859
Net increase in customer deposits		15,566	6,117
Net (decrease) increase in promissory notes and certificates of deposits issued		2	(203)
Net increase in other liabilities		266	72
Net cash used in operating activities		**(12,962)**	**(3,051)**
Cash flows from (used in) investing activities			
Dividends received		38	44
Proceeds from sale or maturities of financial assets available-for-sale		2,409	1,136
Purchase of financial assets available-for-sale		(256)	(2,900)
Purchase of subsidiaries, net of cash acquired		(11)	(15)
Sale of disposal group held for sale		–	122
Purchase of minority interest in subsidiaries		(309)	–
Purchase of associates		(10)	(5)
Disposal of associates		45	–
Disposal of subsidiaries, net of cash disposed		109	(9)
Proceeds from maturities of investment securities held-to-maturity		8	2
Purchase of investment securities held-to-maturity		(2)	(6)
Purchase of premises and equipment		(343)	(282)
Proceeds from sale of premises and equipment		73	46
Purchase of intangible assets		(15)	(8)
Purchase of investment property		(19)	–
Proceeds from disposal of investment property		61	92
Net cash from (used in) investing activities		**1,778**	**(1,783)**

(expressed in millions of US dollars)

	Note	2007	2006
Cash flows from financing activities			
Dividends paid		(135)	(63)
Proceeds from other borrowings		1,547	681
Repayment of other borrowings		(660)	(595)
Proceeds from syndicated loans		453	2,698
Repayment of syndicated loans		(831)	(1,259)
Proceeds from issuance of RUR-denominated bonds		501	953
Repayment of RUR-denominated bonds		–	(72)
Proceeds from issuance of eurobonds		5,628	3,541
Repayment of eurobonds		(1,495)	(370)
Proceeds from issuance of SSD debentures (Shuldscheindarlehen)		–	241
Repayment of SSD debentures (Shuldscheindarlehen)		(227)	(157)
Proceeds from share issue, less transaction costs		7,842	–
Treasury shares purchase		(21)	–
Net cash provided by financing activities		**12,602**	**5,598**
Effect of exchange rate changes on cash and cash equivalents		**199**	**174**
Net increase in cash and cash equivalents		**1,617**	**938**
Cash and cash equivalents at beginning of the year	6	3,479	2,541
Cash and cash equivalents at the end of the year	**6**	**5,096**	**3,479**

(expressed in millions of US dollars)

	Attributable to shareholders of the parent									
	Share capital	**Share premium**	**Treasury shares**	**Unrealized gain on financial assets available-for-sale and cash flow hedge**	**Premises revaluation reserve**	**Currency translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
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 8,11)	–	–	–	(338)	–	–	–	**(338)**	–	**(338)**
Premises revaluation, net of tax (Note 15)	–	–	–	–	271	–	–	**271**	11	**282**
Transfer of premises 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**
Total income and expense for the period	–	–	–	65	269	266	1,139	**1,739**	88	**1,827**
Dividends declared (Note 33)	–	–	–	–	–	–	(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**

(expressed in millions of US dollars)

	Attributable to shareholders of the parent									
	Share capital	**Share premium**	**Treasury shares**	**Unrealized gain on financial assets available-for-sale and cash flow hedge**	**Premises revaluation reserve**	**Currency translation difference**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2006	**2,500**	**1,513**	**–**	**154**	**341**	**352**	**1,744**	**6,604**	**388**	**6,992**
Unrealized gain on financial assets available-for-sale, net of tax (Note 8,11)	–	–	–	16	–	–	–	**16**	(1)	**15**
Transferred to profit or loss on sale or impairment, net of tax (Note 8,11)	–	–	–	(112)	–	–	–	**(112)**	–	**(112)**
Unrealized gains less losses on cash flow hedge, net of tax (Note 34)	–	–	–	51	–	–	–	**51**	–	**51**
Premises revaluation, net of tax (Note 15)	–	–	–	–	264	–	–	**264**	9	**273**
Transfer of premises revaluation reserve upon disposal or depreciation	–	–	–	–	(15)	–	15	**–**	–	**–**
Effect of translation	–	–	–	–	–	324	–	**324**	28	**352**
Total income recognized directly in equity	**–**	**–**	**–**	**(45)**	**249**	**324**	**15**	**543**	**36**	**579**
Net profit	**–**	**–**	**–**	**–**	**–**	**–**	**1,480**	**1,480**	**34**	**1,514**
Total income and expense for the period	–	–	–	(45)	249	324	1,495	**2,023**	70	**2,093**
Dividends declared (Note 33)	–	–	–	–	–	–	(133)	**(133)**	(2)	**(135)**
Share issue (Note 24)	584	7,279	–	–	–	–	–	**7,863**	–	**7,863**
Treasury shares	–	–	(21)	–	–	–	–	**(21)**	–	**(21)**
Acquisition of subsidiaries	–	–	–	–	–	–	–	**–**	25	**25**
Increase in share capital of subsidiaries	–	–	–	–	–	–	26	**26**	(26)	**–**
Acquisition of minority interests	–	–	–	–	–	–	(146)	**(146)**	(165)	**(311)**
Changes in associates' equity (not recognized in profit or loss)	–	–	–	–	–	–	4	**4**	–	**4**
Establishment of subsidiaries	–	–	–	–	–	–	–	**–**	6	**6**
Disposal of subsidiaries (Note 39)	–	–	–	–	(3)	(13)	3	**(13)**	(2)	**(15)**
Balance at 31 December 2007	**3,084**	**8,792**	**(21)**	**109**	**587**	**663**	**2,993**	**16,207**	**294**	**16,501**

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 reorganized into an open joint stock company. In October 2006 the Group started re-branding to change its name from Vneshtorgbank to VTB. Simultaneously, the names of some of VTB's subsidiaries were changed as presented in Notes 39 and 40. In March 2007, the Bank for Foreign Trade was renamed into "VTB Bank" (Open Joint-Stock Company).

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

On 29 December 2004, the Bank became a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance". The main retail subsidiary "Bank VTB 24", CJSC is also a member of the obligatory deposit insurance system provided by the State Corporation "Agency for Deposits Insurance" since February 22, 2005. OJSC "Bank VTB North-West" (former OJSC "Industry & Construction Bank"), a subsidiary acquired at the end of 2005, is also a member of the obligatory deposit insurance system since 11 January 2005. 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 USD 4 thousand) per individual in case of the withdrawal of a license of a bank or a CBR imposed moratorium on payments in full amount and for individual deposits exceeding RUR 100 thousand a 90% payment is guaranteed. From 25 March 2007 the maximum total amount of guaranteed payment was increased up to RUR 400 thousand (approximately USD 16 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 list of major subsidiaries and associates included in these consolidated financial statements is provided in Note 40.

The Group operates predominantly in the commercial banking sector. This includes deposit taking and commercial lending in freely convertible currencies and in Russian Roubles, support of clients' export/import transactions, foreign exchange, securities trading, and trading in derivative financial instruments. The Group's operations are conducted in both Russian and international markets. The Group's operations are not subject to seasonal fluctuations. The Group conducts its banking business in Russia through VTB as a parent and 2 subsidiary banks with its network of 157 full service branches, including 57 branches of VTB, 48 branches of CJSC "Bank VTB 24" and 52 branches of OJSC "Bank VTB North-West", located in major Russian regions. The Group operates outside Russia through 11 bank subsidiaries, located in the Commonwealth of Independent States ("CIS") (Armenia, Georgia, Ukraine, Belarus), Europe (Austria, Cyprus, Switzerland, Germany, France and Great Britain), Africa (Angola) and through 4 representative offices located in India, Italy, China and Kyrgyzstan.

VTB's majority shareholder is the Russian Federation state, acting through the Federal Property Agency, which holds 77.47% of VTB's issued and outstanding shares at 31 December 2007 (31 December 2006: 99.9%).

The number of employees of the Group at 31 December 2007 was 35,945 (31 December 2006: 28,466).

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, 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 categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The national currency of the Russian Federation, where the Bank is domiciled, is the Russian rouble (RUR). 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. See Note 42 regarding change in functional currency.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS during the year. Adoption of these standards did not have any effect on the financial performance or position of the Group for any presented reporting period.

The principal effects of these changes are as follows:

IFRS 7 "Financial Instruments: Disclosures" – This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

Amendment to IAS 1 "Presentation of Financial Statements" – This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 41.

(expressed in millions of US dollars)

3. Basis of Preparation (continued)

Reclassifications

The Group made certain reclassifications within the statement of income for the year ended 31 December 2006 to conform to the 2007 presentation:

	As previously reported	**Reclassi-fication**	**As adjusted**
Interest income	3,637	(31)	3,606
Gains less losses arising from financial assets at fair value through profit or loss	187	31	218

The Group also made certain reclassifications within the statement of cash flows for the year ended 31 December 2006 to conform to the 2007 presentation:

	As previously reported	**Reclassi-fication**	**As adjusted**
Interest received	3,461	(31)	3,430
Income received on operations with financial assets at fair value through profit or loss	100	31	131

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:

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

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

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

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

3. Basis of Preparation (continued)

IFRSs and IFRIC interpretations not yet effective (continued)

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

IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” (effective for periods beginning on or after 1 July 2009) – The revised standards were issued in January 2008. Revised IFRS 3 introduces a number of changes in accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. This approach on recording the change in ownership interest matches the current Accounting policies of the Group. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3 and IAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests.

IAS 1 “Presentation of Financial Statements” (effective for periods beginning on or after 1 January 2009) – The revised standard was issued in September 2007. It separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition the revised IAS 1 introduces the statement of comprehensive income, which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement or in two linked statements. The Group is still evaluating whether it will have one or two statements.

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

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

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.

4. Summary of Principal Accounting Policies

Subsidiaries

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

Acquisition of subsidiaries

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

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

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

Increases in ownership interests in subsidiaries

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

Investments in associates

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

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

Financial assets

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

4. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

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

Financial assets at fair value through profit or loss

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

Financial assets held for trading, are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. 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 and is in accordance with IAS 39 revised for the fair value option.

Loans and receivables

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

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

Held-to-maturity investments

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

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

4. Summary of Principal Accounting Policies (continued)

Financial assets (continued)

Available-for-sale financial assets

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities

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

4. Summary of Principal Accounting Policies (continued)

Financial liabilities (continued)

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 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 recognized in the statement of income.

Derecognition of financial liabilities

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

Offsetting

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

Cash and cash equivalents

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

Mandatory cash balances with central banks

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

Due from other banks

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

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements (“repo agreements”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are not derecognized. 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.

4. Summary of Principal Accounting Policies (continued)

Repurchase and reverse repurchase agreements and lending of securities (continued)

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 recognized in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from trading securities or gains less losses from dealing in foreign currencies, depending on the nature of the instrument.

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

Hedge accounting

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

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

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

4. Summary of Principal Accounting Policies (continued)

Derivative financial instruments (continued)

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the cash flow hedge reserve within “Unrealized gain on financial assets available-for-sale and cash flow hedge” caption. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement in “Gains less losses arising from financial assets at fair value through profit or loss”.

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

Promissory notes purchased

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

Leases

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

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

Allowances for impairment of financial assets

Impairment of financial assets carried at amortized cost

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

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.

4. Summary of Principal Accounting Policies (continued)

Allowances for impairment of financial assets (continued)

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

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

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

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

Impairment of Available-for-sale financial assets

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

Investment property

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

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

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

4. Summary of Principal Accounting Policies (continued)

Premises and equipment

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

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

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

Any revaluation surplus is credited to the asset 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 recognized in the statement of income, in which case the increase is recognized in the statement of income. A revaluation deficit is recognized in the statement of income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for premises and equipment.

The 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 2007 and 2006. The revaluation was performed based on the reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

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

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

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

4. Summary of Principal Accounting Policies (continued)

Depreciation

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

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

Estimated useful lives and residual values are reassessed annually.

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".

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

Other intangible assets

Other intangible assets include computer software, 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, which do not exceed 5 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

4. Summary of Principal Accounting Policies (continued)

Other intangible assets (continued)

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

Due to other banks

Amounts due to other banks are recorded when money or other 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 syndicated loans, revolving, other credit lines and other specific items. Other borrowed funds are carried at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statement of income over the period of other borrowed funds using effective interest method.

Taxation

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

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

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.

Provisions for liabilities and charges

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

Credit related commitments

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

Share premium

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

Dividends

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

4. Summary of Principal Accounting Policies (continued)

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Loan origination fees for loans issued to customers are deferred (together with related incremental direct costs) and recognized as an adjustment to the effective yield of the loans. 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 staff costs and administrative 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.

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 recognized in the statement of income as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

At 31 December 2007, the principal rate of exchange used for translating balances in Russian Roubles to USD was USD 1 to RUR 24.5462 (at 31 December 2006: USD 1 to RUR 26.3311) and the principal rate of exchange used for translating balances in Euro was USD 1 to EUR 0.6831 (at 31 December 2006: USD 1 to EUR 0.7589).

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 2007 was USD 320 million (31 December 2006: USD 294 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, unexpectedly and with retroactive effect. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Trends within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

(expressed in millions of US dollars)

5. Significant Accounting Estimates and Judgements (continued)

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

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

Consolidation of funds

The Group consolidates mutual funds considering the following factors:

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

Fair value estimation of unquoted shares

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

6. Cash and Short-Term Funds

	31 December 2007	31 December 2006
Cash on hand	1,256	930
Cash balances with central banks (other than mandatory reserve deposits)	2,591	1,267
Correspondent accounts with other banks		
- Russian Federation	557	551
- Other countries	756	833
Total cash and short-term funds	**5,160**	**3,581**
Less: restricted cash	(64)	(102)
Total cash and cash equivalents	**5,096**	**3,479**

Restricted cash balances represent the balances on escrow accounts in the amount of USD 19 million (31 December 2006: USD 6 million) comprising USD 18 million in freely convertible currencies and USD 1 million in non-freely convertible currencies (31 December 2006: USD 2 million and USD 4 million, accordingly), and other balances in non-freely convertible currencies in the amount of USD 45 million (31 December 2006: USD 96 million). Restricted cash balances were collateralized by amounts due to customers and banks in the amount of USD 50 million (31 December 2006: USD 92 million). For the purposes of the consolidated statement of cash flows, restricted cash is not included in cash and cash equivalents.

(expressed in millions of US dollars)

7. Financial Assets at Fair Value Through Profit or Loss

	31 December 2007	31 December 2006
Financial assets held for trading	9,112	4,786
Financial assets designated as at fair value through profit or loss	1,324	334
Total financial assets at fair value through profit or loss	**10,436**	**5,120**

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

Financial assets held for trading

	31 December 2007	31 December 2006
Debt securities denominated in USD		
Bonds and eurobonds of foreign companies and banks	385	369
Eurobonds of Russian companies and banks	263	583
Eurobonds of the Russian Federation	59	37
Russian MinFin bonds (OVGVZ)	5	74
Bonds and eurobonds of foreign governments	–	12
Promissory notes of Russian companies and banks	–	8
Debt securities denominated in RUR		
Bonds of Russian companies and banks	3,536	1,308
Russian Federal loan bonds (OFZ)	1,358	902
Russian municipal bonds	740	536
Promissory notes of Russian companies and banks	354	299
Eurobonds of foreign companies and banks	37	28
Debt securities denominated in other currencies		
Bonds of foreign governments	20	75
Eurobonds of Russian companies and banks	17	15
Bonds of foreign companies and banks	8	157
Equity securities	1,771	308
Balances arising from derivative financial instruments (Note 34)	559	75
Total financial assets held for trading	**9,112**	**4,786**

Equity securities at 31 December 2007 include USD 503 million representing structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities (recorded within derivative instruments). Other equity securities mostly represent shares of major Russian oil and gas, energy, telecommunication and manufacturing companies and banks and shares of the world-leading blue chip companies.

Debt securities of Russian companies and banks mostly represent securities issued by major Russian oil and gas, energy, telecommunication and manufacturing companies and banks.

Derivatives include the instruments used as cash flow hedges amounted to USD 104 million (Note 34).

(expressed in millions of US dollars)

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

Financial assets designated as at fair value through profit or loss

	31 December 2007	31 December 2006
Bonds of Russian companies and banks	415	74
Equity securities	384	6
Bonds of foreign companies and banks	354	123
Investments in mutual funds	98	–
Bonds of foreign governments	61	8
Russian municipal bonds	10	16
Eurobonds of the Russian Federation	1	107
Balances arising from derivative financial instruments (Note 34)	1	–
Total financial assets designated as at fair value through profit or loss	**1,324**	**334**

Equity securities at 31 December 2007 represent structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities (recorded within derivative instruments). Equity securities are issued by Russian energy companies. Financial liabilities at fair value through profit or loss – designated as at fair value through profit or loss (negative fair value of derivatives) relating to these transactions are accounted within "Other liabilities" in the amount of USD 3 million. Refer to Note 23.

The majority of mutual funds investments also represent structured customer financing transactions whereby market risk is offset via forward sale agreements on the same securities.

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

	31 December 2007	31 December 2006
Financial assets at fair value through profit or loss		
Financial assets held for trading		
Russian Federal loan bonds (OFZ)	290	43
Promissory notes of Russian companies and banks	245	–
Equity securities	226	27
Bonds of Russian companies and banks	84	3
Russian municipal bonds	32	7
Total Financial assets held for trading	*877*	*80*
Financial assets designated as at fair value through profit or loss		
Eurobonds of Russian companies and banks	121	43
Bonds of foreign governments	103	26
Bonds of foreign companies and banks	58	52
Eurobonds of Russian Federation and MinFin Bonds	29	–
Russian municipal bonds	5	–
Total Financial assets designated as at fair value through profit or loss	*316*	*121*
Total Financial assets at fair value through profit or loss	***1,193***	***201***
Financial assets available-for-sale		
Bonds of foreign companies and banks	490	551
Bonds of foreign governments	326	645
Bonds of Russian companies and banks	30	–
Russian municipal bonds	10	–
EADS shares	–	1,402
Total Financial assets available-for-sale	***856***	***2,598***
Unquoted promissory notes of Russian companies and banks	**163**	**139**
otal financial assets pledged under repurchase agreements and loaned financial assets	**2,212**	**2,938**

(expressed in millions of US dollars)

8. Financial Assets Pledged under Repurchase Agreements and Loaned Financial Assets (continued)

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 financial assets available-for-sale and cash flow hedge" at 31 December 2006. In December 2007, the Group sold EADS shares to a related state-owned party and transferred upon the sale the realized gain of USD 150 million, net of tax, from equity to the statement of income.

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

9. Due from Other Banks

	31 December 2007	31 December 2006
Current term placements with other banks	9,070	6,013
Reverse sale and repurchase agreements with other banks	676	808
Total gross due from other banks	**9,746**	**6,821**
Less: Allowance for impairment (Note 30)	(13)	(8)
Total due from other banks	**9,733**	**6,813**

At 31 December 2007 the Bank received collateral of securities under reverse sale and repurchase agreements with other banks with a fair value of USD 857 million (31 December 2006: USD 930 million).

10. Loans and Advances to Customers

	31 December 2007	31 December 2006
Current loans and advances	57,547	28,437
Reverse sale and repurchase agreements with customers	1,640	1,152
Rescheduled loans and advances	136	242
Overdue loans and advances	698	404
Total gross loans and advances to customers	**60,021**	**30,235**
Less: Allowance for impairment (Note 30)	(1,472)	(973)
Total loans and advances to customers	**58,549**	**29,262**

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

(expressed in millions of US dollars)

10. Loans and Advances to Customers (continued)

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

	31 December 2007	31 December 2006
Loans to legal entities		
Project finance	3,657	2,088
Finance leases	2,547	780
Current activity financing	39,924	19,596
Reverse sale and repurchase agreements	1,484	1,152
Other	4,727	4,086
Total loans to legal entities	**52,339**	**27,702**
Loans to individuals		
Mortgages	3,661	952
Car loans	774	106
Reverse sale and repurchase agreements	156	–
Consumer loans and other	3,091	1,475
Total loans to individuals	**7,682**	**2,533**
Less: Allowance for impairment (Note 30)	(1,472)	(973)
Total loans and advances to customers	**58,549**	**29,262**

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

At 31 December 2007, included in current loans are finance lease receivables of USD 1,926 million (31 December 2006: USD 469 million), equal to the net investment in the lease.

The finance lease receivables were as follows:

	31 December 2007	31 December 2006
Gross investment in leases	2,679	661
Less: Unearned finance lease income	(753)	(192)
Net investment in leases before allowance	**1,926**	**469**
Less: allowance for uncollectible finance lease receivables	(6)	(2)
Net investment in leases	**1,920**	**467**

At 31 December 2007 the Group had one borrower in the transport sector with aggregated net investment in lease of USD 804 million (31 December 2006: USD 296 million) representing leasing of rolling-stock.

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

	31 December 2007	31 December 2006
Within 1 year	603	165
From 1 to 5 years	1,724	385
More than 5 years	352	111
Minimum lease payments receivable	**2,679**	**661**

(expressed in millions of US dollars)

10. Loans and Advances to Customers (continued)

Net investments in leases were as following:

	31 December 2007	31 December 2006
Within 1 year	432	118
From 1 to 5 years	1,236	271
More than 5 years	252	78
Net investment in leases	**1,920**	**467**

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

	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Finance	12,020	20	5,049	17
Individuals	7,682	13	2,533	8
Trade and commerce	7,142	12	4,790	16
Manufacturing	5,316	9	4,067	13
Building construction	5,170	8	2,364	8
Oil and Gas	3,778	6	1,507	5
Transport	2,992	5	1,288	4
Government bodies	2,891	5	1,668	6
Energy	2,508	4	937	3
Metals	2,476	4	1,556	5
Food and agriculture	2,175	4	1,104	4
Coal mining	1,712	3	705	2
Chemical	1,057	2	789	3
Aircraft	756	1	243	1
Telecommunications and media	560	1	406	1
Other	1,786	3	1,229	4
Total gross loans and advances to customers	**60,021**	**100**	**30,235**	**100**

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

At 31 December 2007, the total amount of outstanding loans issued by the Group to 10 largest groups of interrelated borrowers comprises USD 12,565 million, or 21% of the gross loan portfolio (31 December 2006: USD 5,342 million, or 18%).

At 31 December 2007 and 2006, outstanding loans issued under reverse repurchase agreements do not contain any significant concentrations.

At 31 December 2007 the Bank received collateral of securities under reverse sale and repurchase agreements with customers with a fair value of USD 2,076 million (31 December 2006: USD 1,216 million).

The total amount of pledged loans is USD 1,333 million. The loans are pledged against the funds accounted within "Other borrowed funds" – "Other borrowings" caption in Liabilities.

During 2007 interest income on impaired loans, recognized by the Group amounted to USD 94 million (2006: USD 101 million).

(expressed in millions of US dollars)

11. Financial Assets Available-for-Sale

	31 December 2007	31 December 2006
CJSC "Alrosa" shares	346	333
Other equity investments	244	169
Bonds of foreign companies and banks	120	162
Eurobonds of Russian companies and banks	65	85
Bonds of foreign governments	46	15
Russian MinFin bonds (OVGVZ)	24	30
Promissory notes of Russian companies and banks	10	26
Russian municipal bonds	3	13
Eurobonds of the Russian Federation	–	55
Total financial assets available-for-sale	**858**	**888**

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

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

As a result of the acquisition of VTB Bank France (former BCEN-Eurobank) in 2005, the Group acquired 19.8% of the total shares of JSC "International Moscow Bank" ("IMB") domiciled in Russia. During the year 2006, the fair value of these shares increased to USD 395 million. The increase in fair value of securities was recorded within equity with no tax effect due to the tax status of BCEN-Eurobank. 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 within Other equity investments represented the investment into the additional issue of shares completed in December 2006 that was sold in the first quarter of 2007 to the same party subject to the binding agreement.

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.

(expressed in millions of US dollars)

12. Investments in Associates

	Country of registration	Industry	31 December 2007 Amount	31 December 2007 Equity controlled	31 December 2006 Amount	31 December 2006 Equity controlled
"Eurofinance Mosnarbank", OJSC	Russia	Banking	152	34.83%	116	34.07%
"Vietnam-Russia Joint Venture Bank"	Vietnam	Banking	15	49.00%	5	49.00%
"East-West United Bank", S.A.	Luxembourg	Banking	–	–	40	48.55%
"Halladale PLC"	Great Britain	Property	–	–	26	23.00%
"Insurance Company VTB-Insurance", Ltd	Russia	Insurance	–	–	9	49.99%
"Management Company ICB", Ltd	Russia	Finance	–	–	4	24.98%
"Interbank Trading House", Ltd	Russia	Commerce	–	50.00%	–	50.00%
Total Investments in Associates			**167**		**200**	

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

In June 2007 VTB and ITC Consultants Ltd. purchased 0.02% and 49.99% accordingly, of Insurance Company VTB-Insurance, Ltd (former Insurance Company VTB-Rosno, Ltd) for the total amount of USD 5 million, accordingly at 30 June 2007 VTB-Insurance became a subsidiary of VTB and was consolidated (see Note 39).

In November 2006, VTB established the Vietnam-Russia Joint Venture Bank (associate) with 49% shareholding of VTB and contributed USD 5 million into its capital. During the second quarter of 2007 the share capital of Vietnam-Russia Joint Venture Bank was increased. VTB contributed to the capital USD 9.8 million retaining a 49% ownership.

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

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

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

	31 December 2007	31 December 2006
Assets	2,524	2,648
Liabilities	2,109	2,187
Net assets	415	461
Revenue	290	310
Net profit	67	(12)

The unrecognized share of losses of associates for 2007 and cumulatively at 31 December 2007 was USD nil and USD 20 million, respectively (31 December 2006: USD 3 million and USD 28 million, respectively).

(expressed in millions of US dollars)

13. Investment Securities Held-to-Maturity

Investment securities held-to-maturity comprise securities issued by foreign governments and entities with maturities ranging from August 2010 to December 2011.

14. Other Assets

	31 December 2007	31 December 2006
Advances issued to leasing equipment suppliers	694	68
Rights of claim to construct and receive the title of ownership of premises under investment contracts and related capitalized furnishing costs	269	169
Taxes recoverable	245	105
Trade debtors and prepayments	181	141
Equipment purchased for subsequent leasing	139	114
Deferred expenses	94	44
Leasehold for development and sale	63	57
Amounts in course of settlement	33	10
Precious metals	13	22
Put option premium receivable	6	29
Other assets	67	35
Total other assets	**1,804**	**794**

At 31 December 2007 and 2006 advances issued to leasing equipment suppliers represent advances issued by VTB Leasing.

At 31 December 2007 rights of claim to construct and receive the title of ownership of premises under investment contracts contained a prepayment of USD 251 million (31 December 2006: 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.

Movements in the allowance for impairment of other assets are presented in Note 30.

(expressed in millions of US dollars)

15. Premises and Equipment

The movements in property and equipment were as follows:

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

(expressed in millions of US dollars)

15. Premises and Equipment (continued)

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

Premises of the Group are subject to revaluation on a regular basis. The 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 2007 and 2006. If the premises were measured using the cost model, the carrying amounts would be as follows:

	31 December 2007	31 December 2006
Cost	850	679
Accumulated depreciation and impairment	49	40
Net carrying amount	**801**	**639**

The Bank's premises were independently valued as of 31 December 2007, 2006, 2005 and 2000. The valuation was carried out by independent appraisal firms. The basis used for the appraisal was primarily market value.

The revaluation of the Group's premises as of 31 December 2007 was carried out by an independent firm of valuers. The basis used for the appraisal was primarily market value. The net revaluation surplus amounted to USD 360 million, including minority interest of USD 9 million, were posted to premises revaluation reserve within the shareholders' equity net of deferred income tax in the amount of USD 87 million.

The revaluation of the Group's premises as of 31 December 2006 was carried out by an independent firm of valuers. The basis used for the appraisal was primarily 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 premises, which resulted from 2005 valuation, and USD 373 million, including minority interest of USD 11 million, which were posted to premises revaluation reserve within the shareholders' equity net of deferred income tax in the amount of USD 91 million.

16. Investment Property

	2007	2006
Investment property as at 1 January	**178**	**198**
Acquisitions	19	–
Revaluation (Note 28)	16	52
Disposals	(59)	(92)
Translation effect	14	20
Investment property as at 31 December	**168**	**178**

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

In 2006, the Group 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, mainly on the basis of market prices.

At 31 December 2007, included in investment property are buildings and business-centers held for operating leasing of USD 6 million located in Ekaterinburg and Ukraine (31 December 2006: USD 60 million located in St. Petersburg region, Ekaterinburg and Ukraine), distribution warehouse of USD 19 million (31 December 2006: nil) held by acquired Nevsky Property Asset Management subsidiary and land for development and resale of USD 143 million located in St. Petersburg and Moscow regions (31 December 2006: USD 118 million).

(expressed in millions of US dollars)

17. Intangible Assets

The movements in intangible assets were as follows:

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

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**

(expressed in millions of US dollars)

17. Intangible Assets (continued)

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

	31 December 2007			31 December 2006		
	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	84	–	**84**	78	–	**78**
"VTB Bank North-West", OJSC	213	109	**322**	199	134	**333**
"VTB Bank (Armenia)" CJSC	5	–	**5**	4	–	**4**
"Obyedinennaya Depositarnaya companya", CJSC	3	16	**19**	–	–	**–**
"VTB Asset Management", CJSC	2	–	**2**	–	–	**–**
"VTB Bank", OJSC (former "Mriya", OJSC, merged with Vneshtorgbank (Ukraine), CJSC)	13	4	**17**	13	6	**19**
Net book amount	**320**	**129**	**449**	**294**	**140**	**434**

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 2006: 10%).

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

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

The recoverable amount of Bank VTB North-West (former OJSC "Industry & Construction Bank") was based on the market quotes of its shares at 31 December 2007 which amounted to USD 2,311 million (31 December 2006: USD 1,665 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 2007	**31 December 2006**
Term loans and deposits	9,546	3,080
Correspondent accounts and overnight deposits of other banks	3,224	1,931
Sale and repurchase agreements with other banks	2,024	2,576
Total due to other banks	**14,794**	**7,587**

(expressed in millions of US dollars)

18. Due to Other Banks (continued)

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 2,048 million (31 December 2006: USD 2,771 million) (see Note 8).

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

19. Customer Deposits

	31 December 2007	31 December 2006
Government bodies		
Current/settlement deposits	933	257
Term deposits	2,011	1,281
Other legal entities		
Current/settlement deposits	8,701	6,115
Term deposits	14,769	5,000
Individuals		
Current/settlement deposits	2,974	1,777
Term deposits	7,709	5,549
Sale and repurchase agreements	1	9
Total customer deposits	**37,098**	**19,988**

Included in customer deposits at 31 December 2007 are:

- Restricted deposits amounting to USD 21 million (31 December 2006: USD 10 million), where matching deposits were placed by the Group in escrow accounts (see Note 6).
- Deposits of USD 385 million (31 December 2006: USD 130 million) were held as collateral against irrevocable commitments under import letters of credit and guarantees (see Note 34).

At 31 December 2007 sale and repurchase agreements of USD 1 million (31 December 2006: USD 9 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 1 million (31 December 2006: USD 9 million) (see Note 8).

Economic sector risk concentrations within customer deposits are as follows:

	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Individuals	10,683	29	7,326	37
Energy	6,417	17	350	2
Finance	4,079	11	2,943	15
Metals	3,103	9	1,198	6
Government bodies	2,944	8	1,538	8
Trade and commerce	1,929	5	1,429	7
Building construction	1,520	4	859	4
Manufacturing	1,323	4	903	5
Oil and gas	1,259	3	827	4
Telecommunications and media	835	2	185	1
Chemical	484	1	261	1
Transport	412	1	420	2
Food and agriculture	372	1	374	2
Aircraft	348	1	241	1
Coal mining	103	–	274	1
Other	1,287	4	860	4
Total customer deposits	**37,098**	**100**	**19,988**	**100**

(expressed in millions of US dollars)

20. Other Borrowed Funds

	31 December 2007	31 December 2006
Syndicated loans	2,489	2,864
Other borrowings	2,687	1,604
Total other borrowed funds	**5,176**	**4,468**

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

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

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

21. Debt Securities Issued

	31 December 2007	31 December 2006
Bonds	14,394	9,341
Promissory notes	2,082	1,877
Deposit certificates	13	106
Debentures	–	241
Total debt securities issued	**16,489**	**11,565**

At 31 December 2007 promissory notes issued included both discount and interest bearing promissory notes denominated mainly in RUR with maturity ranging from demand to June 2015 (31 December 2006: from demand to June 2015).

In February 2006 VTB issued EUR 500 million (or USD 596 million) Series 9 Eurobonds under its EMTN Programme 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 April 2006, VTB issued RUR-denominated Eurobonds with a face value of 10 billion (or USD 361 million) with a fixed rate of 7% p.a. The issue has a 3-year maturity.

In July 2006, VTB issued RUR 15 billion (or USD 555 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 1-year put option embedded.

21. Debt Securities Issued (continued)

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 derecognized. The risks were not transferred due to a subordinated loan granted by VTB to the special purpose entity and purchase of class C of Mortgage-backed notes, which absorbs substantially all credit risks. The carrying value of the mortgage loans is USD 56 million as of 31 December 2007.

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

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

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

In July 2007 VTB repaid its Series 3 issue under its USD 10 billion European Medium Term Notes (EMTN) Programme in the amount of USD 300 million.

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

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

In December 2007 VTB issued RUR 30 billion bonds (or USD 1,234 million) under USD 20 billion EMTN Programme with a rate of 7.25% maturing in December 2008.

(expressed in millions of US dollars)

22. Subordinated Debt

On 4 February 2005, VTB Capital S.A., a Luxembourg based special purpose entity of the Group used for issuance of Eurobonds, issued USD 750 million of Eurobonds (with a call option for early repayment on the fifth anniversary of such date) due February 2015, the proceeds of which financed a subordinated loan to VTB. The eurobonds bear interest at 6.315% per annum payable semi-annually, with an interest rate step-up in 2010. As of 31 December 2007 the carrying amount of this subordinated debt was USD 768 million (31 December 2006: USD 766 million). Management expects to settle the debt in 2010 before the interest rate step-up.

On 29 September 2005, OJSC "Industry & Construction Bank" (further renamed to OJSC "Bank VTB North-West") issued USD 400 million subordinated Eurobonds due September 2015 with early redemption option (1 October 2010; price 100; type call). The Eurobonds bear interest at 6.2% per annum payable semi-annually, with an interest rate step-up in 2010. The transaction was structured as an issue of notes by Or-ICB S.A. (Luxembourg) for the purpose of financing a subordinated loan to the Bank. As of 31 December 2007, the carrying amount of this subordinated debt was USD 388 million (31 December 2006: USD 389 million).

Upon deconsolidation of "Interbank Trading House", Ltd. The Group recognized a subordinated loan raised by CJSC "VTB 24" in October 2000 due October 2015 with interest rate at 6.0% per annum. As of 31 December 2007 the carrying amount of this subordinated debt was USD 15 million (31 December 2006: USD 14 million).

23. Other Liabilities

	31 December 2007	31 December 2006
Financial liabilities at fair value through profit or loss – held for trading (negative fair value of derivatives (Note 34))	421	51
Financial liabilities at fair value through profit or loss – designated as at fair value through profit or loss (negative fair value of derivatives (Note 34))	3	–
Minority interests in consolidated mutual funds	123	–
Payable to employees	118	68
Trade creditors and prepayments received	112	99
Liabilities to pay taxes	93	80
Amounts in course of settlement	75	34
Advances received from lessees	74	50
Liabilities on pension plans	59	51
Deferred income	40	19
Provisions on insurance payments	29	7
Initial recognition of credit related commitments	14	–
Dividends payable	7	7
Provisions for credit related commitments	2	3
Other liabilities	61	40
Total other liabilities	**1,231**	**509**

Financial liabilities at fair value through profit or loss – designated as at fair value through profit or loss (negative fair value of derivatives) relate to equity securities accounted within Financial assets designated as at fair value through profit or loss in the amount of USD 384 million (Note 7).

(expressed in millions of US dollars)

24. Share Capital and Reserves

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

	31 December 2007		31 December 2006	
	Number of shares	**Nominal amount**	**Number of shares**	**Nominal amount**
Ordinary shares	6,724,138,509,019	3,084	5,211,112,400,000	2,500
Total share capital	**6,724,138,509,019**	**3,084**	**5,211,112,400,000**	**2,500**

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. At 31 December 2007 the Bank also had 5,000,000,000,000 authorized ordinary shares with a par value of RUR 0.01 each (31 December 2006: 2,611,200,000,000 authorized ordinary shares), which are currently not issued.

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

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

At 31 December 2007 and 2006 the share premium amounted to USD 8,792 million and USD 1,513 million, respectively.

At 31 December 2007 and 2006 the reserves included both distributable and non-distributable reserves.

During 2006 no movement in shares issued and treasury shares occurred. In 2007 the Bank issued 1,513,026,109,019 additional shares (refer to paragraph above). During 2007 3,617,914,376 treasury shares were purchased by Bank's subsidiaries, which are accounted within equity as separate caption "Treasury shares". As a result, the number of the outstanding shares at 31 December 2007 amounted to 6,720,520,594,643 (31 December 2006: 5,211,112,400,000).

(expressed in millions of US dollars)

25. Interest Income and Expense

	2007	2006
Interest income		
Financial assets at fair value through profit or loss	**493**	**382**
Loans and advances to customers	4,314	2,872
Due from other banks	503	306
Securities	77	46
Financial assets not at fair value through profit or loss	**4,894**	**3,224**
Total interest income	**5,387**	**3,606**
Interest expense		
Customer deposits	(1,260)	(740)
Debt securities issued	(788)	(517)
Due to banks and other borrowed funds	(707)	(561)
Subordinated debt	(76)	(74)
Total interest expense	**(2,831)**	**(1,892)**
Net interest income	**2,556**	**1,714**

26. Gains less losses arising from financial instruments at fair value through profit or loss

	2007	2006
Gains less losses arising from trading financial instruments	231	196
Gains less losses arising from financial instruments designated at fair value through profit or loss	(93)	22
Total gains less losses arising from financial instruments at fair value through profit or loss	**138**	**218**

27. Fee and Commission Income and Expense

	2007	2006
Commission on settlement transactions	311	202
Commission on cash transactions	107	75
Commission on guarantees issued	66	61
Depositary appointment fee	57	–
Commission on operations with securities	41	35
Other	55	28
Total fee and commission income	**637**	**401**
Commission on settlement transactions	(38)	(24)
Commission on cash transactions	(17)	(9)
Commission on guarantees issued	(6)	(3)
Commission on loans granted	(3)	(1)
Other	(16)	(13)
Total fee and commission expense	**(80)**	**(50)**
Net fee and commission income	**557**	**351**

(expressed in millions of US dollars)

28. Other Operating Income

	2007	2006
Dividends received	38	44
Income arising from operating leasing	18	9
Fines and penalties received	16	6
Investment property revaluation (Note 16)	16	52
Income arising from disposal of property	4	3
Reversal of other provisions (Note 30)	2	–
Reversal of impairment of premises (Note 15)	–	6
Other	29	37
Total other operating income	**123**	**157**

29. Staff Costs and Administrative Expenses

	2007	2006
Staff costs	867	606
Defined contribution pension expense	93	66
Depreciation and other expenses related to premises and equipment	238	171
Advertising expenses	128	74
Taxes other than on income	123	70
Leasing and rent expenses	113	80
Professional services	68	39
Payments to deposit insurance system	54	41
Post and telecommunication expenses	47	27
Security expenses	41	32
Amortization of core deposit intangible	40	34
Charity	25	18
Insurance	8	6
Impairment and amortization of intangibles, except for amortization of core deposit intangible	6	19
Transport expenses	7	11
Other	90	76
Total staff costs and administrative expenses	**1,948**	**1,370**

30. Allowances for Impairment and Provisions

The movements in allowances for impairment of due from other banks by classes for 2007 and 2006 were as follows:

	Russia	OECD	Other	Total
31 December 2005	**–**	**–**	**7**	**7**
Currency translation difference	–	–	1	**1**
31 December 2006	**–**	**–**	**8**	**8**
Provision for loan impairment during the period	2	1	2	**5**
31 December 2007	**2**	**1**	**10**	**13**

(expressed in millions of US dollars)

30. Allowances for Impairment and Provisions (continued)

The movements in allowances for impairment of loans and advances to legal entities by class for 2007 and 2006 were as follows:

	Project finance	Finance leases	Current activity financing	Reverse sale and repurchase agreements with legal entities	Other	Total
31 December 2005	**30**	**5**	**530**	**–**	**18**	**583**
Provision for loan impairment during the period	41	–	270	1	79	**391**
Write-offs	–	–	(13)	–	–	**(13)**
Currency translation difference	1	–	8	–	1	**10**
Disposal of subsidiaries (Note 39, 40)	–	–	(74)	–	–	**(74)**
31 December 2006	**72**	**5**	**721**	**1**	**98**	**897**
Provision for loan impairment during the period	28	22	313	–	18	**381**
Write-offs	–	–	(14)	–	(7)	**(21)**
Recoveries of amounts written-off in previous period	–	–	3	–	–	**3**
Currency translation difference	1	–	15	–	1	**17**
Disposal of subsidiaries (Note 39, 40)	–	–	(9)	–	–	**(9)**
31 December 2007	**101**	**27**	**1,029**	**1**	**110**	**1,268**

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

	Mortgages	Car loans	Reverse sale and repurchase agreements with individuals	Consumer loans and other	Total
31 December 2005	**1**	**–**	**–**	**24**	**25**
Provision for loan impairment during the period	24	3	–	24	51
31 December 2006	**25**	**3**	**–**	**48**	**76**
Provision for loan impairment during the period	(12)	18	–	134	**140**
Write-offs	–	–	–	(14)	**(14)**
Currency translation difference	–	–	–	2	**2**
31 December 2007	**13**	**21**	**–**	**170**	**204**

(expressed in millions of US dollars)

30. Allowances for Impairment and Provisions (continued)

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

	Other assets	Credit related commitments	Total
31 December 2005	**–**	**–**	**–**
(Reversal of provision) provision for impairment during the period	(3)	3	**–**
Recoveries of amounts written-off in previous periods	3	–	**3**
31 December 2006	**–**	**3**	**3**
Reversal of provision for impairment during the period	–	(2)	**(2)**
Write-offs	(2)	–	**(2)**
Recoveries of amounts written-off in previous periods	2	–	**2**
Currency translation difference	–	1	**1**
31 December 2007	**–**	**2**	**2**

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

31. Income Tax Expense

Income tax expense comprises the following:

	2007	2006
Current tax charge	487	366
Deferred taxation movement due to the origination and reversal of temporary differences	(182)	(134)
Income tax expense for the year	**305**	**232**

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 40% in 2007 (2006: zero to 41%).

	2007	2006
IFRS profit before taxation	**1,819**	**1,404**
Theoretical tax charge at the applicable statutory rate of each company within the Group	468	309
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	46	28
- Income which is exempt from taxation	(20)	(44)
- Effect of change in tax rates	3	–
- Income taxed at different rates	(23)	(25)
- Other non-temporary differences	(1)	10
- Tax losses utilized	(16)	(16)
- Translation effect	(125)	(10)
- Change in unrecognized deferred taxes	(13)	14
- Previously unrecorded tax losses now recognized	(5)	(22)
- Other	(9)	(12)
Income tax expense for the year	**305**	**232**

(expressed in millions of US dollars)

31. Income Tax Expense (continued)

Differences between IFRS and taxation regulations give rise to certain temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and for profits tax purposes. The tax effect of the movement on these temporary differences is recorded at rates from 10% to 40% (2006: from 4.25% to 41%). 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			
	2005	**In the statement of income**	**Directly in equity**	**Effect of business combination (Note 39)**	**2006**	**In the statement of income**	**Directly in equity**	**Effect of business combination (Note 39)**	**2007**
Tax effect of deductible temporary differences:									
Allowances for impairment and provisions for other losses	**39**	73	–	(12)	**100**	55	–	–	**155**
Tax losses carried forward	**79**	(16)	3	–	**66**	12	–	–	**78**
Previously unrecognized tax losses now recognized	**16**	22	–	–	**38**	5	–	–	**43**
Accrued expenses	**18**	17	–	–	**35**	84	–	–	**119**
Other	**22**	15	–	–	**37**	(7)	4	–	**34**
Gross deferred tax assets	**174**	111	3	(12)	**276**	149	4	–	**429**
Unrecognized deferred tax assets	**(12)**	(14)	–	12	**(14)**	13	–	–	**(1)**
Gross deferred tax asset	**162**	**97**	**3**	**–**	**262**	**162**	**4**	**–**	**428**
Tax effect of taxable temporary differences:									
Fair value measurement of securities	**(78)**	62	(16)	–	**(32)**	4	16	–	**(12)**
Property and equipment	**(94)**	(9)	(91)	6	**(188)**	13	(87)	–	**(262)**
Intangible assets	**(37)**	7	(3)	–	**(33)**	4	–	–	**(29)**
Net investment in lease	**–**	(4)	–	–	**(4)**	(26)	–	–	**(30)**
Valuation of advances from customers	**–**	(6)	–	–	**(6)**	1	–	–	**(5)**
Other	**(33)**	(13)	–	15	**(31)**	24	(19)	2	**(24)**
Gross deferred tax liability	**(242)**	**37**	**(110)**	**21**	**(294)**	**20**	**(90)**	**2**	**(362)**
Deferred tax asset, net	**82**	**8**	**3**	**–**	**93**	**147**	**(25)**	**–**	**215**
Deferred tax liability, net	**(162)**	**126**	**(110)**	**21**	**(125)**	**35**	**(61)**	**2**	**(149)**

31. Income Tax Expense (continued)

At 31 December 2007, VTB Bank (Austria) and VTB Bank (Deutschland) had unused tax losses of USD 363 million (2006: USD 398 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.

In 2006 the Group planned to reorganize VTB Bank (Deutschland) as a branch of VTB Bank Europe. As a result, the amount of USD 12 million of deferred tax asset in VTB Bank (Deutschland) was not recognized. In 2007 due to modification of the restructuring plans VTB Bank (Deutschland) will have sufficient future taxable profits against which unused tax losses can be utilized. These losses do not expire and the deferred tax assets of USD 12 million were recognized.

In 2007 the VTB Bank Europe was in a loss position of USD 71 million for tax purposes, which resulted in recognition of deferred tax assets in the amount of USD 16 million. No tax losses occurred in 2006.

In 2007 and 2006 the Bank has significant non-taxable income, predominantly FX translation gains arising from using the US dollar as the functional currency of the Bank, which contributed to the decrease in effective tax rate.

At 31 December 2007, the aggregate amount of temporary differences associated with investments in subsidiaries and associates for which deferred tax liability have not been recognized amounted to USD 232 million (31 December 2006: USD 205 million).

32. Basic and Diluted Earnings per Share

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

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

	2007	2006
Net profit attributable to shareholders of the parent *(in millions of US dollars)*	1,480	1,137
Weighted average number of ordinary shares (adjusted retrospectively for split of 1 share to 100,000 shares in 2006) in issue	6,128,966,714,489	5,211,112,400,000
Basic and diluted earnings per share (expressed in USD per share)	**0.000241**	**0.000218**
Basic and diluted earnings per share – continuing operations (expressed in USD per share)	0.000241	0.000217
Basic and diluted earnings per share – discontinued operations (expressed in USD per share)	0.000000	0.000001

33. Dividends

VTB does not have a formal policy for payment of dividends. The amount of dividends to be declared and paid is decided at the VTB's annual shareholders' meeting on the basis of VTB's net profit for the previous fiscal year determined in accordance with Russian Accounting Legislation on a stand-alone basis. On 29 June 2006, VTB's shareholders meeting approved dividends of RUR 1.7 billion (USD 63 million at the exchange rate of RUR 27.0611 per USD 1.00) for 2005, which were paid on 25 August 2006 (RUR 0.00033 per share or USD 0.000012 per share). On 20 June 2007 VTB's shareholders' meeting approved dividends of RUR 3.4 billion (USD 133 million at the exchange rate of RUR 25.9268 per USD 1.00) for 2006 (RUR 0.00066 per share or USD 0.000026 per share), which were paid on 14 August 2007.

(expressed in millions of US dollars)

33. Dividends (continued)

On 30 June 2006, OJSC "Bank VTB North-West" shareholders approved dividends of RUR 126 million (USD 4.7 million at the exchange rate of RUR 27.0789 per USD 1.00) for 2005, which were paid on 19 July 2006, thus resulting in decrease in minority interest by USD 1 million.

On 29 June 2007, OJSC "Bank VTB North-West" declared dividends of RUR 176 million (USD 6.8 million at the exchange rate of RUR 25.8162 per USD 1.00) for 2006, resulting in reduction of minority interest by USD 2 million. The dividends were paid on 6 August 2007.

In May 2007, "VTB Bank (Deutschland)" AG declared and paid dividends of EUR 7.8 million (USD 10.5 million at the exchange rate of EUR 0.7405 per USD 1.00) for 2006, resulting in reduction of minority interest in "VTB Bank (Deutschland)" AG by USD 0.4 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 (L/Cs), which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits and therefore carry less risk than direct borrowings.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees, or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. 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 2007	31 December 2006
Guarantees issued	7,056	3,164
Undrawn credit lines	7,054	3,944
Import letters of credit	1,930	999
Commitments to extend credit	4,304	1,814
Less: allowance for losses on credit related commitments	(2)	(3)
Total credit related commitments	**20,342**	**9,918**

The Bank received export letters of credit for further advising to its customers. The total amount of received letters of credit as of 31 December 2007 was USD 2,630 million (31 December 2006: USD 2,120 million). Commitments under import letters of credit and guarantees are collateralized by customer deposits of USD 385 million (31 December 2006: USD 130 million).

(expressed in millions of US dollars)

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

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

At 31 December 2007, included in guarantees issued are guarantees issued for a related company (Russian entity) of USD 684 million or 10% of the guarantees issued. At 31 December 2006, included in guarantees issued are guarantees issued for a related company (Russian entity) of USD 806 million or 25% of the guarantees issued.

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

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

Remaining contractual maturity	2007	2006
Not later than 1 year	58	35
Later than 1 year but not later than 5 years	183	77
Later than 5 years	338	84
Total operating lease commitments	**579**	**196**

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The notional or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2007. These contracts were mainly entered into in December 2007 and settled early in January 2008.

(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2007:

	Notional amount	Negative fair value	Positive fair value
Forward and futures contracts			
- sale of foreign currency	14,530	(35)	214
- purchase of foreign currency	6,346	(110)	28
- exchange of foreign currency	2,255	(16)	16
- sale of precious metals	715	–	41
- sale of securities	1,438	(118)	20
- purchase of securities	434	(7)	26
- sale of Forward Rate Agreements and Depositary Futures	214	–	1
- purchase of Forward Rate Agreements and Depositary Futures	222	(1)	–
Swaps			
- sale of foreign currency	88	–	–
- purchase of foreign currency	495	(2)	3
- exchange of foreign currency	826	(34)	1
- sale of credit default swaps	431	(11)	–
- purchase of credit default swaps	978	(14)	–
- interest rate swaps	3,020	(23)	127
- sale of precious metals	12	–	–
- purchase of precious metals	63	–	9
- Equity Swaps	44	–	1
Options on precious metals			
- purchased call on precious metals	13	–	1
Options on foreign currency			
- written put on foreign currency	479	(26)	–
- purchased put on foreign currency	499	–	30
- written call on foreign currency	440	(6)	–
- purchased call on foreign currency	357	–	3
Options on securities			
- written put on securities	570	(21)	–
- purchased put on securities	306	–	3
- purchased call on securities	614	–	36
Total	**35,389**	**(424)**	**560**

(expressed in millions of US dollars)

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

The table below includes contracts outstanding at 31 December 2006:

	Notional amount	Negative fair value	Positive fair value
Forward and futures contracts			
- sale of foreign currency	1,949	(2)	23
- purchase of foreign currency	934	(10)	4
- exchange of foreign currency	337	(15)	1
- sale of precious metals	166	–	2
- sale of securities	6	–	–
- purchase of securities	100	–	23
Swaps			
- sale of foreign currency	175	–	1
- purchase of foreign currency	234	–	5
- exchange of foreign currency	1,297	(12)	2
- sale of credit default swaps	612	–	–
- purchase of credit default swaps	29	–	–
- interest rate swaps	297	(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	2,139	–	4
- purchased put on securities	190	(8)	–
- written call on securities	57	–	–
- purchased call on securities	151	–	10
Total	**8,858**	**(51)**	**75**

Cash flow hedges

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

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

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

Purchase commitments. As of December 31, 2007 the Group had USD 206 million outstanding commitments for purchase of precious metals (31 December 2006: USD 275 million). As the price of these contracts is linked to the fair value of precious metals at the date of delivery, no gain or loss is recognized on these contracts.

(expressed in millions of US dollars)

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 2007.

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

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

	Russia	Other CIS	Europe	Total before intersegment eliminations	Inter-segment	Total
Revenues from:						
External customers	**5,967**	**311**	**891**	**7,169**	**–**	**7,169**
Other segments	**183**	**–**	**28**	**211**	**(211)**	**–**
Total revenues	**6,150**	**311**	**919**	**7,380**	**(211)**	**7,169**
Segment results (profit before taxation)	1,743	36	40	1,819	–	**1,819**
Income tax expense						**(305)**
Net profit						**1,514**
Segment assets as of 31 December 2007 less income tax assets	79,451	3,993	15,892	99,336	(6,978)	**92,358**
Income tax assets	120	5	126	251		**251**
Segment assets as of 31 December 2007	79,571	3,998	16,018	99,587	(6,978)	**92,609**
Segment liabilities as of 31 December 2007 less income tax liabilities	65,535	3,622	13,728	82,885	(6,978)	**75,907**
Income tax liabilities	173	13	15	201		**201**
Segment liabilities as of 31 December 2007	65,708	3,635	13,743	83,086	(6,978)	**76,108**
Other segment items						
Share in income of associates	3	–	15	18	–	**18**
Profit from disposal of subsidiaries and associates	79	–	19	98	–	**98**
Capital expenditure	266	66	27	359	(1)	**358**
Depreciation and amortization charge	95	8	11	114	–	**114**
Other non-cash income (expenses)						
Provision for loan impairment	(454)	(53)	(19)	(526)	–	**(526)**
Interest income	4,404	267	926	5,597	(210)	**5,387**
Interest expense	(2,292)	(117)	(632)	(3,041)	210	**(2,831)**
Net interest income	2,112	150	294	2,556	–	**2,556**

(expressed in millions of US dollars)

35. Analysis by Segment (continued)

The segment information as of 31 December 2006:

	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	2,838	113	784	3,735	(129)	**3,606**
Interest expense	(1,426)	(56)	(539)	(2,021)	129	**(1,892)**
Net interest income	1,412	57	245	1,714	–	**1,714**

36. Financial Risk Management

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

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

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

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

36. Financial Risk Management (continued)

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

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

The RD consists of the following sub-divisions:

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

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

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

The ALCO establishes major targeted parameters of VTB's balance sheet for the purposes of asset and liability management and monitors VTB's compliance with these targets with the assistance of VTB's Risk Department. The ALCO, the CC, the RD and the Treasury carry out risk management functions in respect of credit, market (interest rate, currency and securities portfolio) and liquidity risks.

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortized cost. The summary of significant accounting policies in Note 4 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognized.

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

As at 31 December 2007

	Held for trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial assets and liabilities measured at amortized cost	Derivatives designated as cash flow hedging instruments	Total
Financial assets								
Cash and short-term funds	–	–	–	–	–	5,160	–	**5,160**
Mandatory cash balances with central banks	–	–	–	–	–	825	–	**825**
Financial assets at fair value through profit or loss	9,008	1,324	–	–	–	–	104	**10,436**
Financial assets pledged under repurchase agreements and loaned financial assets	877	316	–	163	856	–	–	**2,212**
Due from other banks	–	–	–	9,733	–	–	–	**9,733**
Loans and advances to customers	–	–	–	58,549	–	–	–	**58,549**
Financial assets available-for-sale	–	–	–	–	858	–	–	**858**
Investment securities held-to-maturity	–	–	5	–	–	–	–	**5**
Other assets	–	–	–	–	–	46	–	**46**
Total financial assets	**9,885**	**1,640**	**5**	**68,445**	**1,714**	**6,031**	**104**	**87,824**
Financial liabilities								
Due to other banks	–	–	–	–	–	14,794	–	**14,794**
Customer deposits	–	–	–	–	–	37,098	–	**37,098**
Other borrowed funds	–	–	–	–	–	5,176	–	**5,176**
Debt securities issued	–	–	–	–	–	16,489	–	**16,489**
Subordinated debt	–	–	–	–	–	1,171	–	**1,171**
Other liabilities	424	–	–	–	–	613	–	**1,037**
Total financial liabilities	**424**	**–**	**–**	**–**	**–**	**75,341**	**–**	**75,765**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

As at 31 December 2006

	Held for trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial assets and liabilities measured at amortized cost	Derivatives designated as cash flow hedging instruments	Total
Financial assets								
Cash and short-term funds	–	–	–	–	–	3,581	–	**3,581**
Mandatory cash balances with central banks	–	–	–	–	–	648	–	**648**
Financial assets at fair value through profit or loss	4,786	334	–	–	–	–	–	**5,120**
Financial assets pledged under repurchase agreements and loaned financial assets	80	121	–	139	2,598	–	–	**2,938**
Due from other banks	–	–	–	6,813		–	–	**6,813**
Loans and advances to customers	–	–	–	29,262		–	–	**29,262**
Financial assets available-for-sale	–	–	–	–	888	–	–	**888**
Investment securities held-to-maturity	–	–	11	–	–	–	–	**11**
Other assets	–	–		–	–	45	–	**45**
Total financial assets	**4,866**	**455**	**11**	**36,214**	**3,486**	**4,274**	**–**	**49,306**
Financial liabilities								
Due to other banks	–	–	–	–	–	7,587	–	**7,587**
Customer deposits	–	–	–	–	–	19,988	–	**19,988**
Other borrowed funds	–	–	–	–	–	4,468	–	**4,468**
Debt securities issued	–	–	–	–	–	11,565	–	**11,565**
Subordinated debt	–	–	–	–	–	1,169	–	**1,169**
Other liabilities	51	–	–	–	–	319	–	**370**
Total financial liabilities	**51**	**–**	**–**	**–**	**–**	**45,096**	**–**	**45,147**

36. Financial Risk Management (continued)

Credit risk

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

The bodies involved in the process of the Group's credit risk management include:

- Management Board;
- Credit Committee;
- Banking Group management committee (BGMC);
- Risk Management Commission under BGMC (RMC).

The RMC is responsible for development of credit risks evaluation and management standards, their submission to consideration of BGMC and further implementation, as well as for providing efficient interaction between entities of the Group in this area.

Proposals concerning the credit risk management system within the Group are considered by the RMC and submitted for consideration of BGMC.

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

- Consideration and approval of Group-wide approaches and standards of lending and credit risk management by the BGMC;
- Centralized regulation and control by VTB of strategic and other important issues in the organization and functioning of lending procedures and management of credit risks related to subsidiaries and the Group as a whole;
- Presence of "local" systems for management of, and control over, transactions associated with credit risk that provide for an independent assumption of credit risks by subsidiaries within the established authority with due regard for the requirements of local regulatory bodies.
- Differentiated approach to coordination and control by the VTB, envisaging the level and quality of lending procedures and credit risk management system in each subsidiary bank.

Depending on external and internal factors and quality of credit risk management system in specific banks, the combination of the approaches may vary. In Group banks with highly organized and sophisticated credit risk management systems, VTB tends to limit its involvement to a minimum acceptable level, whereby in banks with less developed credit risk management systems VTB exercises a higher degree of involvement, up to restriction of standalone credit decision making, subject to applicable local legislation.

The powers of management and executive bodies of subsidiary banks in terms of credit decision making and execution of lending transactions are determined by their constituent documents and the applicable local legislation. Besides that subsidiary banks have to ensure realization of uniform standards and approaches concerning lending procedures and lending administration accepted within the Group, and submit for analysis purposes current or proposed for implementation credit procedures to VTB, including distribution of powers among divisions and officers.

36. Financial Risk Management (continued)

Credit risk (continued)

The Group pursues the following major tasks in the area of Group-wide credit risk management in line with VTB Group development strategy:

- Development of a uniform credit policy for VTB Group, and of credit policies for individual entities of the Group (Alignment of credit policies and procedures used by the entities of VTB Group).
- Monitoring of consolidated risk exposure per borrower (group of interrelated borrowers) through development of a detailed database and implementation of efficient procedures governing interaction among the entities of the Group in the conduct of credit operations.
- Implementation of uniform risk evaluation standards based on uniform rating systems (for large customers) and scoring systems (for SME's). These systems should permit certain deviations from the standard counterparty rating procedure subject to the level of sophistication of national markets. At the same time, they should support comparability of individual entities' credit exposures to ensure efficient credit risk management at the Group level.

During 2007 VTB started to introduce formal unified risk management procedures in the Group. The main principles and provisions of VTB Bank Group's credit policy were approved by VTB's Management Board to lay down the main principles and approaches related to the organization of the credit processes and control of transactions that bear credit risk in the Group. These principles applicable to all banks of the Group are to be followed by each bank of the Group and include basic elements of Group's credit strategy as a whole and by each business line, transactions with financial institutions and treasury operations, roles and responsibilities of BGMC, departments of VTB and subsidiary banks in the area of lending activities and credit risk management, general requirements concerning preparation and adoption of credit policies in Group banks, and principles of credit risk management and assessment (including establishment of credit limits), internal control, lending process organization, non-performing loan management, interest rate and commission policies.

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

At the current stage, credit risk monitoring at the Group level is based primarily on regular reports submitted by subsidiaries to the RD and covering credit risk exposures on the consolidated basis.

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

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

- The credit policy and amendments thereto are approved by the Management Board or the Supervisory Council (Board of Directors) of the subsidiary bank, depending on their authority defined in the Charter;
- A draft credit policy and amendments thereto that affect important issues are subject to upfront evaluation and approval by VTB; evaluation is performed by authorized divisions, according to the distribution of appropriate functions within VTB;
- A draft credit policy is reviewed by RD;
- VTB can initiate amendments to the credit policy of a subsidiary bank as part of centralized regulation and credit risk control for the Bank Group, provided that such initiatives do not contradict the regulations in the countries where the Group's banks are domiciled.

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Credit risk (continued)

Credit risk management in the Group and in the Group banks (including VTB) includes setting limits (restrictions of quantitative and other nature) that would define admissible parameters and conditions for risk acceptance. This includes limitation and control of risk concentration, both at the level of individual banks and of the Group as a whole, in respect of individual counterparties / groups of related counterparties, and in respect of countries/regions, industries, transactions, etc.

Subsidiary banks set their own limits for counterparties and other risk factors. Subsidiary banks are responsible for the quality and performance of their loan portfolios and for monitoring and controlling credit risk in their portfolios, including risk concentrations by industry sector, geography and specific classes of counterparties.

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

The majority of Group banks has established and employ internal credit rating classification systems.

The table below shows maximum exposure to credit risk for the components of the balance sheet and for derivatives. The maximum exposure is shown in gross amount, before the effect of mitigation through the use of master netting and collateral agreements.

	31 December 2007	31 December 2006
Balance sheet exposure		
Cash and short-term funds (excluding cash on hand)	**3,904**	**2,651**
Debt securities	**10,267**	**6,768**
Financial assets held for trading	**7,330**	**4,673**
debt securities of Russian banks and companies	4,170	2,213
debt securities of foreign banks and companies	978	824
debt securities of Russian government and municipal authorities	2,162	1,549
debt securities of foreign government and municipal authorities	20	87
Financial assets designated at fair value through profit or loss	**841**	**328**
debt securities of Russian banks and companies	415	74
debt securities of foreign banks and companies	354	123
debt securities of Russian government and municipal authorities	11	123
debt securities of foreign government and municipal authorities	61	8
Financial assets pledged under repurchase agreements and loaned financial assets – held for trading	**651**	**53**
debt securities of Russian banks and companies	329	3
debt securities of Russian government and municipal authorities	322	50
Financial assets pledged under repurchase agreements and loaned financial assets – designated at fair value through profit or loss	**316**	**121**
debt securities of Russian banks and companies	121	43
debt securities of foreign banks and companies	58	52
debt securities of Russian government and municipal authorities	34	–
debt securities of foreign government and municipal authorities	103	26

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Credit risk (continued)

	31 December 2007	31 December 2006
Financial assets pledged under repurchase agreements and loaned financial assets – available-for-sale	**856**	**1,196**
debt securities of Russian banks and companies	30	–
debt securities of foreign banks and companies	490	551
debt securities of Russian government and municipal authorities	10	–
debt securities of foreign government and municipal authorities	326	645
Financial assets available-for-sale	**268**	**386**
debt securities of Russian banks and companies	75	111
debt securities of foreign banks and companies	120	162
debt securities of Russian government and municipal authorities	27	98
debt securities of foreign government and municipal authorities	46	15
Investment securities held-to-maturity	**5**	**11**
Unquoted promissory notes of Russian companies and banks	**163**	**139**
Due from other banks	**9,746**	**6,821**
Russia	3,858	2,228
OECD	5,339	4,248
Other	549	345
Loans and advances to customers	**60,021**	**30,235**
Loans to legal entities	**52,339**	**27,702**
Project finance	3,657	2,088
Financial lease	2,547	780
Currency activity financing	39,924	19,596
Reverse sale and repurchase agreements	1,484	1,152
Other	4,727	4,086
Loans to individuals	**7,682**	**2,533**
Mortgages	3,661	952
Car loans	774	106
Reverse sale and repurchase agreements	156	–
Consumer loans and other	3,091	1,475
Other assets	**1,277**	**461**
Total balance sheet exposure	**85,378**	**47,075**
Off-balance sheet exposure		
Guarantees issued	7,056	3,164
Undrawn credit lines	7,054	3,944
Import letters of credit	1,930	999
Commitments to extend credit	4,304	1,814
Exposure arising from credit default swaps		
- sale of Credit Default Swaps	431	612
- purchase of Credit Default Swaps	978	29
Total off-balance sheet exposure	**21,753**	**10,562**
Total maximum exposure to credit risk	**107,131**	**57,637**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Total credit risk exposure

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

Credit quality by class of due from banks

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

	Not impaired	
	Individually assessed	**Collectively assessed**
Russia	2,818	1,040
OECD	4,065	1,274
Other countries	444	97
Total	**7,327**	**2,411**

Credit quality of due from banks (gross), which are neither past due nor impaired at 31 December 2006 is presented in the table below:

	Not impaired	
	Individually assessed	**Collectively assessed**
Russia	1,810	418
OECD	2,827	1,421
Other countries	156	181
Total	**4,793**	**2,020**

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

Credit quality by class of loans and advances to customers

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Credit quality by class of loans and advances to customers

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

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

The table below shows credit quality by class of loans and advances to customers at 31 December 2006, individually assessed.

	Not impaired			Impaired		
	Pass	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
Loans to legal entities	**14,214**	**699**	**3**	**22**	**368**	**15,306**
Project finance	1,073	699	3	–	8	**1,783**
Financial lease	634	–	–	–	–	**634**
Currency activity financing	9,489	–	–	21	328	**9,838**
Reverse sale and repurchase agreements	243	–	–	–	–	**243**
Other	2,775	–	–	1	32	**2,808**
Loans to individuals	**169**	**–**	**–**	**1**	**7**	**177**
Mortgages	31	–	–	–	1	**32**
Car loans	10	–	–	–	2	**12**
Consumer loans and other	128	–	–	1	4	**133**
Total loans and advances to customers individually assessed	**14,383**	**699**	**3**	**23**	**375**	**15,483**

The table below shows credit quality by class of loans and advances to customers at 31 December 2006, collectively assessed.

	Not impaired			Impaired		
	Pass	**Watch**	**Sub-standard**	**Doubtful**	**Loss**	**Total**
Loans to legal entities	**1,745**	**8,665**	**1,928**	**–**	**58**	**12,396**
Project finance	–	–	305	–	–	**305**
Financial lease	79	67	–	–	–	**146**
Currency activity financing	646	7,715	1,380	–	17	**9,758**
Reverse sale and repurchase agreements	908	1	–	–	–	**909**
Other	112	882	243	–	41	**1,278**
Loans to individuals	**1,525**	**608**	**189**	**–**	**34**	**2,356**
Mortgages	782	51	87	–	–	**920**
Car loans	92	2	–	–	–	**94**
Consumer loans and other	651	555	102	–	34	**1,342**
Total loans and advances to customers collectively assessed	**3,270**	**9,273**	**2,117**	**–**	**92**	**14,752**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

Analysis of loans and advances to customers individually impaired by industry at 31 December 2007 and 2006 is presented in the table below.

	31 December 2007	31 December 2006
Manufacturing	159	82
Trade and commerce	151	82
Chemical	111	112
Food and agriculture	88	24
Building construction	83	12
Metals	64	1
Finance	31	3
Coal mining	31	34
Transport	21	7
Individuals	16	8
Energy	9	4
Government bodies	8	–
Oil and gas	2	2
Telecommunications and media	1	–
Other	89	27
Total loans and advances to customers individually impaired	**864**	**398**

Ageing analysis (by days of delay in repayment) of past due, but not impaired loans and advances to customers by class at 31 December 2007 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**22**	**5**	**2**	**–**	**2**	**1**	**32**
Financial lease	1	1	–	–	–	–	**2**
Currency activity financing	13	4	2	–	2	–	**21**
Other	8	–	–	–	–	1	**9**
Loans to individuals	**135**	**47**	**28**	**–**	**–**	**–**	**210**
Mortgages	49	19	8	–	–	–	**76**
Car loans	13	4	2	–	–	–	**19**
Consumer loans and other	73	24	18	–	–	–	**115**
Total loans and advances to customers past due but not impaired	**157**	**52**	**30**	**–**	**2**	**1**	**242**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

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

Ageing analysis of past due, but not impaired loans and advances to customers by class at 31 December 2006 is presented in the table below.

	From 1 to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 days to 1 year	More than 1 year	Total
Loans to legal entities	**20**	**3**	**4**	**1**	**4**	**3**	**35**
Project finance	–	–	2	–	–	–	**2**
Currency activity financing	19	3	2	1	3	3	**31**
Other	1	–	–	–	1	–	**2**
Loans to individuals	**42**	**13**	**10**	**–**	**–**	**–**	**65**
Mortgages	10	1	–	–	–	–	**11**
Car loans	4	1	1	–	–	–	**6**
Consumer loans and other	28	11	9	–	–	–	**48**
Total commercial loans and advances to customers	**62**	**16**	**14**	**1**	**4**	**3**	**100**

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

	31December2007			31December2006		
	Gross	Allowance	Net	Gross	Allowance	Net
Loans to legal entities	**136**	**(16)**	**120**	**242**	**(5)**	**237**
Project finance	34	(3)	**31**	24	(1)	**23**
Currency activity financing	102	(13)	**89**	212	(4)	**208**
Other	–	–	**–**	6	–	**6**
Total renegotiated loans and advances to customers	**136**	**(16)**	**120**	**242**	**(5)**	**237**

Collateral and other credit enhancements

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Collateral and other credit enhancements (continued)

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

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

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

Collateral repossessed

During 2007 and 2006 the Group took no possession of any collateral items from its counterparties.

Geographical concentration

Geographical concentration information is based on geographical location of the Group's counterparts. As at 31 December 2007 the geographical concentration of the Group's assets and liabilities is set out below:

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Geographical concentration (continued)

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	**644**	**5,813**	**2,401**	**8,858**

Market risk

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest Rate Risk Exposure and Sensitivity analysis

The Group is exposed to interest rate risk. Interest rate risk is defined as the risk of the decrease of interest income or increase of interest expense resulting from adverse changes of market interest rates. The Risks Department reports on a monthly basis to the ALCO about the interest rate risk exposures and presents a sensitivity analysis. To mitigate the interest rate risk the Treasury manages and hedges VTB's exposures by entering into interest rate derivatives transactions within the limits and parameters set by the ALCO.

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Interest Rate Risk Exposure and Sensitivity analysis (continued)

As at December 31, 2006 the Group has the following interest rate exposures. Included in the table are Group's assets and liabilities, categorized by the contractual repricing date.

	On demand and up to 1 month	From 1 month to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	More than 5 years	Total
Assets								
Correspondent accounts with other banks	1,003	–	–	–	–	–	–	**1,003**
Corporate loans and advances to customers	3,252	5,282	3,340	4,514	6,199	2,435	520	**25,542**
Retail loans and advances to customers	339	661	136	199	876	941	912	**4,064**
Due from other banks	4,424	645	199	177	578	65	729	**6,817**
Reverse sale and repurchase agreements	1,662	149	12	4	–	–	–	**1,827**
Fixed income (quick assets)	189	1,813	67	87	73	35	37	**2,301**
Fixed income (non liquid or held-to-maturity financial assets)	161	896	209	136	885	559	508	**3,354**
Foreign exchange swaps	9,928	721	885	718	131	–	–	**12,383**
Interest rate derivative financial instruments	226	259	150	150	209	–	–	**994**
Other interest earning assets	40	137	28	74	5	–	–	**284**
Total Assets	**21,224**	**10,563**	**5,026**	**6,059**	**8,956**	**4,035**	**2,706**	**58,569**
Liabilities								
Correspondent accounts and overnight deposits	1,425	–	–	–	–	–	–	**1,425**
Current/settlement deposits	7,139	–	–	–	–	–	–	**7,139**
Term deposits of legal entities and government bodies	1,239	2,328	1,498	859	1,117	7	488	**7,536**
Term deposits of individuals	1,163	633	1,020	1,470	1,647	11	–	**5,944**
Due to other banks	1,959	1,428	1,021	1,177	1,716	81	164	**7,546**
Reverse sale and repurchase agreements	984	4	19	–	4	–	31	**1,042**
Promissory notes issued	175	420	507	243	164	16	12	**1,537**
Bonds issued	837	1,190	870	1,220	2,703	1,884	1,000	**9,704**
Foreign exchange swaps	9,928	720	882	706	131	–	–	**12,367**
Interest rate derivative financial instruments	70	285	430	–	209	–	–	**994**
Other interest bearing liabilities	27	28	14	5	–	–	–	**74**
Total Liabilities	**24,946**	**7,036**	**6,261**	**5,680**	**7,691**	**1,999**	**1,695**	**55,308**
Net repricing gap	**(3,722)**	**3,527**	**(1,235)**	**379**	**1,265**	**2,036**	**1,011**	**3,261**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

The Group's interest rate sensitivity analysis

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

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

Currency	100 b.p. increase	100 b.p. decrease
RUR	(13)	13
USD	(90)	90
EUR	(11)	11
GBP	(1)	1
Other	(5)	5
Total	**(120)**	**120**

Interest rate sensitivity analysis as at 31 December 2006 as an effect on Net interest income is the following.

Currency	100 b.p. increase	100 b.p. decrease
RUR	(24)	24
USD	9	(9)
EUR	1	(1)
GBP	1	(1)
Other	(4)	4
Total	**(17)**	**17**

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

Currency risk and VaR analysis

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

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

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

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

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

As at December 31, 2007 and 2006, the Group had the following exposures to currency risk which include balance sheet positions and off-balance sheet currency derivatives positions against RUR (open positions).

Currency	Open positions	
	31 December 2007	**31 December 2006**
USD	(384)	188
EUR	(617)	(69)
GBP	9	10
CHF	(16)	(22)
JPY	(3)	(2)
UAH	204	123
AMD	64	23
BYR	33	–
KZT	28	–
ZAR	27	–
CYP	14	11
THB	11	–
AUD	(9)	–
AOA	8	–
NAD	3	–
GEL	–	12
XAU	–	4
Other	2	5
Total	**(626)**	**283**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Currency risk and VaR analysis (continued)

As at December 31, 2007 and 2006, the Group had the following VaR of its currency positions:

	31 December 2007	31 December 2006
Open currency position	(626)	283
Value at Risk	4	3

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

Price risk

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

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

VTB measures its securities portfolio risk exposures using VaR measurement of risk. The basic assumptions applicable to the calculation of VaR for currency risk, as described on page 71, are also applicable for the calculation of VaR for price risk.

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

- Trading securities portfolio positions (including derivatives) of the Group as of the relevant reporting dates, including:
  - Instruments with historical data on market quotes during at least 100 trading days within the last 12 months;
  - Instruments with historical data on market quotes during less then 100 trading days within the last 12 months. For such instruments the average VaR for the similar instrument type in VTB's portfolio was used (debt securities denominated in RUR, debt securities denominated in foreign currencies, equity securities issued by Russian companies, equity securities issued by foreign companies, etc.);
- Options on securities for which delta-equivalent positions were used;
- Instruments without historical data on market quotes were not included in the VaR evaluation and specifically reviewed in the sensitivity analysis presented below;
- 99 % confidence level;
- 1 day holding period.

As at December 31, 2007 and 2006 the Group had the following VaRs for the securities portfolio:

Financial assets at fair value through profit or loss

	31 December 2007	31 December 2006
	VaR	VaR
Debt securities	105	108
Equity securities	83	30
Credit default swaps	9	–
Total	**197**	**138**

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Financial assets available-for-sale

	31 December 2007	31 December 2006
	VaR	VaR
Debt securities	4	3

EADS shares

	31 December 2007	31 December 2006
	VaR	VaR
EADS shares	2	62

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

- For debt securities – 12-month volatility of the main interest rate in the currency of each security denomination;
- For equity securities – 12-month volatility of the main equity index in the country of the issuer.

Those market value sensitivity figures where as follows as at 31 December 2007.

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Financial assets available-for-sale (continued)

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

Those market value sensitivity figures were as follows as at 31 December 2006.

Currency	Interest rate increase, basis points	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
AMD	220	(1)	–
BYR	120	–	–
CHF	30	–	–
EUR	40	–	–
GBP	40	–	–
RUR	100	(1)	–
UAH	110	–	–
USD	50	(7)	(6)
Total		**(9)**	**(6)**

Currency	Interest rate decrease, basis points	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
AMD	220	1	–
BYR	120	–	–
CHF	30	–	–
EUR	40	–	–
GBP	40	–	–
RUR	100	1	–
UAH	110	–	–
USD	50	7	6
Total		**9**	**6**

Index	Index Change	Sensitivity of Profit before taxation	Sensitivity of equity (AFS instruments) before taxation
RTSI$ Index	32%	30	–
BVLX Index	8%	8	–
UKX Index	13%	3	–
Total		**41**	–

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis

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

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

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

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

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

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

The RD analyses the liquidity position of the Group and prepares liquidity forecasts and recommendations for ALCO on a 10-day basis or more frequently in connection with substantial capital inflows or outflows. A number of internal liquidity indicators is monitored on a daily basis. VTB's Treasury manages short-term liquidity on an ongoing basis through its cash position and portfolio of highly liquid securities within the limits approved by the ALCO. Medium-term liquidity needs are managed through repurchase transactions and borrowed funds in the form of syndicated loans in the interbank market. The Group also maintains its liquidity by issuing debt securities in the Russian domestic and international markets.

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

As at December 31, 2006, VTB Group's had the following cash flow by remaining contractual maturities.

Time Band	Inflow	Outflow	Gap	Gap Cumulative	FX Swap Cumulative	Dynamic Gap (total) Cumulative
Rouble positions						
Opening balance	–	–	760	760	–	760
Up to 1 month	2,596	(1,270)	1,326	2,086	(106)	1,980
From 1 to 3 months	3,301	(3,165)	136	2,222	108	2,330
From 3 months to 1 year	8,012	(5,698)	2,314	4,536	781	5,317
From 1 to 3 years	5,473	(2,331)	3,142	7,678	781	8,459
More than 3 years	3,431	(25)	3,406	11,084	781	11,865
Other currencies positions						
Opening balance	–	–	286	286	–	286
Up to 1 month	5,355	(4,387)	968	1,254	106	1,360
From 1 to 3 months	2,480	(2,387)	93	1,347	(107)	1,240
From 3 months to 1 year	4,759	(3,897)	862	2,209	(766)	1,443
From 1 to 3 years	8,608	(6,801)	1,807	4,016	(766)	3,250
More than 3 years	7,060	(4,613)	2,447	6,463	(766)	5,697
Total						
Opening balance	–	–	1,046	1,046	–	1,046
Up to 1 month	7,951	(5,657)	2,294	3,340	–	3,340
From 1 to 3 months	5,781	(5,552)	229	3,569	1	3,570
From 3 months to 1 year	12,771	(9,595)	3,176	6,745	15	6,760
From 1 to 3 years	14,081	(9,132)	4,949	11,694	15	11,709
More than 3 years	10,491	(4,638)	5,853	17,547	15	17,562

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows cash flows payable under financial liabilities at 31 December 2006 by their remaining contractual maturity.

	On demand and up to 1 month	From 1 month to 3 months	From 3 month to 6 months	From 6 months to 1 year	More than 1 year	Overdue, maturity undefined	Total
Non-derivative liabilities							
Due to other banks	4,962	975	321	817	927	–	**8,002**
Customer deposits	10,243	3,095	2,697	2,500	2,247	–	**20,782**
Other borrowed funds	312	474	124	1,218	2,737	–	**4,865**
Debt securities issued	471	934	586	1,821	11,201	–	**15,013**
Subordinated debt	–	36	–	36	1,644	–	**1,716**
Other liabilities	19	40	55	25	67	113	**319**
Derivative liabilities							
Negative fair value	19	12	8	1	11	–	**51**
Derivative financial instruments – gross settled							
Positive fair value of derivatives							
Inflow	340	802	287	138	123	–	**1,690**
Outflow	335	781	283	132	100	–	**1,631**
Negative fair value of derivatives							
Inflow	558	844	259	111	343	–	**2,115**
Outflow	566	850	269	113	353	–	**2,151**
Derivative financial instruments – net settled							
Inflow	2	4	1	9	–	–	**16**
Outflow	14	–	1	–	–	–	**15**
Credit related commitments	1,518	929	973	2,163	4,336	–	**9,919**
Total	**18,440**	**8,114**	**5,309**	**8,825**	**23,612**	**113**	**64,413**

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

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

Also, Management believes that in spite of the fact that part of the Group's trading securities mature after one year in accordance with the terms of issue, the 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.

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

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

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

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

	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	5,160	–	–	–	–	**5,160**
Mandatory cash balances with central banks	405	242	93	85	–	**825**
Financial assets at fair value through profit or loss	9,122	94	30	708	482	**10,436**
Financial assets pledged under repurchase agreements and loaned financial assets	1,040	347	63	762	–	**2,212**
Due from other banks	8,188	660	307	578	–	**9,733**
Loans and advances to customers	3,648	11,531	9,450	33,743	177	**58,549**
Financial assets available-for-sale	–	36	7	225	590	**858**
Investments in associates	–	–	–	–	167	**167**
Investment securities held-to-maturity	–	–	–	5	–	**5**
Premises and equipment	–	–	–	–	1,997	**1,997**
Investment property	–	–	–	–	168	**168**
Intangible assets	–	–	–	–	480	**480**
Deferred tax asset	–	–	–	–	215	**215**
Other assets	201	631	431	495	46	**1,804**
Total assets	**27,764**	**13,541**	**10,381**	**36,601**	**4,322**	**92,609**
Liabilities						
Due to other banks	7,996	2,761	1,507	2,530	–	**14,794**
Customer deposits	15,768	13,012	4,267	4,051	–	**37,098**
Other borrowed funds	8	2,082	448	2,638	–	**5,176**
Debt securities issued	305	497	4,422	11,265	–	**16,489**
Deferred tax liability	–	–	–	–	149	**149**
Other liabilities	551	186	105	159	230	**1,231**
Subordinated debt	–	8	–	1,163	–	**1,171**
Total liabilities	**24,628**	**18,546**	**10,749**	**21,806**	**379**	**76,108**
Net total gap	**3,136**	**(5,005)**	**(368)**	**14,795**	**3,943**	**16,501**
Cumulative total gap	**3,136**	**(1,869)**	**(2,237)**	**12,558**	**16,501**	

(expressed in millions of US dollars)

36. Financial Risk Management (continued)

Liquidity risk and contractual maturity analysis (continued)

The table below shows assets and liabilities at 31 December 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 total gap	**1,127**	**30**	**672**	**1,020**	**4,143**	**6,992**
Cumulative total gap	**1,127**	**1,157**	**1,829**	**2,849**	**6,992**	

(expressed in millions of US dollars)

37. Fair Values of Financial Instruments

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

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

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

Due from other bank and cash and cash equivalents. Management has estimated that at 31 December 2007 and 2006 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 2007 and 2006 the fair value of loans and advances to customers was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances carry interest at rates approximating market interest rates.

Borrowings. Management has estimated that at 31 December 2007 and 2006 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 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and short-term funds	5,160	5,160	3,581	3,581
Financial assets at fair value through profit or loss	10,436	10,436	5,120	5,120
Financial assets pledged under repurchase agreements and loaned financial assets	2,212	2,212	2,938	2,938
Due from other banks	9,733	9,737	6,813	6,813
Russia	3,858	3,859	2,228	2,228
OECD	5,339	5,340	4,248	4,248
Other	536	537	337	337
Loans and advances to customers	58,549	58,554	29,262	29,262
Loans to legal entities	51,071	51,072	26,805	26,805
Loans to individuals	7,478	7,482	2,457	2,457
Financial assets available-for-sale	858	858	888	888
Investment securities held-to-maturity	5	5	11	11
Financial liabilities				
Due to other banks	14,794	14,830	7,587	7,587
Customer deposits	37,098	36,790	19,988	19,988
Deposits of legal entities	26,415	26,430	12,662	12,662
Deposits of individuals	10,683	10,360	7,326	7,326
Other borrowed funds	5,176	5,180	4,468	4,468
Debt securities issued	16,489	16,371	11,565	11,677
Subordinated debt	1,171	1,173	1,169	1,193

(expressed in millions of US dollars)

37. Fair Values of Financial Instruments (continued)

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

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

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

The table below shows an analysis of financial instruments recorded at fair value as at 31 December 2006:

	Quoted price	Valuation techniques – market observable inputs	Valuation techniques – non-market observable inputs	Total
Financial assets				
Derivative financial instruments	*37*	*38*	–	***75***
Financial assets at fair value through profit or loss				
Financial *assets* held for trading	4,499	–	212	**4,711**
Financial *assets* designated as at fair value through profit or loss	334	–	–	**334**
Financial assets pledged under repurchase agreements and loaned financial assets				
Financial assets held for trading	80	–	–	**80**
Financial assets designated as at fair value through profit or loss	42	–	79	**121**
Financial assets available-for-sale	2,593	–	5	**2,598**
Financial assets available-for-sale	317	80	491	**888**
Financial liabilities				
Derivative financial instruments	(43)	(8)	–	**(51)**

The Group recognized the following gains and losses from the financial assets measured through valuation techniques with non-market observable inputs: USD 46 million loss within gains less losses on financial assets available-for sale and USD 42 million loss within gains less losses arising from financial assets at fair value through profit or loss" in 2007 (2006: gains of USD 7 million).

(expressed in millions of US dollars)

38. Related Party Transactions

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

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

Balance sheet

	31 December 2007		31 December 2006	
	State-owned entities	Associates	State-owned entities	Associates
Assets				
Cash and short-term funds	2,809	–	1,236	–
Mandatory cash balances with central banks	720	–	571	–
Financial assets at fair value through profit or loss	6,120	–	2,456	–
Financial assets pledged under repurchase agreements and loaned financial assets	904	–	207	–
Due from other banks	1,959	69	731	72
Loans and advances to customers	11,889	65	5,435	65
Allowance for loan impairment	(125)	(29)	(80)	(31)
Financial assets available-for-sale	430	9	470	–
Liabilities				
Due to other banks	2,679	13	495	7
Customer deposits	10,210	2	4,221	6
Other borrowed funds	1,413	–	653	–
Credit Related Commitments				
Guarantees issued	1,944	–	1,758	2
Undrawn credit lines	692	–	1,179	–
Import letters of credit	163	–	100	–
Commitments to extend credit	759	8	333	34

Income statement

	2007	2006
Interest income		
Loans and advances to customers	690	436
Securities	238	214
Due from other banks	47	30
Interest expense		
Customer deposits	(356)	(138)
Due to other banks	(51)	(79)
Reversal of allowance (provision) for impairment	(43)	(12)
Gain from disposal of subsidiaries	–	51
Realized gains on financial assets available-for-sale	161	–

Related party transactions also included:

- Disposal of subsidiaries in 2006 (Note 22, 39);
- During the first quarter of 2007, Bank VTB 24 repurchased its own shares from a minority shareholder, which is a related party to the Group, for USD 25 million, accordingly increasing the ownership of the Group in Bank VTB 24 to 100%;
- In March 2007, VTB purchased 25%+1 share in OJSC “Terminal” from a related party for USD 40 million.

(expressed in millions of US dollars)

38. Related Party Transactions (continued)

For the period ended 31 December 2007, the total remuneration of the directors and key management personnel of the Group amounted to USD 55.9 million (31 December 2006: USD 40.5 million). Pension contributions of the directors and key management personnel amounted to USD 4.7 million (2006: USD 1.9 million). Key management personnel include VTB Supervisory Council, VTB Management Board, VTB Statutory Audit Committee and key management of subsidiaries. Loans to the directors and key management personnel amounted to USD 15.4 million (31 December 2006: USD 0.9 million).

39. Business Combination and Disposal of Subsidiaries

In March 2006 VTB purchased 1,312,802,167 ordinary shares (98% of the share capital) of the Bank "Mriya" (currently – Bank VTB) domiciled 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.

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 Bank "Mriya" had not material profit since the acquisition date which was included into the Group's profit. 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**	
Consideration paid	66	
Goodwill	13	

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

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

In April 2007, VTB purchased 66,955 newly issued ordinary shares (50%+1 of the share capital) of CJSC “Slavneftebank” (currently – Bank VTB Belarus) located in Belarus with 6 branches for USD 25 million. VTB has hired an independent appraiser to determine the fair value of identifiable assets, liabilities and contingent liabilities of Slavneftebank as of the acquisition date. CJSC “Slavneftebank” had not material profit since the acquisition date which was included into the Group’s profit.

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

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

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

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

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

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

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

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

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

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

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. Trading House VTB was renamed to "Interbank Trading House", Ltd (ITH). 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)**

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

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 (in 2007 renamed to “Insurance Company VTB-Insurance”, 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 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 associates and subsidiaries”.

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

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

In December 2006, VTB sold a 2% stake in “East-West United Bank”, S.A. (EWUB) to the 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.

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**

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

The Group has recorded a loss from the disposal of EWUB (before currency translation difference) in the amount of USD 2 million within “Profit from disposal of associates and subsidiaries”.

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

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

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

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

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

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

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.

(expressed in millions of US dollars)

39. Business Combination and Disposal of Subsidiaries (continued)

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

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

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

If the combinations had taken place at the beginning of the year, the total revenues would have been USD 24 million higher for 2007 (2006: USD 18 million higher) and the net profit would have been USD 4 million higher (2006: USD 4 million higher) for the Group.

40. Consolidated Subsidiaries and Associates

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

			Percentage of ownership	
Name	**Activity**	**Country of registration**	**31 December 2007**	**31 December 2006**
Subsidiaries:				
"VTB Bank (Austria)" AG	Banking	Austria	100.00%	100.00%
"Russian Commercial Bank (Cyprus) Limited"	Banking	Cyprus	100.00%	100.00%
"Russian Commercial Bank Ltd"	Banking	Switzerland	100.00%	100.00%
"Vneshtorgbank (Ukraine)", CJSC	Banking	Ukraine	–	100.00%
"VTB Bank", OJSC (former "Mriya", OJSC, merged with Vneshtorgbank (Ukraine), CJSC)	Banking	Ukraine	99.81%	98.47%
"VTB Bank (Armenia)", CJSC	Banking	Armenia	100.00%	70.00%
"VTB Bank (Georgia)", JSC	Banking	Georgia	70.52%	53.17%
"VTB Bank (Belarus), CJSC	Banking	Belarus	64.87%	–
"Bank VTB 24", CJSC	Banking	Russia	100.00%	96.68%
"VTB Broker", OJSC	Banking	Russia	–	99.83%
"Novosibirskvneshtorgbank", CJSC	Banking	Russia	–	99.58%
"VTB Bank (Deutschland)" AG	Banking	Germany	97.69%	78.82%
"Bank VTB North-West", OJSC	Banking	Russia	86.32%	75.00%
"VTB Bank (France)"	Banking	France	87.04%	77.55%
"VTB Bank (Europe)", Plc.	Banking	Great Britain	91.97%	89.10%
"Banco VTB Africa S.A."	Banking	Angola	66.00%	–
"VTB Capital (Namibia) (Proprietary) Limited"	Investment	Namibia	50.03%	50.03%
"Multicarta", Ltd	Plastic cards	Russia	100.00%	100.00%
"ITC Consultants (Cyprus)", Ltd	Finance	Cyprus	100.00%	100.00%
"VB-Service", Ltd	Commerce	Russia	100.00%	100.00%
"Almaz-Press", CJSC	Publishing	Russia	100.00%	100.00%
"VTB-Leasing", OJSC	Leasing	Russia	100.00%	100.00%
"Embassy Development Limited"	Finance	Jersey	100.00%	100.00%
"VTB-Capital", CJSC	Finance	Russia	100.00%	100.00%
"VTB Europe Strategic Investments Limited"	Investment	Great Britain	91.97%	89.10%
"VTB Europe Finance", B.V.	Finance	Netherlands	91.97%	89.10%
Nevsky Property Ltd	Property	Cyprus	45.99%	–
"Business-Finance", Ltd	Finance	Russia	100.00%	96.68%
"MC ICB", Ltd	Real estate	Russia	86.32%	–
"Dolgovoi centre", Ltd	Finance	Russia	100.00%	96.68%
"Sistema Plus", CJSC	Finance	Russia	100.00%	96.68%

(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (continued)

Name	Activity	Country of registration	Percentage of ownership 31 December 2007	Percentage of ownership 31 December 2006
“VTB-Invest”, CJSC	Finance	Russia	100.00%	90.00%
“Insurance Company VTB-Insurance”, Ltd	Insurance	Russia	100.00%	49.99%
“VTB-Leasing Ukraine”, Ltd	Leasing	Ukraine	100.00%	100.00%
“Capablue”, Ltd	Leasing	Ireland	100.00%	–
“Verulamium Finance”, Ltd	Leasing	Cyprus	100.00%	–
"VTB-leasing Finance”, LLC	Leasing	Russia	99.99%	–
“VTB-Leasing (Belarus)”, Ltd	Leasing	Belarus	100.00%	–
“VTB-Leasing Capital” Ltd (Ireland)	Leasing	Ireland	100.00%	–
“Obyedinennaya Depositarnaya companya”, CJSC	Finance	Russia	99.99%	–
“VTB Asset Management”, CJSC	Finance	Russia	19.00%	–
Associates:				
“Eurofinance Mosnarbank”, OJSC	Banking	Russia	34.83%	34.07%
“Vietnam-Russia Joint Venture Bank”	Banking	Vietnam	49.00%	49.00%
“East-West United Bank”, S.A.	Banking	Luxembourg	–	48.55%
“Interbank Trading House”, Ltd	Commerce	Russia	50.00%	50.00%
“Halladale PLC”	Property	Great Britain	–	23.00%

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 December 2006, “United Georgian Bank” was renamed into “VTB Bank (Georgia)”.

In June 2006, VTB Retail Services (currently – Bank VTB 24) 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 in VTB Retail Services increased to 95.93%. The share issue was registered by the Central Bank of Russia on 5 June 2006.

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 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 in Bank VTB 24 increased to 96.68%. The share issue was registered by the Central Bank of Russia on 25 December 2006.

(expressed in millions of US dollars)

40. Consolidated Subsidiaries and Associates (continued)

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

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

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

On July 23, 2007 VTB acquired 30% stake in VTB Bank (Armenia) from the third party for USD 15 million, increasing VTB's share to 100%.

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

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

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

41. Capital Management and Capital Adequacy

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

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

As of 31 December 2007 and 2006 VTB Bank's CBR capital adequacy ratio on this basis exceeded the statutory minimum, amounting up to 19.0% and 14.5%, respectively. VTB Bank was in compliance with the CBR statutory capital ratio during the periods ended 31 December 2007 and 31 December 2006.

As of 31 December 2007 and 2006, the VTB Bank's statutory CBR capital adequacy ratio on this basis was based on the following underlying amounts:

	31 December 2007	31 December 2006
Capital	11,338	3,697
Risk-weighted assets	59,672	25,478
Capital ratio	19.0%	14.5%

Regulatory capital for CBR capital adequacy ratio consists of Tier 1 capital, which comprises share capital, share premium, retained earnings less accrued dividends. The other component of regulatory capital is Tier 2 capital, which includes subordinated long-term debt and premises revaluation reserves, less investments in subsidiaries and associates.

(expressed in millions of US dollars)

41. Capital Management and Capital Adequacy (continued)

The Group also is subject to minimum capital requirements established by covenants under liabilities incurred by the Bank. The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines issued in 1988, with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2007 and 2006 was 16.3% and 14.0%, respectively. These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord 1988.

As of 31 December 2007 and 2006, the Group's capital adequacy ratio on this basis was as follows:

	2007	**2006**
Main capital (Tier 1 capital)	15,594	6,357
Additional capital (Tier 2 capital)	1,758	1,510
Less: deductions from total capital	(374)	(221)
Total capital	**16,978**	**7,646**
Risk weighted assets	104,306	54,644
Tier 1 capital ratio	15.0%	11.6%
Capital adequacy ratio	16.3%	14.0%

42. Subsequent Events

Historically, for the purpose of preparation of IFRS financial statements, the Management of the Bank selected the United States Dollar ("USD") as the functional currency (refer to Note 3).

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

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

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

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", the change in the functional currency will be accounted for prospectively from 1 January 2008. In the 2008 IFRS financial statements the comparative balance sheet as at 31 December 2007, will be translated to Russian Roubles using the exchange rate as of 31 December 2007, and the comparative income statement for the year ended 31 December 2007, will be translated to Russian Roubles using the average exchange rate for the year 2007.

In 2007, the net gains from foreign currency translation resulted primarily from assets and liabilities denominated in Russian Roubles. Due to the change in the functional currency to the Russian Rouble, commencing January 1, 2008, the Bank will no longer recognize translation gains or losses from assets and liabilities denominated in Russian Roubles.

In February 2008 VTB24 issued RUR 10 billion (or USD 405 million) bonds with a fixed rate of 7.7% p.a. for the first year. The issue has 5-year maturity (February 2013) and may be redeemed in February 2009 at the option of noteholders (1-year put option).

42. Subsequent Events (continued)

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

On 14 April 2008, VTB announced an offer to purchase the remaining minority stakes in VTB North-West in accordance with the Russian legal requirements and the plan approved by VTB's Supervisory Council on 16 October 2007 for further integration of the business of VTB North-West into the Group. Under the terms of the offer, VTB North-West shareholders can, within the period till 23 June 2008, accept the offer to sell their shares for RUR 45.00 per share.